# Annual Report
2002/2003

- Bookmarks
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CARL ZEISS MEDITEC

# The financial year 2002/2003 at a glance

*Strategic milestones*

- *Rapid and successful conclusion of the integration process*
- *Successful implementation of the growth strategy*
- *Founding of the Japanese subsidiary*
- *Streamlining and optimising of Group structure*
- *Focus on core business: Sale of peripheral operations Aesthetic and Dental*
- *Significant enhancement of profitability in the core business compensates for losses arising from the sale of peripheral operations*
- *Implementation of new product strategy*
- *Successful capital increase*

*Overview of business growth*

| *(in € '000)* | Financial year 2001/2002 | Financial year 2002/2003 | Change |
|---|---|---|---|
| **Group sales**[1] | **202,016** | **235,714** | **+16.7%** |
| **Earnings before interest and taxes (EBIT)**[1] | **10,016** | **24,723** | **+ 146.8%** |
| *EBIT margin*[1] | *5.0%* | *10.5%* | *+ 5.5 Pts.%* |
| **Consolidated net income from continuing operations (core business)**[1] | **4,654** | **10,754** | **+ 131.1%** |
| *EpS continuing operations*[1] | *€ 0.22* | *€ 0.41* | *+ 86.4%* |
| **Consolidated net income from discontinued operations (Aesthetic and Dental)** | **(1,273)** | **(4,196)** | **- 229.6%** |
| *EpS discontinued operations* | *(0.06)* | *(0.16)* | *- 166.7%* |
| **Consolidated net income** | **3,381** | **6,558** | **+ 94.0%** |
| *Total EpS* | *0.16* | *0.25* | *+ 56.3%* |
| **Cash and cash equivalents** | **7,183** | **45,015** | **+ 526.7%** |
| **Trade accounts receivable** | **40,156** | **30,344** | **- 24.4%** |
| *Days of Sales Outstanding (DSO)* | *87.0 days* | *59.1 days* | *- 32.1%* |
| *Net working capital* | *44,939* | 41,413 | *- 7.8%* |
| **Liabilities** | **98,304** | **81,298** | **- 17.3%** |
| *Net Debt* | *82,957* | *24,194* | *- 70.8%* |
| *Equity ratio* | *49.2%* | *59.0%* | *+ 9.8 Pts.%* |
| **Cash flow from operating activities** | **22,718** | **28,056** | **+ 23.5%** |

1 *For both financial years without discontinued operations Aesthetic and Dental*

*During the course of his or her life, each individual is confronted with impaired eyesight. The incidence of many serious eye disorders increases with advancing age.*

*Exploiting its leading position in the areas of science and optical instruments, Carl Zeiss Meditec develops and distributes clinical systems aimed at maintaining and significantly improving eyesight.*

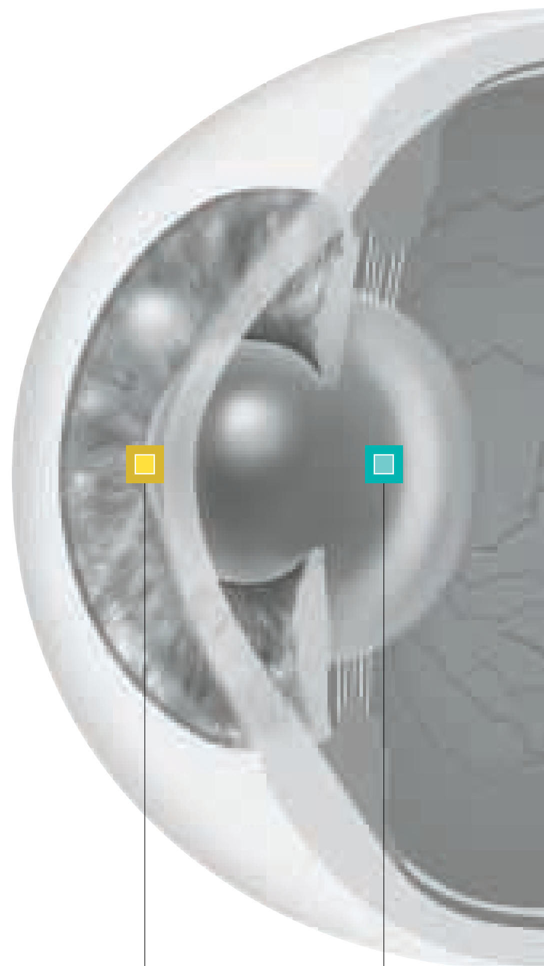
# The human eye and it's diseases

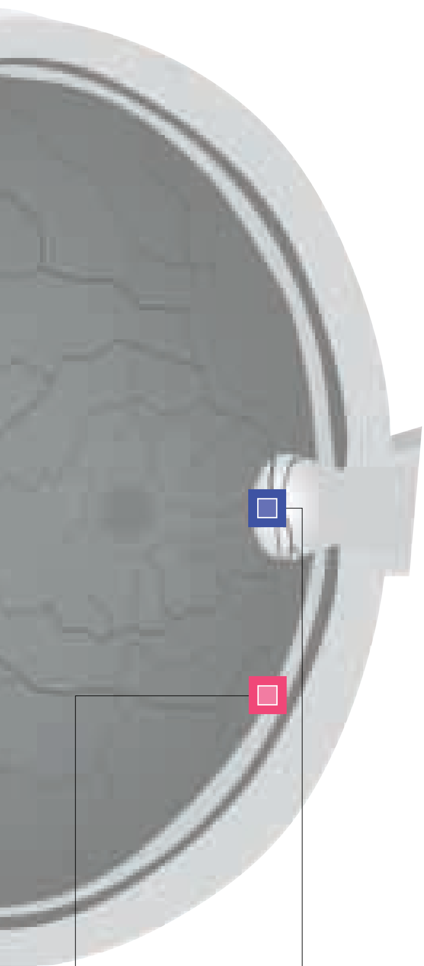
## 1 Vision defect

In the case of *vision (refraction) defects*, the shape of the eye deviates from its ideal form. In short-sighted people, for instance, the distance from the front to the back of the eyeball is too long, whereas in long-sighted individuals it is too short. The result is that the light beams are not properly focused onto the retina. And, as a consequence, people with such defects have blurred long-distance or close-up vision. In the case of astigmatism, a particular form of vision defect, the light beams are refracted differently at different levels, causing them to be focused onto the retina in a diffuse pattern. Objects then appear distorted. As an alternative to spectacles and contact lenses, modern laser techniques are today capable of correcting vision defects in the cornea (1).

## 2 Cataract

*Cataract* is the name given to clouding of the eye lens, which should normally be clear (2). There are different possible causes of cataract; the most common is age-related lens clouding. Cataract is still the most common cause of blindness in the world. The incidence of cataract diseases increases with advancing age.






## 3 Retinal disorders

The retina is the light-sensitive membrane lining the inner wall of the back of the eye and thus a major factor in eyesight (3). Disorders such as age-related macular degeneration (AMD) or diabetic retinopathy often lead to major impairment of eyesight, or even blindness. The progress of a retinal disorder can be suppressed, but it cannot be cured.

## 4 Glaucoma

*Glaucoma* is the name given to eye disorders generally associated with an increase in pressure in the eye interior. Glaucoma also reduces visual acuity by slowly destroying the optic nerve (4). The progress of glaucoma can be suppressed, but the disease cannot be cured. This is why diagnosis at the earliest possible opportunity is crucial. Glaucoma is the most common cause of blindness in industrialised countries.

i

*For detailed Information about growth rates of each of the four main opthalmic disorders turn to the chapter "The market".*

This Annual Report does not constitute an offer to sell or solicitation of an offer to purchase any securities of Carl Zeiss Meditec Aktiengesellschaft in the United States of America or in any other jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such offer or solicitation. Readers of this Annual Report are requested to inform themselves about to observe any such restrictions.

**Forward-looking statements**

This Annual Report contains certain forward-looking statements including statements using the words "believe", "assume", "expect" and similar formulations. Such forward-looking statements include known and unknown risks, uncertainties and other factors which may lead to actual future results, the financial position, development or performance of the Group or the relevant sectors differing essentially from those expressly or implicitly assumed in these statements. Among these factors are those which are identified risk report of the consolidated management report and other factors named in this Annual Report. Against the background of these uncertainties, some the forward-looking statements could possibly not apply. The Company does not assume any other obligation than those in accordance with legal requirements to keep these forward-looking statements in the future and to adopt them to future events or developments.

# Contents



*i* *denotes additional information*

**You can expand tables, charts and info boxes in this document by clicking them.**


Carl Zeiss Meditec Co.Ltd.
TOKYO


ZEISS
CARL ZEISS MEDITEC
Carl Zeiss Meditec AG
JENA
Carl Zeiss Meditec Inc.
DUBLIN, CA

*Dear Shareholders,*
*Ladies and Gentlemen,*

The financial year 2002/2003 was an important and successful period for Carl Zeiss Meditec AG on its path into the future. We are proud that the Company has thus succeeded in counteracting the general trend by consolidating its market position and greatly increasing profitability. Innovative products and strong global sales, combined with a strategy that is closely geared to increasing corporate value, as well as committed and highly qualified employees, were a prerequisite for this.

The first financial year for Carl Zeiss Meditec documents that we stand by our promise. Integration was completed within just six months of the merger the previous year. With the start of our Japanese subsidiary we have rounded off our direct presence in the world's major markets for medical technology. We have streamlined our Group structure and integrated the small sales subsidiaries inherited from the former Asclepion into our existing proven structure or sold them off. In addition, we have disposed of all peripheral activities, in order to concentrate all our efforts on our core business, ophthalmology. The success of our capital increase in September 2003 was confirmation that our shareholders have confidence in this course. In only four hours, 2.6 million Carl Zeiss Meditec shares were placed with leading European investors. The placement further increased our flexibility to use future growth options. At the same time we made good a further important promise – to increase the free float.

Business trends in the financial year 2002/2003 are proof that our strategy is successful. Compared with the previous year, we were able to increase our Group sales to € 235.7 million. This corresponds to an increase of 16.7%. At the same time it must be pointed out that an even higher rate of growth was prevented by the buoyant euro: Had exchange rates remained constant compared to the previous year, sales would have risen by 29.4% to € 261.4 million. However, the movement in exchange rates did not affect our profitability. We manufacture both in the USA and euro-region, exchanging comparable volumes of goods between the two economic areas. This enabled us the more or less compensate for fluctuations in exchange rates. Earnings before interest and taxes (EBIT) increased by a factor of 1.5 to € 24.7 million. This represents an EBIT margin of 10.5% (previous year: 5.0%). The main reason for this was successful products, lower manufacturing costs, price levels on the Japanese market and the sale of the peripheral operations Aesthetic and Dental. Consolidated net income from continuing operations amounts to € 10.8 million (previous year: € 4.7 million). Even allowing for net losses of € 4.2 million from discontinued operations, consolidated net income amounted to € 6.6 million.

We were able to substantially increase our financial power compared to the previous year. Cash flow from operations, for example, rose to € 28.1 million (previous year: € 22.7 million). This was attributable to a successfully implemented system for the control and monitoring of working capital. Trade accounts receivable, for instance, were reduced by a quarter compared to the previous year's figure. This favourable liquidity development in the reporting period enabled the complete repayment of financial liabilities towards the treasury of the Carl Zeiss Group.

Due to positive trends in cash flow in the operative sector and the successful capital increase we were able to multiply our liquid assets to € 45.0 million. In the previous year this figure stood at € 7.2 million.

Our targets for the coming years are ambitious, but realistic: Our aim is to continue our profitable expansion course and to double consolidated sales in the next five years. There is to be a continued improvement in the EBIT margin. Our target in this respect is at least 15%. Our technological position and global marketing structure ensure us an extremely good competitive ranking in the field of ophthalmology and provide the prerequisites for achieving these goals. Our strategic focal points of the future will include the development of innovative software solutions that facilitate data management and with which diagnostic and therapeutic systems can be more efficiently networked. We want to supply our customers, the specialists, with intelligent systems that facilitate their work and help them to make faster and more precise decisions on options for treatment. In addition, we intend to further expand our product range. The fields of application include early recognition of serious eye diseases or the individual correction of visual defects. This step will be taken partly on the basis of technologies to which we have exclusive access. In addition, we will continue to work expanding our product portfolio with product developments, cooperations and acquisitions as necessary. One of our goals is also to further optimise market penetration in certain regions and countries.

In the coming financial year we shall also endeavour to position Carl Zeiss Meditec shares even more prominently as an attractive investment. Besides the increase in share trading volume this also includes the participation of shareholders in the Group's profits. Following a resolution passed by the Management Board and approved by the Supervisory Board, an important pre-condition for future dividend payments has now been created: the balance sheet loss of the previous year has been cancelled out with funds from capital reserves. It remains our strategic goal to be admitted to the TecDAX at the German Stock Exchange.

The employees of Carl Zeiss Meditec have been vital for our success in the past twelve months. At this point we would like to express our gratitude to them. The prerequisites for future growth have been created on the basis of joint efforts.

We hope you find the Annual Report inspirational reading. Please accompany us as we continue on our way – be it as a shareholder, customer, employee or other interested party. Interactive communications with you are important to us. We invite you to submit your suggestions, wishes and criticism to us for a candid discussion at any time.

**Ulrich Krauss**
*President and CEO*

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

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

# The Carl Zeiss Meditec share

## Stock market climate showing signs of improvement

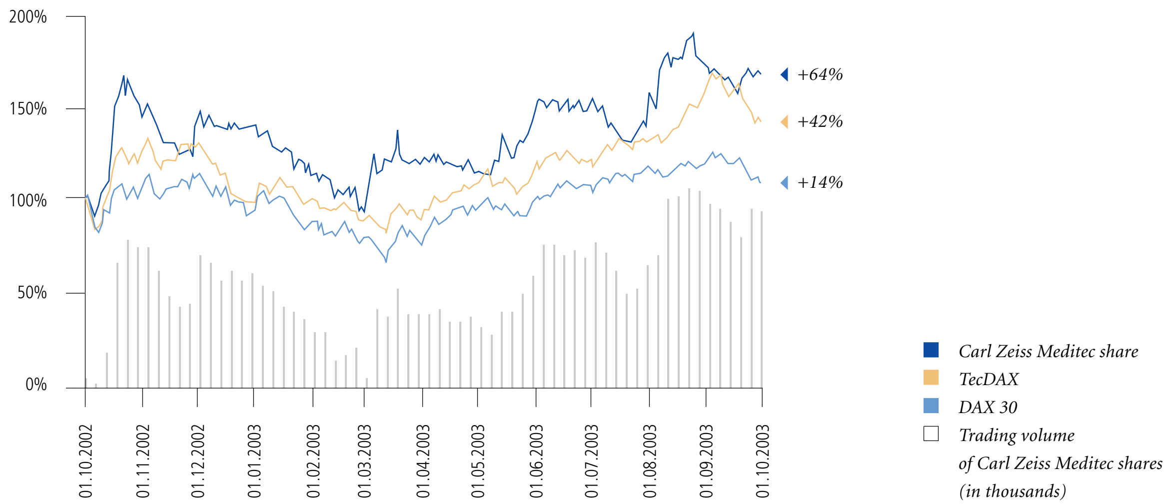
The capital markets were beset by uncertainty right through to March 2003. The Iraq conflict in particular dampened business prospects worldwide, leading to considerable falls in prices. The major German share index, the DAX, lost about 20 percent of its value between the start of October 2002 and the middle of March 2003. The TecDAX performed slightly better, only losing roughly 10 percent during this period. Since spring 2003 and the end of the Iraq war, the USA in particular has seen accelerated economic growth. This led to a certain upswing in the stock markets which have been rising steadily ever since. Price falls at the beginning of the year were compensated, and on 30 September 2003 the DAX was up 14 percent year-on-year, with the TecDAX even higher at 42 percent.

## Capital market rewards Carl Zeiss Meditec's strong growth

The Carl Zeiss Meditec share enjoyed higher growth than both indices. It ended the financial year 2002/2003 64 percent higher than 12 months earlier. The share price therefore increased from € 6.50 on 1 October 2002 to € 10.65 on 30 September 2003.

The share price also shows that the capital markets have acknowledged the successful growth of Carl Zeiss Meditec. During the course of the financial year we have laid the strategic groundwork for further growth; all the plans announced at the beginning of the financial year have therefore been implemented. For instance, integration was completed within just six months of the merger the previous year. Furthermore, the Group structure has successfully been streamlined and optimised. The smaller subsidiaries which were taken over as part of the merger have been integrated into the existing global sales structure. On 1 May 2003 we also parted company with all peripheral activities. This means we are now clearly focussed on our core ophthalmic business. This puts us in an excellent competitive position in the growth ophthalmic market. We are concentrating on our strengths and, in the two most important medical technology markets in the world, the USA and Japan, we can rely on efficient and long-established subsidiaries. In all other countries we make use of the extensive sales network of the Carl Zeiss Group. The success of this strategic orientation is shown by the business performance of Carl Zeiss Meditec in the last financial year. Sales and profits were significantly up on the previous year and the operative cash flow increased by roughly a quarter.

▾ *Share price of the Carl Zeiss Meditec share vs. DAX and TecDAX in the financial year 2002/2003*




**Capital increase – Shares with intrinsic value are in great demand by investors**

Our profitable growth course and clear strategic focus were the reasons behind the success of the 10% capital increase carried out on 18 September 2003. Prepared down to the finest detail, it was all over by lunchtime. Roughly 2.6 million shares were placed with institutional investors in Europe in just four hours. The issue was 2.5 times oversubscribed. By exercising the greenshoe option granted by the Carl Zeiss Group at the beginning of October 2003, an additional 0.4 million shares were also placed, this time from the holding of the Carl Zeiss group. This saw the free float increase from 19 to roughly 28 percent. At € 9.70 the subscription price was just 3.5 percent below the weighted average price on the day of placement - the German stock corporation act permits a maximum price reduction of five percent for such transactions.

By carrying out this transaction Carl Zeiss Meditec AG and the Carl Zeiss Group have – as already announced – achieved two major goals: to further raise the attractiveness of the Carl Zeiss Meditec share through an increased free float, and also to support the strategic growth of Carl Zeiss Meditec.

The fact that the attractiveness of the share has been significantly increased is shown by the growth of the XETRA trading volumes. Average sales on this trading platform for the entire financial year 2002/2003 were 3,550 shares per day. Through intensive investor relations work, the Company succeeded in tripling this value by the end of the financial year. In the period from 1 August to 30 September 2003 the figure rose to 11,540 shares per day.

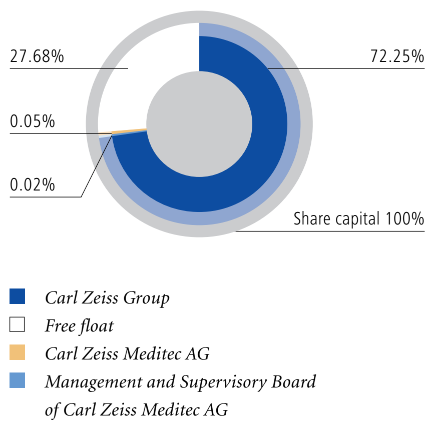
### First annual shareholders' meeting: Expansion policy overwhelmingly endorsed by the shareholders

On its first annual shareholders' meeting held on 12 March 2003 the Management Board of Carl Zeiss Meditec gave information to shareholders, analysts and journalists on the lucrative growth posted in the financial year 2001/2002 . When it came to voting, the shareholders clearly demonstrated their support for the course which the Company has adopted. All the resolutions were passed with a majority of over 99% of the share capital in attendance.

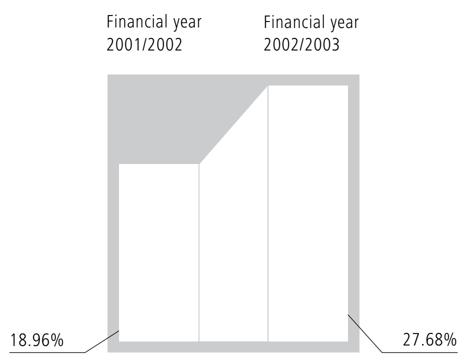
### Important pre-condition for future dividends in place

The Carl Zeiss Meditec shareholders are set to share in the increase in the Company's profits. Following a resolution passed by the Management Board and approved by the Supervisory Board, an important pre-condition for this is now in place. The accumulated balance sheet loss in the previous year's HGB individual statement for Carl Zeiss Meditec AG totalling € 32.8 million is to be completely evened out using funds from capital reserves. In addition, the reserve for treasury stock was set at € 0.1 million from capital reserves.

*Shareholder structure of Carl Zeiss Meditec AG*




*Development of free float*



**Investor relations work further expanded**

Carl Zeiss Meditec attaches a great deal of importance to maintaining close and intensive links to the finance markets. For this reason investor relations work has been considerably intensified in the financial year 2002/2003. The Company extensively explained and discussed its business performance and its strategic orientation in numerous meetings and conference calls, in road shows and at investor conferences in the European financial centres.

In the investor relations page of the Carl Zeiss Meditec website we provide institutional and private investors with a wide range of regularly updated information. The website is therefore an important instrument in helping us ensure the equal treatment of all interest groups as stipulated in the German Corporate Governance Code. The range of information provided is to be continually expanded in the future.

*The Carl Zeiss Meditec share: facts and figures*

| | |
|---|---|
| *Trading segment* | |
| *Prime Standard* | |
| Share price[1/2] | *€ 10.65* |
| Highest share price in the financial year[2] | *€ 10.65* |
| Lowest share price in the financial year[2] | *€ 6.40* |
| Market capitalisation[1/2] | *€ 303 m* |
| Free Float | *28%* |
| Marktet value of shares in free float[1/2] | *€ 84 m* |
| *Average trading volume per day*[1/2] | |
| *01.08.2003 to 30.09.2003* | *€ 121,000* |
| *Total financial year 2002/2003* | *€ 34,000* |
| *Average trading volume per day*[1/2] | |
| *01.08.2003 to 30.09.2003* | *11,540 shares* |
| *Total financial year 2002/2003* | *3,550 shares* |
| *Designated Sponsors* | |
| *Commerzbank Securities,* | |
| *Bankhaus Sal. Oppenheim* | |

*1: At the end of the financial year 2002/2003 on 30.09.2003*
*2: XETRA trading platform*

## Outlook

The main thrust of our investor relations work in the financial year 2003/2004 remains ensuring consistent, open and instant communication with the capital markets. The aim of this work is to make the Carl Zeiss Meditec share even more attractive so that it will attain the same successful position as the Company – i.e. that of a major player in the premier league of medical technology. And we are excellently placed to achieve this. Our unique technology position, our strong global sales presence and our healthy financial structure make Carl Zeiss Meditec an ideal combination of security and growth prospects as an investment.

After successfully increasing the free float, a major goal of our investors relations work now remains raising the trading volume of the share. Here our intention is to get as close as possible – and as quickly as possible - to reaching our strategic goal of seeing Carl Zeiss Meditec listed in the TecDAX.

*Key data of the Carl Zeiss Meditec share*

| | Financial year 2001/2002 | Financial year 2002/2003 |
|---|---|---|
| Earnings per share (total) | € 0.16 | € 0.25 |
| Earnings per share (continuing operations) | € 0.22 | € 0.41 |
| Cash flow per share | € 1.07 | € 1.08 |
| Equity per share | € 4.50 | € 4.70 |
| Weighted average of shares outstanding | € 21.1 m | € 28.9 m |

**Carl Zeiss Meditec - more than one reason to invest**

- Sales, earnings and operative cash flow significantly up on the previous year – own growth targets achieved.
- Sound financial structure.
- Sales are to be doubled in the next five years – EBIT margin to increase to at least 15%.
- The market for ophthalmic products is growing world-wide.
- Innovative power and comprehensive technological portfolio secure expansion of market-position.
- A highly fragmented technology market offers excellent opportunities for Carl Zeiss Meditec as the global leader to acquire innovations and new technologies.

*We are always open to the needs and wishes of our shareholders.*

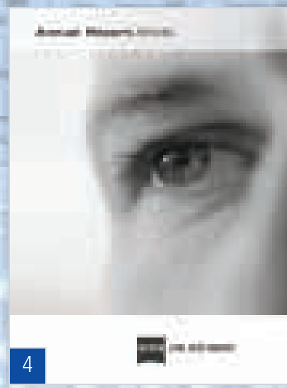
# Review of the year

## 1 October 2002 to 30 September 2003

1 October 2002 | 1 November 2002 | 1 December 2002 | 1 January 2003

1 3

2



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**11 October 2002, Tokyo/Japan**

*Direct sales: Carl Zeiss Meditec AG opened its own subsidiary in Japan, the second largest market for medical technology in the world.*

2

**20 October 2002, Orlando/USA**

*World premiere: The MEL 80™ excimer laser was unveiled to a mass audience at the AAO in the USA*

3

**12 December 2002, Frankfurt/Germany**

*Admission: Carl Zeiss Meditec was admitted to the Deutsche Börse Prime Standard even prior to the launch of the market segment on 1 January 2003.*

4

**17 December 2002, Frankfurt/Germany**

*Publication of the first annual report: Carl Zeiss Meditec has created a firm basis for future growth.*

5

**24 January 2003, Dublin/USA**

*Renewal of contract: The exclusive contract with Welch Allyn, Inc. for developing, marketing and distributing the Humphrey® FDT field of vision tester was renewed for a further five years.*

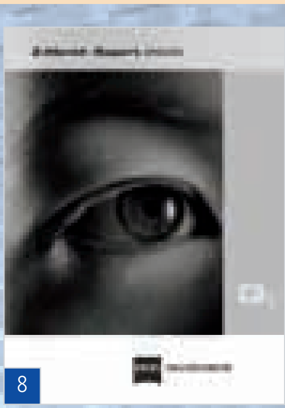
6

**29 January 2003, Jena/Germany; Dublin/USA**

*Refunds: Refunds for IOLMaster® examinations have increased by 23 percent in the USA.*

1 February 2003 | 1 March 2003 | 1 April 2003 | 1 May 2003

5 6 7 10 12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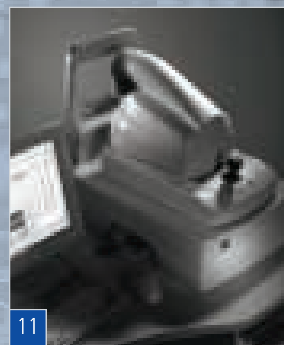
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## 7
**29 January 2003, Berlin/Germany**
*Presentation: Carl Zeiss Meditec presented its growth plans to the 3rd Berlin MedTech Day*

## 8
**14 February 2003, Jena/Germany**
*Publication of three-month report: Sales, result and cash flow have significantly increased over the previous year.*

## 9
**12 March 2003, Jena/Germany**
*First annual shareholders' meeting:*
*Carl Zeiss Meditec's expansion policy was overwhelmingly endorsed by its shareholders.*

## 10
**20 to 23 March 2003, New York/ USA**
*Product presentation: Carl Zeiss Meditec introduces Humphrey® Matrix on Vision Expo East 2003 in New York City.*

## 11
**5 May 2003, Jena/Germany; Dublin/USA**
*FDA approval: FDA approval granted in the USA for the new STRATUSOCT™, a device for the early diagnosis of glaucoma.*

## 12
**8 May 2003, Jena/Germany**
*Focus on core business: Divestment of dermatological and dental laser activities as of 1 May 2003 allows focussing on core ophthalmic business.*

1 June 2003 | 1 July 2003 | 1 August 2003 | 1 September 2003

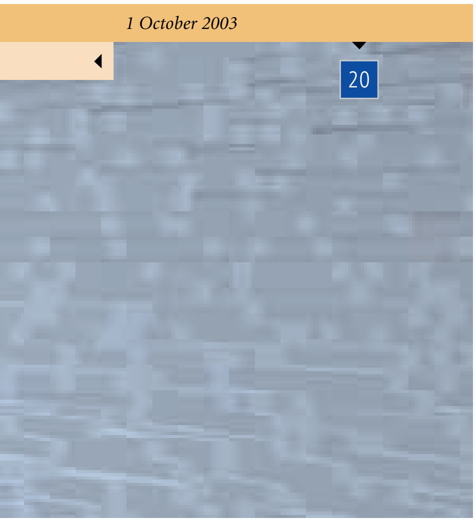

## 13
**14 May 2003, Jena/Germany**
*Publication of half-year report: Carl Zeiss Meditec has continued along its profitable expansion path.*

## 14
**2 to 5 June 2003**
*Roadshow: Carl Zeiss Meditec presents the Company to key institutional investors*

## 15
**16 July 2003, Jena/Germany**
*Celebration: 3000th IOLMaster® sold in just three and a half years.*

## 16
**12 August 2003, Jena/Germany**
*Publication of nine-month report: Carl Zeiss Meditec has kept its share of the market despite strong euro. Strategic focus has boosted future profitability.*

## 17
**6 September 2003, Munich/Germany**
*Product innovations: VISUCAM™ C and CRS-Master™ presented for first time at ESCRS trade fair.*




# Events after the 30 September 2003

## 20

**20 October 2003,**
**Jena/Germany; Düsseldorf/Germany**

*Award: Carl Zeiss Meditec won the Deloitte & Touche "Technology Fast 50 Award" for exceptional business performance.*

## 18

**9 to 17 September 2003**

*Roadshow: Carl Zeiss Meditec presented its growth plans and strategy to major institutional investors.*

## 19

**18 September 2003,**
**Jena/Germany; Frankfurt/Germany**

*Promise kept: By successfully carrying out the capital increase, free float rises to 28 percent.*

# *Dublin, CA, 2:00pm*

*The overseas order is processed straight away: top products leave Carl Zeiss Meditec to improve and maintain eyesight all over the world.*

## Carl Zeiss Meditec Inc., Hacienda Drive, Dublin, California, USA

The fact that Carl Zeiss Meditec, the leading solutions provider in the world, is now so dominant in the ophthalmic customer systems market is due in no small part to the commitment of the employees of Carl Zeiss Meditec Inc. in Dublin, California. Over half of the Group's workforce is based in America and this is also where the Group generates over 50% of its sales. The daily commitment of the US employees and their professionalism are two major reasons why the Carl Zeiss Meditec success story is also continuing on the other side of the Atlantic. For three decades now the company has been excellently positioned with its premium class products in the most important ophthalmic market in the world.

*James Taylor, President of Carl Zeiss Meditec Inc.*

*Record levels: AAO 2003 in Anaheim, California.*

## Record results at AAO

The Company's overwhelming success at this year's leading AAO trade fair, the American Academy of Ophthalmology in Anaheim, for instance, was due in no small part to the efforts of the Californians. With record levels of incoming orders at the world's largest ophthalmology trade fair – almost 40 percent up on the previous year – the market confirmed the leading position of Carl Zeiss Meditec. The fact that this result was achieved is impressive proof that Carl Zeiss Meditec products represent intelligent ophthalmic solutions and that the Company has its finger firmly on the market's pulse.

A key reason for the success was the new exhibition concept which allowed visitors to experience the Company's strategy for themselves. The booth drew large crowds, with many congress visitors calling it one of the most attractive at the exhibition. "Our booth rocked", said James Taylor, President of Carl Zeiss Meditec Inc.

Congress participants from all over the world took advantage of their trip to the AAO to inspect and try out the MEL 80™ and the CRS-Master™ on the Carl Zeiss booth. Potential users of the CRS Master™ gave initial feedback and suggestions for further development. Many customers were interested in an upgrade of the MEL 80™ to include the CRS Master™, allowing them

*"Our booth rocked."*

*James Taylor, President of Carl Zeiss Meditec Inc.*

to offer customised wavefront ablation for a truly individual treatment of refractive defects. The clinical study for the USA approval will start at the beginning of 2004. The new perimeter for field of vision tests – the PreView PHP™[1] - was shown to the public for the first time. Although not yet available for purchase, ophthalmologists from all over the world thronged to see the product and to find out all about this new technique for the early diagnosis of age-related macular degeneration (AMD). The device allows doctors to identify AMD-related visual defects much earlier than was previously possible – in many cases even before the patient notices any symptoms. Further attractions included applications for OCT technology to which Carl Zeiss Meditec has exclusive access.

*1 Preferential Hyperacuity Perimeter*


*"Our booth rocked": Carl Zeiss Meditec products were met with enthusiasm by customers.*

*Distinctive:*
*The new trade fair concept was a highlight at the world's largest ophthalmic fair.*

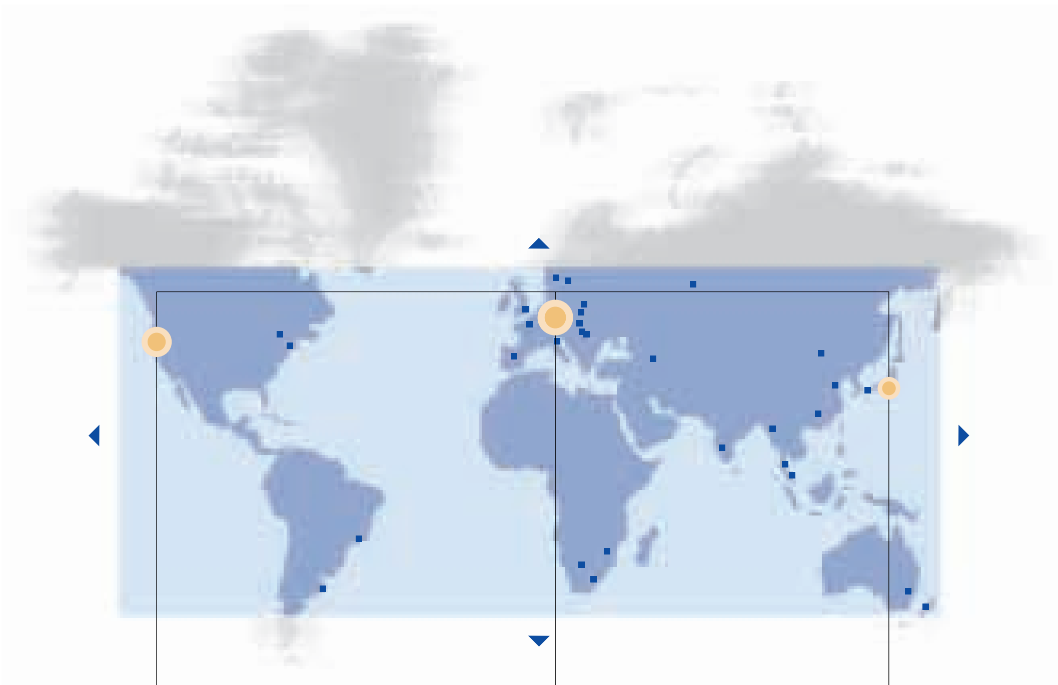

**Overview of new products and technologies (selection)**

- Innovative technology used in the Preview PHP™ for early AMD diagnosis[2]
- New OCT technology applications: Imaging and measurement for the examination of the front parts of the eye (cornea and anterior chamber) to enhance the safety of refractive surgery and for the high-precision insertion of special intraocular lenses (IOL)[3]
- New GPA™[4] Software: objective diagnostic tool for reliably charting the progress of glaucoma in connection with the Humphrey® Field Analyzer

*2/3 In development*
*4 Humphrey® Glaucoma Progression Analysis™*

- Software release 4.0 for STRATUSOCT™ and normative data base for retinal neurofibre layer thickness
- Humphrey® Matrix™ – measuring the field of vision for the early recognition of glaucoma
- MEL 80™ excimer Laser and CRS Master™ system for the patient-specific treatment of vision defects
- VISUCAM™ system with VISUCAM™lite and VISUCAM™ C device solutions for fundus imaging

# Coherent structures – worldwide



100%

51%

**Carl Zeiss Meditec AG**
Parent company
*Jena (Germany)*

**Carl Zeiss Meditec, Inc.**
Subsidiary
*Dublin, CA (USA)*

**Carl Zeiss Meditec Co., Ltd.**
Subsidiary
*Tokyo (Japan)*

Already today, the development and marketing of ophthalmic systems and devices must be seen as a global challenge. In the dynamic global market for ophthalmic equipment, our systems and solutions and our global service open up attractive growth potential to Carl Zeiss Meditec.

A major prerequisite for the exploitation of this potential is a coherent structure. With our **European headquarters** (Jena/Germany) and the successful, long-established **subsidiaries** in **North America** (Dublin/USA) and **Japan** (Tokyo) we have a direct presence in the world's three most important markets and regions.

In all other countries we avail ourselves of the efficient sales network of the Carl Zeiss Group: About 40 sales companies and over 100 agencies in foreign countries provide access to customers worldwide and give us the extra clout needed to prevail in the global competition.

This will enable us to respond quickly to the different needs of the world's population in future – whether in Asia, Australia, Europe, America or Africa.

*Global marketing strategy as a factor of success: The worldwide proximity to customers and strong service orientation enables us to strengthen customer commitment and create a basis for continued growth. The world is our market.*

*Our market is dynamic – we are, too.*

# The workforce at Carl Zeiss Meditec

Employees are a precious asset. With their knowledge and skills they create values that make a brand cherished and unique. Qualified employees are thus the key to the success of a company. With unique products and first-class service, Carl Zeiss Meditec's worldwide workforce of about 750 strives to uphold the Company's premier position in the market for ophthalmic equipment in the future.

*Qualified employees are the key to the success of our Company.*

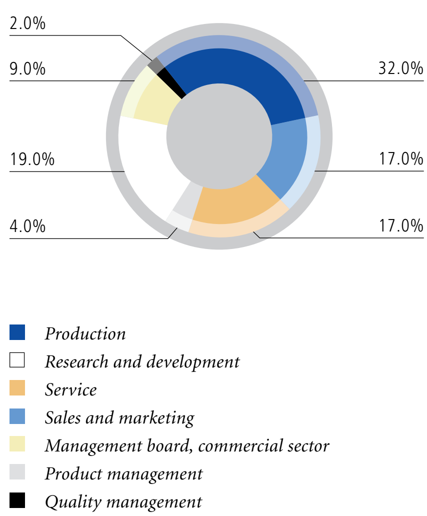
Our forward-oriented thinking starts with the fostering of young talent. Currently, 24 trainees are acquiring skills as mechatronics engineers, industrial mechanics, industrial electricians or industrial clerks. In a two-year basic training programme, the future mechatronics engineers, industrial mechanics or industrial electricians are prepared for their careers at our alliance partner Schott-Zeiss Educational Centre, and from the 3rd training year onwards they are employed in the assembly plant. In the first year of training the industrial clerks have the opportunity to spend several months learning the basic commercial skills in a "training company". In addition, as part of their practical training they gain experience in our Purchasing, Finance/Controlling, Marketing and Sales departments.

*Our forward-oriented thinking starts with the fostering of young talent.*

Employees assessed as particularly promising in a potential recognition process take part in our programme for the promotion of junior management. To prepare them for their subsequent managerial responsibilities, in addition to their daily duties they participate in a seminar programme in which they, among other things, hone their public speaking and presentation techniques, improve their foreign language skills and learn conflict and project management.

The following graphic provides an overview of the personnel structure at Carl Zeiss Meditec in individual operating segments:

*Personnel structure of the Carl Zeiss Meditec Group as of 30 September 2003*



Each employee contributes to the overall value of our Company. The greater the know-how and commitment of each individual, the greater the competence of the Company as a whole. This results in the creation of real value – both to the outside and the inside. In order to achieve this goal, we organise regular training schemes: Professional qualifications are organised and implemented in in-house training sessions or courses within the Carl Zeiss Group. Employee qualification requirements are determined in an ongoing process and the appropriate measures taken in the course of the year. Due regard must be paid to the specific demands on the qualification of employees as set forth in the pertinent regulations e.g. the Medical Products Act.

*Each employee contributes to the overall value of our Company.*

*Zeiss precision and reliability have become a tradition over the past 150 years.*

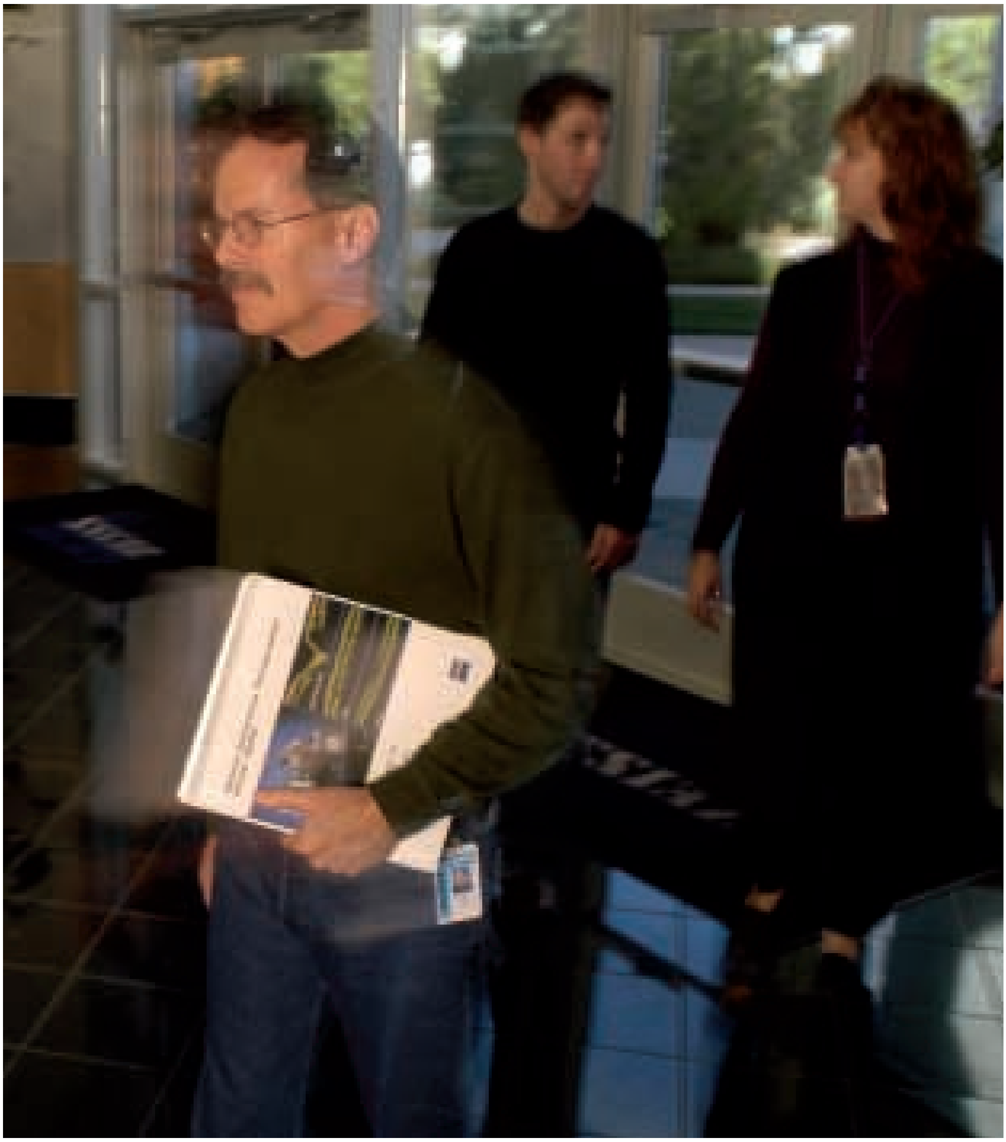
It is often details that create value. It is thus vitally important to us that employees continually question the processes and workflows within the Company and submit innovative solutions. Innovations that derive from personal commitment are always welcome at Carl Zeiss Meditec: Over 100 suggestions submitted by our employees in various divisions worldwide speak for themselves.

*Internal dialogue is an important component of our corporate culture.*

Internal dialogue is a further component of our corporate culture. Regular information, discourse and communication between employees, the works council, senior management and the Management Board are a prerequisite for the clarification of current issues and problems as well as the continued development of the organisation and the Company. This includes not only matters of strategy but also issues such as workplace configuration and working hours.

At quarterly staff meetings called by the works council, the works council and Management Board informs employees about the outcome of these discussions, the Company's performance, new products and strategic growth for the future.

Carl Zeiss Meditec knows what its employees are worth. They are our greatest asset for the future.



*Seeing the world with one's own eyes – that's what we work for every day.*

# *Tokyo, 7:00am*

*Also in Asia our powerful global sales and marketing network guarantees that our products quickly reach those who urgently need them: the people.*

# The Market

## The Company's markets

*Carl Zeiss Meditec provides innovative and high-performance diagnostic and therapeutic systems for the four main diseases of the eye.*

Carl Zeiss Meditec develops, manufactures and sells ophthalmic systems and devices. Our customers are ophthalmologists, eye clinics, optometrists and opticians. The Carl Zeiss Meditec systems enable them to work efficiently and help improve diagnosis and treatment.

Eye ailments can be broken down into four main ophthalmic disorder areas. These are vision defects (refraction), cataract, glaucoma and retinal disorders.

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*For further information on the four main ophthalmic disorders turn to the inside front cover of this report.*

The value-added chain within the four main ophthalmic syndromes covers not only diagnosis, but also therapy and follow-up examinations. Our Company provides **diagnostic systems** for all four main ophthalmic disorders. **Therapy** is divided into lasers and other therapeutic devices. The latter are not currently supplied by the Company.

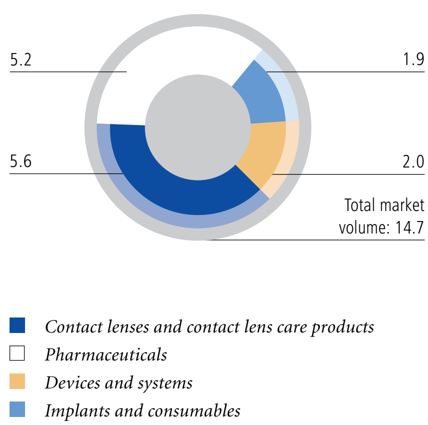
Further items in this area include consumables and implants (intraocular lenses), pharmaceuticals, contact lenses and care products plus spectacles. These products are also not provided by Carl Zeiss Meditec at the moment.

The Company estimates the total market for ophthalmic products at roughly € 14.7 billion. About € 2.0 billion of this is accounted for by the devices and systems market.[1]

1 *Sources: own estimates on basis of external documents such as MarketScope Reports 2002, Theta Report 2002, Millenium Research Group 2002 et al.*

*Annual volume of the ophthalmic market*

*(in € bn)*



## Market growth

The market for ophthalmic products is growing world-wide. We are forecasting average annual growth of about 10 percent in the devices and systems segment for the period 2002 to 2008. Significantly higher growth has been recorded in the past by associated areas such as consumables. The Company expects the refraction and glaucoma markets to grow with a rate slightly above average.

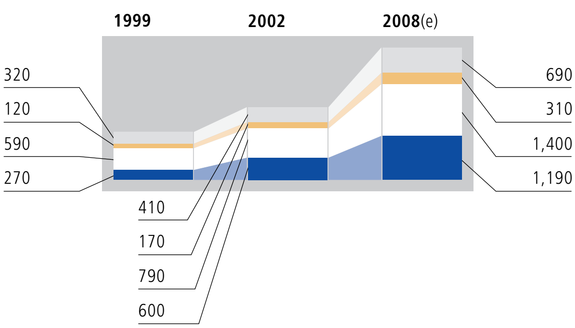
Furthermore, Carl Zeiss Meditec is expecting to see slightly above-average growth in the American and Asian markets in the future. The growth in Germany and Europe is expected to be rather less dynamic.

*The market for ophthalmic products is growing world-wide. The devices and systems segment is set to grow by an average of 10% per year.*

The estimated growth rates for the four main ophthalmic disorders and individual regions are shown in the following charts.

*Market growth by syndrome*
*1999 - 2008(e)*

*(market volumes in € m)*

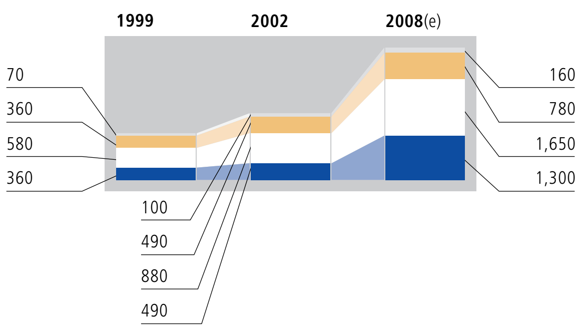



**Compound annual growth rate:**

*Retina* ≤ 10%
*Glaucoma* > 10%
*Cataract* 10%
*Refraction* > 10%

*Market growth by region*
*1999 - 2008(e)*

*(market volumes in € m)*




**Compound annual growth rate:**

*Germany* ≤ 10%
*Europa (w/o Germany)* ≤ 10%
*Americas* > 10%
*Asia* > 10%

*Recognised perfection and tested quality are the hallmarks of Carl Zeiss Meditec.*

## The four trends in ophthalmology[2]

**Demographic trends:**

The global population is growing at an ever increasing rate and is getting older in general, and many eye disorders are age-related, with the result that the demand for eye treatments is growing. The treatment of eyesight disabilities amongst older citizens will become an important challenge in the industrialised countries in the coming years. Retinal diseases such as age-related macula degeneration (AMD) and diabetic retinopathy, cataract and glaucoma increase appreciably from the age of 65. The demographic shift will mean that ever growing numbers of people will be affected – especially in industrialised countries. During the course of one's life, everyone will experience a deterioration of vision.[3]

*Eye disorders are geriatric disorders: During the course of his or her life, each person will experience eyesight problems.*

The latest incidence figures emerging from the USA underline this disproportionately large rise which takes place during old age: according to an extensive survey carried out in 2002 by the National Eye Institute, over 10% of 65 year-old Americans have been treated for cataract, whereas this figure rises to 50% in 80 year-olds. A similar pattern is evident in the case of retinal disorders in Germany: one in four people over 60 has noted symptoms of age-related macular degeneration (AMD).

**Decrease in illiteracy**

Studies show that there is a link between the level of literacy and the incidence of short-sightedness (myopia). The greater the degree of literacy in the world, the greater the number of people who suffer from myopia.

*2 Sources: UN World Population Trends 2002, US National Eye Institute 2002, MarketScope Reports 2002, Theta Report 2002, Millennium Research Group 2002 et al.*

*3 This and the following statements are based on a lecture given by Prof. Dr. med. Anselm Kampik, Director of the University Eye Clinic, held on 8 September 2003 at the 1st Carl Zeiss Meditec Forum during the ESCRS.*

## Advances in medical technology

New devices and systems are permitting new forms of therapy both for disorders which were previously either unknown or untreatable, and also for disorders already identified. Early diagnosis is increasing in importance here: the earlier the diseases can be recognised, the earlier their progress can be halted or even cured. Today medical science is already capable of checking the progress of retinal diseases associated with glaucoma, and thereby saving eyesight. The interlinking of systems and the combination of diagnosis and treatment are taking on ever increasing importance.

*New devices and systems enable new treatments. Early diagnosis of serious eye diseases is becoming increasingly important.*

Thanks to modern technologies, even cataract can now be treated comprehensively at an ever earlier stage. The future trend is therefore clear: due to the rising frequency of operations, the constant improvement in surgical techniques and the increasing average age of the population, the number of cataract operations is set to increase by an average of 10% per year.

*We build on the ideas of our employees.*

**Increase in health care spending**

In **developing countries** the struggle against blindness is one of the top priorities of health policy. For example, the World Health Organisation (WHO) – together with other organisations – has set itself the goal of reducing the number of cases of treatable blindness in the world to zero by the year 2020 This will create a huge need for consumer goods (e.g. intraocular lenses) and equipment for diagnosis and treatment (e.g. YAG lasers and slit lamps). In the **industrialised countries** the very latest treatment methods are increasingly in demand. Wellness and lifestyle trends are creating demand for privately financed operations such as the laser correction of vision defects. At the same time, the increasing health expenditure is leading to greater efficiency in the therapies paid for by health insurance schemes. This means increasing demand for devices and systems which help to make diagnosis and treatment faster, more efficient and more precise.

*Health expenditure is increasing in industrialised and developing countries.*

Carl Zeiss Meditec monitors the market developments and its trends. Our Company is perfectly placed to play a major role in this growth market in the coming years.

# VISION 2020 – the right to sight

The operations of Carl Zeiss Meditec are worldwide. It thus, thinks and acts globally. As a manufacturer of clinical systems for ophthalmology, it is our aim to maintain the eyesight of people all over the world. Our tenet is that everyone has the right to see the world with his or her own eyes.

*Our tenet is that everyone has the right to see the world with his or her own eyes.*

For us it was only natural that we should answer the global call of the VISION 2020 initiative. VISION 2020 is a global programme launched by the World Health Organization (WHO) in which currently over 20 non-governmental organisations are participating, e.g. the "Christoffel Mission for the Blind" in Germany. The mission defined for the project is to eliminate avoidable blindness all over the world by 2020. The majority of the world's 45 million blind population lives in the poorest regions of the developing world. According to estimates, without international help this figure could increase to 75 million by 2020. Already over two thirds of all blindness in the worldwide is curable. The treatments available today are more successful and effective than ever – thanks also to Carl Zeiss Meditec.

In this context, Carl Zeiss Meditec supported the global efforts by many non-government organisations under the umbrella of VISION 2020 to eliminate avoidable blindness in the past financial year.

With its commitment for this initiative Carl Zeiss Meditec is endeavouring to create long-term perspectives and thus "help people to help themselves". A portion of the six-digit euro sum with which Carl Zeiss Meditec is funding VISION 2020 is being used to purchase ophthalmic diagnostic and therapeutic systems from Carl Zeiss and Carl Zeiss Meditec. A further relief measure is the provision of equipment in the affected countries, directly where it is needed: This technical support

*As a corporate sponsor, Carl Zeiss Meditec is providing idealistic and financial support to the WHO's VISION 2020 programme.*

VISION 2020
THE RIGHT TO SIGHT

contributes to demand-oriented development in the deprived regions of the world. With state-of-the-art equipment for all stages from diagnosis to post-treatment, distributed through the Zeiss global network, it enables the effective provision of medical care to needy people with eye ailments. A wide range of high-quality products geared to local needs is already provided by relief organisations such as the Christoffel Mission for the Blind and the Purchasing Agency of Protestant Missionary Societies (WEM). Experienced Zeiss and Zeiss-Meditec specialists also organise induction training sessions for medical personnel: Training and quality centres are being set up for this purpose in poorly developed regions of the world. The declared goal is to introduce modern ophthalmic procedures to rural areas of the developing world and to ensure the availability and quality of treatment by eye specialists.

*To us, social responsibility in foreign aid means helping people to help themselves.*

Over the next years we propose to further expand our commitment to VISION 2020. A focus will be the development of high-quality diagnostic and therapeutic devices to facilitate even better treatment of peoples in remote or rural areas. In addition, further training centres are to be equipped with state-of-the-art ophthalmic systems. This will contribute to an improvement in medical care in developing countries with the aim of not only treating blindness, but also preventing it. The VISION 2020 initiative has set itself the goal of preventing over 100 million people from losing their sight. This is a goal that we can support with our commitment and determination – we will continue to strive in future to ensure that everybody has the right to see the world with his or her own eyes.

*Active overseas development aid within the framework of VISION 2020 will continue to rank highly with Carl Zeiss Meditec in future.*

*i*

*For more information on the VISION 2020 initiative please consult*

*www.v2020.org*
*www.who.int*
*www.woche-des-sehens.de*
*www.iapb.org*

*and*
*www.christoffel-blindenmission.de*

# Our Strategy

## Preconditions for further growth

Ophthalmology is a growth market in which Carl Zeiss Meditec will further consolidate its position in future. Our concerted efforts in the financial year 2002/2003 have put us on a profitable expansion path. For example, the integration of the two companies that were merged last year has been brought to a fast and successful conclusion. With the sale of the peripheral operations Aesthetic and Dental, the Company made a convincing start to its strategy of consistently focusing on the ophthalmic market. This will now enable us to concentrate all our efforts on further consolidating our leading position in the world's markets. Our goals are ambitious, but nevertheless realistic: In the next five years we plan to double our sales and increase the EBIT margin up to a minimum of 15%. The average growth of Carl Zeiss Meditec should thus exceed the rate of the market for ophthalmic systems.

*Carl Zeiss Meditec's strategic focus is clearly on its core ophthalmic business. The Company has thus fulfilled a major prerequisite for achieving its ambitious goals.*

The most notable recognition for the strategic alignment of Carl Zeiss Meditec was our extremely successful capital increase. It was undisputable evidence that many renowned investors acknowledge our success to date and believe in our strategy. Furthermore, with the capital increase we have also secured the maximum possible flexibility for accelerating growth. As in the past, our strong technology position, our high degree of innovation and our global presence will continue to be the basis of our success.

It is the recognised **high level of technological innovation**, as manifested in our product highlights STRATUSOCT™, MEL 80™ and IOLMaster®, that distinguishes Carl Zeiss Meditec from the competition. This is guaranteed by our strong scientific development potential – one in five of our company's employees works in research and development on product innovations and projects for the future. In the past financial year we invested € 24 million (about 10% of our sales revenue) in this sector. The success achieved was quite substantial: The OCT and IOLMaster® technologies at our disposal are unique basic technologies that are not available to any other company. Our strong patent portfolio secures our excellent ranking in the competitive field: Each year about 50 new patents are added to our current holding of over 500.

*One in five employees is engaged in research for the future of ophthalmology.*

In addition to technologically superior products, another factor of success is the **global marketing strategy**: Over a number of years our own large and highly successful sales teams have helped us to establish a strong presence in the world's major markets USA, Japan and Germany. 130 employees all over the world are engaged in Marketing and Sales. Two thirds of them are in the USA. On other markets we have been able to exploit considerable synergies deriving from our affiliation to the Carl Zeiss Group. Through about 40 distributors and 100 other agencies of the Carl Zeiss Group we have access to a powerful and extremely efficient distribution network. These companies each have their own divisions that are specialised in the sale of medical devices and ophthalmic systems. We are, so to speak, wherever our customers need us – all over the world.

*A high level of technological innovation and unique basic technologies, in conjunction with efficient worldwide distribution channels and a sound financial structure are further prerequisites we have created for the fulfilment of our expansion goals.*

Our excellent **financial situation** secures our future growth plans. In the financial year 2002/2003 we were able to further increase our cash inflow from operating activities. Operative cash flow stood at approx. € 28 million. This and the inflow of funds from the capital increase have provided Carl Zeiss Meditec with over € 45 million in liquid assets as of 30 September 2003. The extremely healthy balance sheet position is also demonstrated by the equity ratio of 59 percent, a substantial increase over the previous year.

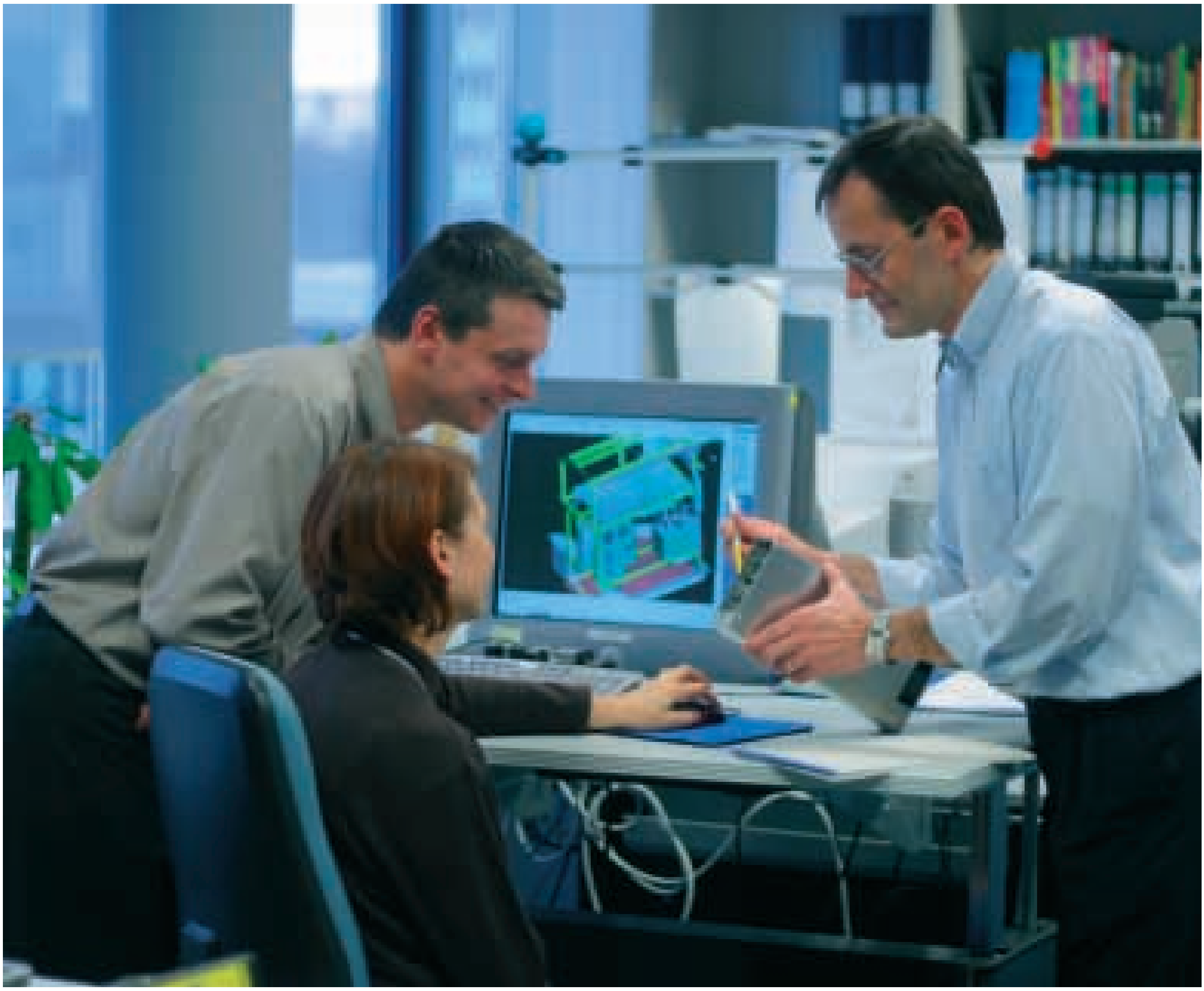
**Strategy for the future**

The future trend in ophthalmology is evident: Instead of a wide variety of devices, each for a different eye examination, there will be intelligent networked systems. That is why we wish to pursue the development of innovative software solutions in the future. This is an important step on the path towards our strategic goal of aiding specialists with intelligent all-round diagnostic systems in support of faster and even more precise decisions on the course of treatment.

In addition, an emphasis will continue to be placed on the exploitation of growth potential in the area of technology. Further areas of application are to be opened up for the OCT technology that forms the nucleus of the top-quality STRATUSOCT™ product. Other innovations, e.g. in the field of customised correction of vision defects and intraocular lenses, are also being worked on. Completion of the product portfolio and further market penetration are additional main focuses for strategic investment.

Future projects aimed at promoting the strategic growth of Carl Zeiss Meditec pursue the following explicit goal: to safeguard and expand our leading position in the market for ophthalmic systems in the long-term.

*Innovative software solutions, new products founded on our basic technologies and the goal-oriented complementation of our product portfolios are important elements of our growth strategy.*



*Basic technologies are a vital component of our growth strategy.*


# *Jena, 11:00pm*

*Our leading position in ophthalmology is an achievement that requires a concerted effort every day anew. We work around the clock to maintain it, all over the world.*

# Value-based management

The goal of our business activities is to create value. Basically this means deploying the equity and borrowed capital, supplied by investors, in such a way as to generate added value. The prerequisite for this is orienting all areas of the Company - from development and sales through to administration - to ensure that they work as efficiently and as profitably as possible.

We use the Economic Value Added® (EVA®) assessment method as a one of the means to assess the corporate added value. EVA® is a profit figure which takes all costs, especially those required for borrowed and equity capital used, into account. All the company processes from strategic planning and operative decision-making through to performance measurement are incorporated in the EVA® figure.

To determine the Economic Value Added®, the net income after tax and before interest from ordinary operations is adjusted by the costs required for financing the business assets. The business assets include the entire capital tied up in the operative business  This emphasises the fact that the corporate value rises more steeply the more successful it is in its operative business and the less it has to expend on financing its business assets. The working capital management system introduced by Carl Zeiss Meditec therefore has an important value-raising function. It is used to control and monitor trade accounts payable and receivable, thereby lowering the corresponding financing costs.

In the current financial year our aim is to implement the EVA® method even more extensively at Carl Zeiss Meditec in order to raise the long term corporate value. In doing so we strengthen the competitiveness of our Company and raise its growth prospects – which are equally attractive to both our employees and shareholders.

# Report by the Supervisory Board

*Dear Shareholders,*
*Ladies and Gentlemen,*

The financial year 2002/2003 was an important and extremely successful period for Carl Zeiss Meditec AG on its path into the future. Innovative products and strong global sales combined with a strategy geared to increasing corporate value were the prerequisites for a substantial boost in sales revenue, profits and cash flow compared to the previous year. The Company has thus succeeded in counteracting the general trend by consolidating its market position. The Management and Supervisory Boards cooperated closely in the financial year 2002/2003. In the financial year 2002/2003 the Supervisory Board discharged its duties in accordance with the law and the Company's procedural rules and Articles of Association. It monitored the work of the Management Board at regular intervals and acted in an advisory capacity. The Supervisory Board was directly involved in all decisions of fundamental importance to the Company.

The Management Board keeps the Supervisory Board regularly and comprehensively informed by means of detailed verbal and written reports on all relevant issues concerning business policy, company planning, risks, profitability and raising the company's value.

In addition, the Chairman of the Supervisory Board has also engaged in a regular exchange of information and ideas with the Management Board outside meetings of the Supervisory Board. The main topics discussed on such occasions were the current business outlook and the strategic development of the Company. On his part, the Chairman of the Supervisory Board was engaged in a close exchange of information with the other members of the Supervisory Board. This ensures close collaboration between the Management and Supervisory Boards.

The Supervisory Board held five meetings during the financial year 2002/2003. Three further resolutions were passed by written agreement in accordance with the Articles of Association.

With one exception, all members of the Supervisory Board were present at all meetings. One member of the executive body was unable to attend a meeting.

## Committees of the Supervisory Board

The Supervisory Board formed three committees that were concerned with various specific issues to supplement the work of the former. The General Committee advises the Management Board on the strategic alignment of the Company. In addition, the General Committee supports the Chairman of the Supervisory Board between meetings and in the coordination and preparation of meetings of the Supervisory Board. The tasks of the Audit Committee include major issues in connection with risk management and the audit of the annual financial statements such as the required neutrality of the auditor and the setting of priorities for the audit. The Personnel Committee prepares staff decisions for the Supervisory Board.

The General Committee held four meetings during the financial year 2002/2003. In addition, one resolution was passed by written agreement. The Audit Committee met at the end of the financial year in connection with the audit of the annual financial statements for the financial year 2002/2003. No meetings of the Personnel Committee were necessary, as the Supervisory Board did not make any staff decisions.

The composition of the Supervisory Board and its committees, including the duties of individual members, is shown in the following table:

*Composition of the Supervisory Board and its committees, including duties of individual members*

| | Supervisory Board | General Committee | Audit Committee | Personnel Committee |
|---|---|---|---|---|
| Dr. Michael Kaschke | *Chairman* | *Chairman* | *Chairman* | *Chairman* |
| Alexander von Witzleben | *Deputy chairman* | *Member* | *Member* | *Member* |
| Dr. Franz-Ferdinand von Falkenhausen | *Member* | *Member* | - | - |
| Dr. Manfred Fritsch | *Member* | - | *Member* | - |
| Franz-Jörg Stündel | *Member* | - | - | *Member* |
| Jörgen Dömel | *Member* | - | - | - |

## Corporate Governance

At one meeting the Supervisory Board deliberated on the development of corporate governance at Carl Zeiss Meditec. The recommendations and suggestions of the German Corporate Governance Code as adopted in 2002 were discussed in detail. The Supervisory Board came to the conclusion that essential parts of the code had already been implemented at all levels of Carl Zeiss Meditec. No major material adjustments were thus required. In response to the recommendations in the January 2002 version of the code the bye-laws of the Managing and Supervisory Boards were supplemented and amended, and the latter unanimously adopted in this form.

The Supervisory Board expressly welcomes the stipulations of the German Corporate Governance Code, as it is in the interests of all persons directly or indirectly related to the Company. As in the past, the recommendations and suggestions of the code will thus rate highly in the management of the Company. The declaration of the Management and Supervisory Board on corporate governance on the basis of the German Corporate Governance Code of May 2003 contains a restriction with regard to the individualised disclosure of the remuneration received by members of the Management Board. Payments received by the Management Board are shown as a total in the notes to the consolidated financial statements for the financial year 2002/2003. The Management and Supervisory Boards will examine the possibility of an individualised declaration in future. The amount of fixed and variable remuneration of individual Supervisory Board members for the financial year 2002/2003 is calculated in accordance with the Company’s Articles of Association.

## Focus of deliberations of the Supervisory Board

The development of business of Carl Zeiss Meditec AG was a regular item on the agenda at meetings of the Supervisory Board. The sales and earnings situation of the Company overall was discussed at length, as well as individual sectors, products and product groups. Numerous Management Board reports on these topics formed a basis for these deliberations.

Issues related to the strategic focusing of Carl Zeiss Meditec continued to be a major concern for the Supervisory Board. In particular, in-depth discussions were held on the integration of subsidiaries’ sales activities and options for handling the Aesthetic and Dental sectors that were not part of the Company’s core ophthalmic business. Both tasks were completed in the financial year 2002/2003 on the basis of the decisions reached. The sales integration was implemented and the Aesthetic and Dental sectors were disposed of with effect from 1 May 2003.

A further item on the Supervisory Board’s agenda was the strategic alignment of Carl Zeiss Meditec AG. It also deliberated on issues related to the Company’s capital market strategy. The main focus in this context was the preparation and implementation of the increase in the Company’s share capital under the exclusion of shareholders’ subscription rights. The capital increase was successfully implemented on 18 September 2003.

## Audit of the annual financial statements

Prof. Dr. Binder, Dr. Dr. Hillebrecht & Partner GmbH Wirtschaftsprüfungsgesellschaft und Steuerberatungsgesellschaft (Auditors and Tax Consultants) of Stuttgart were appointed by resolution of the shareholders' meeting on 11 March 2003 as auditors for the annual financial statements. Before making their proposal, the Supervisory Board obtained a declaration from the auditor confirming that there are no professional, financial or other relationships between the auditor and his bodies and head auditors on the one hand and the Company and its body members on the other. Having obtained the approval of the shareholders, the Supervisory Board authorised Prof. Dr. Binder, Dr. Dr. Hillebrecht & Partner GmbH to conduct the audit of the individual and consolidated annual financial statements of the .

The annual financial statements prepared by the Management Board for the year ended 30 September 2003 including the management report for the financial year 2002/2003 were examined by Prof. Dr. Binder, Dr. Dr. Hillebrecht & Partner GmbH. The auditors found that the annual financial statements and management report are in compliance with the properly prepared accounts, legal provisions and the articles of association, and that the management report presents an accurate view of the risks to future development. The auditor confirmed this with his unqualified audit opinion.

The annual individual and consolidated financial statements, including the appropriate management and audit reports, were submitted to all the members of the Supervisory Board and discussed in detail in accordance with the requirements of Art. 171 Section 1 Sentence 2 of the German Stock Corporation Act (*AktG*) at the balance sheet meeting of the Supervisory Board in the presence of the auditor. In addition, the Management Board submitted its proposal to the Supervisory Board that the net loss for the financial year 2002/2003 is carried forward to new account.

Following its detailed examination, the Supervisory Board concluded that there were no objections to the Company's annual financial statements and the management report for the financial year 2002/2003. The Supervisory Board approved the annual financial statements for the year ending 30 September 2003 as prepared by the Management Board. The annual financial statements have thus been approved. The Supervisory Board concurs with the proposal by the Management Board to carry forward the net loss of the financial year 2002/2003 to new account. The Supervisory Board concurs also with the proposal of the Management Board to transfer the sum of € 32.8 million from capital reserves to fully compensate for the loss carried forward from the previous year and to withdraw € 0.1 million for transfer to reserves for treasury stock. The Company thus fulfilled one of the conditions for the future distribution of dividends.

The Supervisory Board's examination also included the consolidated financial statements and the consolidated management report. The consolidated annual financial statements prepared by the Management Board for the year ended 30 September 2003 including the Group management report for the financial year were examined 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 auditors found that the consolidated annual financial statements and management report are in compliance with the properly prepared accounts, legal provisions, US accounting standards and the articles of association, and that the management report presents an accurate view of the risks to future development. They have confirmed this in their audit opinion. This contains a qualification with regard to the reference date for the preparation of accounts to reflect the previous year's merger of Carl Zeiss Ophthalmic Systems AG and Asclepion-Meditec AG. In this respect the opinion of the Management and Supervisory Boards differs from that of the auditor for the previous year and the financial year 2002/2003. In the auditors' opinion, a € 13.7 million increase in the corporate value of Asclepion-Meditec AG would have resulted in the previous year, producing a correspondingly higher goodwill. In the financial year 2002/2003, however, an impairment test would have necessitated a value adjustment of € 13.7 million. Based on these facts, the total goodwill shown in the consolidated financial statements for the year ended 30 September 2003 is correct. The Management and Supervisory Boards are therefore assuming that for the above reasons no further qualification of the audit report will be necessary. For the financial year 2002/2003 there are no differences of opinion between the auditors and the Management Board with regard to the amount and disclosure of goodwill. For all other purposes, reference is made to the particulars under *(3) Business acquisitions and sales* in the notes to the consolidated financial statements.

Following its detailed examination, the Supervisory Board concluded that there were no objections to the consolidated annual financial statements and the management report for the financial year 2002/2003. The Supervisory Board approved the annual consolidated financial statements for the year ending 30 September 2003 as prepared by the Management Board.

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

As a member of the Carl Zeiss Group, pursuant to Article 312 *AktG* (German Stock Corporation Act) Carl Zeiss Meditec AG has prepared a report on the relations with affiliated companies in the financial year 2002/2003. This report has been examined by the Company's auditor. Both the dependency report and the respective audit report were submitted to the Supervisory Board. Upon examination of the reports pursuant to Aricle 314 *AktG* the Supervisory Board raised no objections to the statement of the Management Board.

## Composition of the Management and Supervisory Boards

No changes were made to the Management and Supervisory Boards in the financial year 2002/2003.

The successes achieved in the financial year 2002/2003 would not have been possible without the great commitment of all employees of Carl Zeiss Meditec AG. The Supervisory Board would like to express its sincere appreciation to all employees of Carl Zeiss Meditec AG. Thanks are also due to the Management Board for its commitment and excellent cooperation.

Jena, 8 December 2003
For the Supervisory Board

**Dr. Michael Kaschke**
*(Chairman)*

# Executive bodies of the Company

## Management Board

**Ulrich Krauss**, Dipl.-Kaufmann (MBA)
*President and CEO*
(*1964), Weimar

**Bernd Hirsch**, Dipl.-Kaufmann (MBA)
*Member of the Management Board*
(*1970), Weimar

**Dr. Walter-Gerhard Wrobel**, Physicist
*Member of the Management Board*
(*1952), Jena

*Ulrich Krauss*

*Bernd Hirsch*

*Dr. Walter-Gerhard Wrobel*

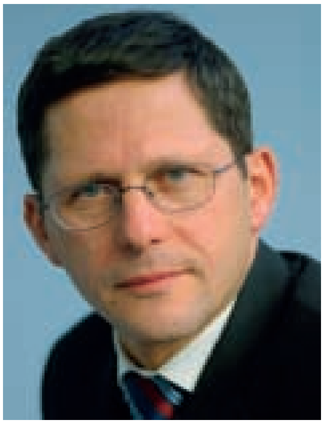
*Areas of responsibility of the Management Board members*

| | Responsibilities |
|---|---|
| Ulrich Krauss | *Sales, Marketing, Service, HR, IT, Refractive Surgery, Business Development* |
| Bernd Hirsch | *Finance, Investor Relations, Law* |
| Dr. Walter-Gerhard Wrobel | *Logistics and Production, Research and Development, Product Management and Quality* |

## Supervisory Board

**Dr. Michael Kaschke**
*Chairman of the Supervisory Board*
(*1957), Oberkochen,
*Member of the Management Board*
*of Carl Zeiss Group, Oberkochen*

*Other mandates:*
Member of the Supervisory Board of Carl Zeiss Semiconductor Manufacturing Technologies AG, Oberkochen, Germany; Chairman of the Board of Carl Zeiss Meditec Inc., Dublin, USA; Chairman of the Board of Carl Zeiss Optical, Inc., Chester, USA; Chairman of the Board of Carl Zeiss Australia Ltd., Camperdown, Australia; Chairman of the Board of Carl Zeiss Co. Ltd., Tokyo, Japan; Chairman of the Board of Carl Zeiss Surgical, Inc., Thornwood, USA; Chairman of SPECTARIS, the German Industrial Association for Optical, Medical and Mechatronical Technologies, Cologne



*Dr. Michael Kascke*

**Alexander von Witzleben**
*Deputy Chairman of the Supervisory Board*
(*1963), Weimar,
*Chairman of the Management Board*
*of Jenoptik AG, Jena*

*Other mandates:*
Chairman of the Supervisory Board of Analytik Jena AG, Jena; Chairman of the Supervisory Board of Meissner+Wurst Zander Holding AG, Stuttgart; Chairman of the Supervisory Board of JENOPTIK Photonics AG, Jena; Chairman of the Supervisory Board of DEWB AG, Jena; Member of the Supervisory Board of KRONE GmbH, Berlin

**Dr. Franz-Ferdinand**
**von Falkenhausen**
*Member of the Supervisory Board*
(*1945), Jena,
*Spokesman of the management of*
*Carl Zeiss Jena GmbH, Jena*

*Other mandates:*
Member of the Supervisory Board of Carl Zeiss Semiconductor Manufacturing Technologies AG, Oberkochen, Germany; Member of the Supervisory Board of FC Carl Zeiss Jena, Jena; President of the IHK (Chamber of Commerce) East Thuringia, Gera; Chairman of the Board of Trustees of the Fraunhofer Institute (IOF), Jena; Member of the Board of Trustees of Innovent Jena e.V., Jena; Chairman of the Advisory Board of the Thüringer Aufbaubank, Erfurt; Member of the Advisory Board of ZSP Geodätische System GmbH, Jena (Trimble Group); Member of the Advisory Board of AJZ Engineering GmbH, Jena

**Dr. Manfred Fritsch**
*Member of the Supervisory Board*
(*1941), Kleinpürschütz/Jena,
*Member of the Management of*
*Carl Zeiss Jena GmbH, Jena*

*Other mandates:*
Member of the Supervisory Board of MAZet Mikroelektronik Anwendungszentrum Thüringen, Erfurt, Germany; Member of the Supervisory Board of Messe AG, Erfurt

*Members of the Supervisory Board from left to right*

- *Franz-Jörg Stündel*
- *Dr. Manfred Fritsch*
- *Dr. Michael Kaschke*
- *Alexander von Witzleben*
- *Dr. Franz-Ferdinand von Falkenhausen*
- *Jürgen Dömel*

**Franz-Jörg Stündel**
*Member of the Supervisory Board*
(*1954), Jena,
*Service Engineer at*
*Carl Zeiss Meditec AG, Jena*

*Other mandates:*
none

**Jürgen Dömel**
*Member of the Supervisory Board*
(*1950), Jena,
*Chairman of the Works Council at*
*Carl Zeiss Jena GmbH, Jena*

*Other mandates:*
Member of the Supervisory Board of Carl Zeiss Jena GmbH, Jena

# Directors' Holdings and Directors' Dealings

*Directors' Holdings – Details on shareholdings of members of the Management or Supervisory Board of Carl Zeiss Meditec AG*

| | | Number of Carl Zeiss Meditec shares 30 September 2003 |
|---|---|---|
| *Management Board* | | |
| Ulrich Krauss | *Shares* | *500* |
| Dr. Walter-Gerhard Wrobel | *Shares* | *-* |
| Bernd Hirsch | *Shares* | *500* |
| *Supervisory Board* | | |
| Dr. Michael Kaschke | *Shares* | *750* |
| Alexander von Witzleben | *Shares* | *3,094* |
| Dr. Franz-Ferdinand von Falkenhausen | *Shares* | *794* |
| Dr. Manfred Fritsch | *Shares* | *450* |
| Jürgen Dömel | *Shares* | *291* |
| Franz-Jörg Stündel | *Shares* | *488* |
| *Company* | | |
| Carl Zeiss Meditec AG | *Shares* | *14,252* |

*Directors' Dealings – securities transactions subject to reporting requirements made by members of the Management or Supervisory Board of Carl Zeiss Meditec AG*

| | Function | Date | Purchase / sale | Number of shares | Price |
|---|---|---|---|---|---|
| Bernd Hirsch | *Member of the Management Board, CFO* | *20.2.2003* | *Purchase* | *500* | *€ 7.28* |
| Ulrich Krauss | *President and CEO* | *26.2.2003* | *Purchase* | *500* | *€ 7.03* |
| Dr. Manfred Fritsch | *Member of the Supervisory Board* | *4.3.2003* | *Purchase* | *450* | *€ 7.85* |
| Alexander von Witzleben | *Deputy Chairman of the Supervisory Board* | *4.3.2003* | *Purchase* | *594* | *€ 7.80* |
| Jürgen Dömel | *Member of the Supervisory Board* | *5.3.2003* | *Purchase* | *291* | *€ 7.79* |
| Dr. Franz-Ferdinand von Falkenhausen | *Member of the Supervisory Board* | *5.3.2003* | *Purchase* | *450* | *€ 7.85* |
| Franz-Jörg Stündel | *Member of the Supervisory Board* | *5.3.2003* | *Purchase* | *284* | *€ 7.85* |
| Dr. Michael Kaschke | *Member of the Supervisory Board* | *6.3.2003* | *Purchase* | *750* | *€ 7.85* |
| Franz-Jörg Stündel | *Member of the Supervisory Board* | *26.9.2003* | *Sale* | *190* | *€ 10.70* |

# Corporate Governance[1]

Carl Zeiss Meditec AG highly values a responsible and professional management. We are convinced that management based on raising the Company's long-term value and on a transparent and fair communication policy benefits all the groups with vested interests in Carl Zeiss Meditec. We therefore deemed it only logical to follow the recommendations contained in the 2002 version of the German Corporate Governance Code without any exception.

*Carl Zeiss Meditec AG highly values a responsible and professional management.*

We will continue to take our commitment to good corporate governance seriously in the future; the intention here is to protect the interests of the shareholders, business partners and employees. All the main recommendations contained in the May 2003 German Corporate Governance Code were once again followed in the financial year 2002/2003. Only the future individualised presentation of the Board's fixed and variable remuneration elements - as recommended in clause 4.2.4 of the Code in the current version of May 2003 – is currently being examined by the Management Board and Supervisory Board. Payments received by the Management Board are shown as a total in the notes to the consolidated financial statements for the financial year 2002/2003.

1 *Constitutes report of corporate governance in accordance with clause 3.10 of the German Corporate Governance Code (May 2003)*

The German Corporate Governance Code constitutes the main requirements concerning the management and monitoring of listed companies and contains nationally and internationally recognised standards of good and responsible management. The Code was developed to clarify the rights of shareholders and the tasks of management and supervisory boards. The aim of the Code's recommendations and suggestions is to promote trust on the part of international and national investors and the public in the management and monitoring of listed companies in Germany.

The Code is usually reviewed once per year and revised to take national and international developments into account.

*i*

*Further information and the latest version of the German Corporate Governance Code can be obtained from*

*www.corporate-governance-code.de*

Ideas are born of dialogue.

# Corporate Governance at Carl Zeiss Meditec

### Shareholder rights

The forum for the Carl Zeiss Meditec AG shareholders is the general meeting, which is where they are entitled to exercise their voting rights. Each Carl Zeiss Meditec share entitles its bearer to one vote. There are no shares with multiple, preferential or maximum voting rights. Every shareholder who has submitted his or her shares is entitled to take part in the general meeting. S/he has the possibility to speak out on items on the agenda, to ask relevant questions and to make proposals. The general meeting is chaired by the Chairman of the Supervisory Board. The Management Board of Carl Zeiss Meditec AG presents the annual statement and the consolidated statement to the general meeting. As the body for expressing the will of our shareholders, the general meeting resolves on amendments to the Articles of Associations of the company and essential measures such as, in particular, inter-company agreements and transformations, on the issuance of new shares and other financial instruments as well as on the authorization to purchase own shares.

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

# Cooperation of Management and Supervisory Boards

Carl Zeiss Meditec AG, Jena, is subject to German law which is also the basis of the Corporate Governance Code. This stipulates a dual management system whereby the Management Board carries out managerial functions and the Supervisory Board fulfils a monitoring and advisory role. To ensure successful management of the Company, the Management Board and the Supervisory Board maintain a close dialogue with each other. The Board of Management coordinates the Company's strategic orientation with the Supervisory Board and discusses the progress of strategy implementation with it at regular intervals.

The Supervisory Board is directly involved in decisions which are of fundamental importance for Carl Zeiss Meditec AG. These include decisions which could have a major impact on the Company's net worth, financial position or earnings. The Management Board and the Chairman of the Supervisory Board are jointly responsible for providing the Supervisory Board with sufficient information.

*The Management and Supervisory boards work together closely for the benefit of the Company. The Management Board keeps the Supervisory Board regularly and comprehensively informed by means of detailed verbal and written reports on all relevant issues concerning business policy, company planning, risks, profitability and raising the company's value.*

*Concerted action is also essential at management level.*

# The Management Board

The Management Board of Carl Zeiss Meditec AG runs the Company. It is committed to defending the Company's interests and thereby to raising its long-term value.

The Chief Executive Officer coordinates the Company's basic policies. The main responsibilities of the Management Board are defining corporate strategy, setting the Company budget and distributing resources. It publishes quarterly and annual statements for the Group and is responsible for filling important posts in the Company. It also keeps the Supervisory Board informed regularly, comprehensively and with no delay on all issues concerning planning, business performance, risks and risk management for Carl Zeiss Meditec AG. Any secondary occupations require the consent of the Supervisory Board. None of the Management Board members has such a secondary occupation.

**Remuneration of the Management Board**

The Management Board remuneration consists of fixed and variable components. The appropriateness of these components is reviewed at the beginning of each financial year by the Chairman of the Personnel Committee of the Supervisory Board.

The variable component is contingent upon certain quantitative goals being reached. These goals also form the basis of the corporate control and should take both short and long term business performance (e.g. sales, EBIT, ∆EVA®) into account. Strategic goals as agreed with the Supervisory Board are also taken into consideration.

The Company is currently checking the feasibility of introducing a long-term incentive programme aimed at rewarding the Company's management and employees for pursuing long-term goals and allowing it to focus on raising the corporate value in the long term.

# The Supervisory Board

In the financial year 2002/2003 the Supervisory Board of Carl Zeiss Meditec AG consisted of six members. Four of the members were elected by shareholders at the general meeting. Two further members are employee representatives. They have joined the monitoring body on a voluntary basis and, as such, are legally appointed. Like the Management Board members, all the Supervisory Board members are committed to defending the Company's interests.

The Chairman of the Supervisory Board coordinates the work of the Supervisory Board and chairs its meetings.

# Transparency in reporting

To ensure maximum transparency, Carl Zeiss Meditec provides regular and topical information to its shareholders, financial analysts, shareholder associations, the media and the general public about the Company's performance and about any important changes to the business. All the shareholders and the main target groups receive the same information simultaneously. We take great pains to ensure that all the information we provide is issued to the interest groups without any delay.

The annual statement is published in German and English within 90 days of the end of the financial year and the interim reports within 45 days of the end of the quarter. We use the Internet as a platform for publishing continually updated information. The dates of the main publications – such as annual and interim reports or general meetings – and a whole range of other information are held there for general access.

In addition to its regular financial reports, Carl Zeiss Meditec issues ad-hoc announcements and explanatory press releases to provide immediate and comprehensive information about events which could impact on the Company's assets and finances or the general day-to-day business, making them capable of exerting a considerable influence on the Carl Zeiss Meditec share price.

Moreover, the Management Board also issues an immediate statement if there are any notifiable changes to share ownership. This is deemed to be the case if an individual's shares go above or below 5, 10, 25, 50 or 75 percent of the voting rights of Carl Zeiss Meditec AG through buying, selling or some other method. Also, in accordance with the law, Carl Zeiss Meditec AG immediately issues a statement when Management Board or Supervisory Board members buy or sell Carl Zeiss Meditec AG shares. This information is published on the Company's website without any delay in German and English.

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

## Financial records and auditing

Shareholders and third parties are informed principally via the consolidated financial statement. Carl Zeiss Meditec consolidated financial statements are drawn up in accordance with the US GAAP (United States Generally Accepted Accounting Principles). The financial statements of Carl Zeiss Meditec AG are prepared by the Management Board, approved by the Supervisory Board and checked and certified by an independent auditor. Prof. Dr. Binder, Dr. Dr. Hillebrecht & Partner GmbH, Stuttgart, were chosen as the auditors for the annual individual and consolidated statements at the general meeting on 12 March 2003. Before making their proposal, the Supervisory Board obtained a declaration from the auditor confirming that there are no professional, financial or other relationships between the auditor and his bodies and head auditors on the one hand and the Company and its body members on the other.

*A healthy financial structure – audited by independent auditors – guarantees ongoing reliability.*

A continuing and open dialogue with our shareholders is the ambitious goal we have set ourselves and one which we intend to continue fulfilling in the future through comprehensive and transparent communication. As the result of rapid and open reporting we will continue to promote trust on the part of investors and the general public in our Company.

*i*

*Important financial dates are to be found on the rear cover or at*

*www.meditec.zeiss.com/ir*

Financial transparency starts with carefully checked figures.

# Declaration by the Management and Supervisory Boards 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 and Supervisory Boards of Carl Zeiss Meditec AG are obliged to submit an annual declaration that the recommendations of the *Government Commission on the German Corporate Governance Code* have been complied with. This declaration must be made permanently accessible to shareholders.

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

that since its last declaration of 6 December 2002, Carl Zeiss Meditec AG has applied the recommendations of the *"Government Commission on the German Governance Code"* in the version dated 26 February 2002 without limitation. The Management and Supervisory Boards furthermore declare that Carl Zeiss Meditec AG observes and will continue to observe the recommendations of the Code in the version dated 21 May 2003. Merely the following recommendation is applied in a qualified form.

**Art. 4.2.4:**

*In the notes to the consolidated financial statements, remuneration paid to members of the Management Board shall be shown divided into fixed allowances, profit-orientated components and components with long-term incentive effect. The figures shall be shown for each director individually.*

Payments received by the Management Board are shown as a total in the notes to the consolidated financial statements for the financial year 2002/2003. The Management and Supervisory Boards will examine the possibility of an individualised declaration in future.

Jena, 8 December 2003

| For the Supervisory Board | For the Management Board |
|---|---|
| **Dr. Michael Kaschke** | **Ulrich Krauss** |

# Financial Statements of Carl Zeiss Meditec AG, Jena (HGB)

### Important pre-condition met for future dividends

Future dividend policy is governed by German law, under which dividends may only be distributed from balance sheet profits. Accordingly, the resolution of the Management Board to transfer a sum from capital reserves in order to compensate for the balance sheet loss from the previous year and to allocate it to the reserve for treasury stock is a prerequisite for future dividend payments. The total sum transferred is € 32.9 million. Of this sum, € 32.8 million have been applied to offset the loss carried forward.

*Items of the annual financial statements (summary)*

*(in € '000)*

| Income statement | Financial year 2001/2002 | Financial year 2002/2003 | Change |
|---|---|---|---|
| **Sales**[1] | **119,278** | **102,860** | **-13.8%** |
| Gross profit | 39,069 | 41,512 | +6.3% |
| **Result of ordinary activities**[2] | **(24,520)** | **4,345** | **+117.7%** |
| Extraordinary results[3] | - | (4,500) | n/a |
| **Net loss for the year** | **(24,458)** | **(158)** | **+99.4%** |
| Loss carryforward | (8,324) | (32,782) | +293.8% |
| Withdrawal from capital reserve | - | 32,890 | n/a |
| **Accumulated deficit** | **(32,782)** | **(158)** | **+99.5%** |
| **Balance sheet** | | | |
| Fixed assets | 125,006 | 121,966 | -2.4% |
| Current assets | 65,610 | 80,527 | +22.7% |
| **thereof: Trade accounts receivable** | **20,144** | **13,343** | **-33.8%** |
| **thereof: Cash and cash equivalents** | **3,392** | **26,190** | **+672.1%** |
| Equity capital | 157,097 | 181,997 | +15.9% |
| Liabilities | 20,779 | 10,003 | -51.9% |
| Balance sheet total | 190,897 | 202,651 | +6.2% |
| **Cash flow statements** | | | |
| Operative cash flow | (2,355) | 9,605 | +307.9% |

1 *Sales and profit contributions of the sold-off Aesthetic and Dental business units are fully disclosed in the Company's individual financial statements of the financial year 2001/2002, in the financial year 2002/2003 they were disclosed only until the date of the sale, i.e. until 30 April 2003.*

2 *Including operating loss of the Aesthetic and Dental units to the amount of € -0.8 million.*

3 *Loss on the sale of the inventories and fixed assets in connection with the disposal of the Aesthetic and Dental business units.*

*i*

*The complete annual financial statements of Carl Zeiss Meditec AG, Jena, in accordance with the German Commercial Code (HGB), including the unqualified audit certificate, will be published in the electronic Federal Gazette and deposited in the commercial register at Gera. It will be available for downloading from the Carl Zeiss Meditec Website www.meditec.zeiss.com/ir.*

*Alternatively, it may also be requested as an offprint from Carl Zeiss Meditec AG.*

# Consolidated financial statements of Carl Zeiss Meditec AG (US GAAP)

2002/2003

# Consolidated management report

## Executive summary

Carl Zeiss Meditec AG, Jena, is the parent company of the Carl Zeiss Meditec Group (the "Group"). Together with its operative companies, as of 30 September 2003 the Carl Zeiss Meditec Group exhibited the following structure:


The Group's financial year 2002/2003 was essentially marked by the **rapid** and **successful conclusion of the integration process** following the previous year's merger and the successful **implementation of the growth strategy**. The following major milestones were reached:

- **Founding of the Japanese subsidiary:** On 9 October 2002 Carl Zeiss Meditec AG announced the start of business of its subsidiary Carl Zeiss Meditec Co., Ltd, Tokyo, Japan. This step enabled the Group to further strengthen its position in the important Japanese market.

- **Streamlining and optimising of Group structure:** In the course of sales integration into existing structures, the business activities of the minor subsidiaries of former Asclepion-Meditec AG in the UK, Italy and USA were integrated or disposed of.

- **Focusing on core ophthalmic business:** With effect from 1 May 2003 the peripheral activities in the Dermatological and Dental Laser sectors were sold to the Italian companies EL.EN S.P.A., Florence, Italy, and Quanta System S.P.A., Milan, Italy.

- **Successful capital increase:** On 18 September 2003 the Group increased its share capital of € 25.8 million by 10% to € 28.4 million. After subtracting issue costs and allowing for deferred taxes, net proceeds came to € 24.6 million.

The **course of business** in the reporting period **endorsed** the Group's **successful growth strategy**. Compared to the previous year there was a 16.7% **increase in sales** to € 235.7 million. Earnings before interest and taxes **(EBIT) increased** by a **factor of 1.5** from € 10.0 million to € 24.7 million. This represents an EBIT margin of 10.5% (previous year: 5.0%). **Consolidated net income from continuing operations** likewise **rose by a factor** of almost **1.5** to € 10.8 million (previous year: € 4.7 million). Earnings per share from continuing activities thus amounted to € 0.41 (previous year: € 0.22). Allowing for losses on discontinued operations, **consolidated net earnings almost doubled** from € 3.4 million in the previous year to € 6.6 million in the reporting period.[1]

There was a **continued improvement** in **operative cashflow** due to a substantial reduction in accounts receivable compared to the previous year. The former increased by 23.5% from € 22.7 million in the previous year to € 28.1 million. This favourable trend enabled the complete elimination of financial liabilities towards the group treasury of the Carl Zeiss Group.

*1 In the previous year's income statement the sales and operating income contributed by Asclepion-Meditec AG, as taken over on 4 July 2002, were taken into account in the last quarter only.*

# *Business report*

## 1. Underlying conditions for economic development[2]

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

## 2. Structure of the consolidated financial statements

The following aspects must be borne in mind with regard to the structure of the consolidated financial statements:

- **Reporting of discontinued operations**: With effect from 1 May 2003 the Company disposed of the Dermatological and Dental Laser divisions that were not part of its core business to the Italian companies EL.EN S.P.A., Florence, and Quanta Systems S.P.A., Milan. In accordance with the US accounting rule SFAS No. 144, contributions to sales and expenses made in this sector are summarised in the consolidated income statement and shown separately. This applies to both the reporting period and the previous year.

- **Expansion of the reporting entity**: Starting with the financial year 2002/2003 , Japanese subsidiary Carl Zeiss Meditec Co., Ltd. has been included in the reporting entity. This results in a structural influence on the profit situation.

- **Takeover of former Asclepion in the previous year**: In the previous year Carl Zeiss Ophthalmic Systems AG had taken over the former Asclepion-Meditec AG in a reverse acquisition. The previous year's income statement therefore takes into account only the sales and operating income contributed by Asclepion-Meditec AG in the last quarter.

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

## 3. Development of sales

Despite the extreme decline in the exchange rates of US-$ to the Japanese ¥ and €, **consolidated sales** in the reporting period increased by 16.7% to € 235.7 million (previous year: € 202.0 million). The healthy development of business of the two subsidiaries in USA and Japan were instrumental in this trend. At the beginning of the financial year the latter was included in the reporting entity of the Carl Zeiss Meditec Group. Furthermore, it should be noted that sales revenues of the sold-off Aesthetic and Dental sectors were taken into account neither in the reporting period, nor in the previous year (cf. 2. Structure of the consolidated statements).

Increased sales were reported by all **business sectors**. The Group generated 75.9% of its sales with diagnostic systems (previous year: 77.0%). Laser systems accounted for 14.6% of total group sales (previous year: 13.3%). The remaining 9.5% were attributable to services (previous year: 9.7%).

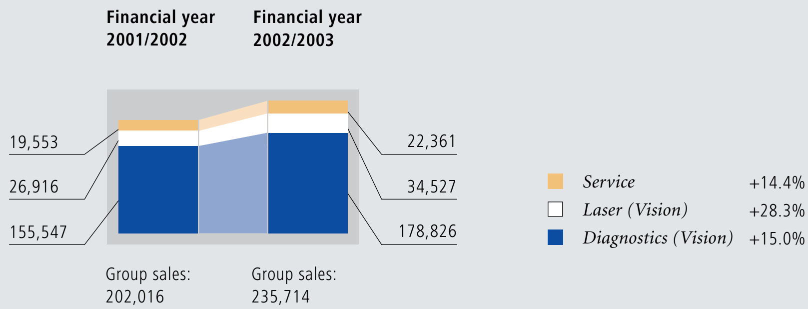
Substantial sales were generated by the STRATUSOCT™ diagnostic system. The unique technology – optical coherence tomography – upon which this system is based enables the rendering of real-time, cross-section views of the neurofibral layers of the eye. In this way retinal disorders and glaucoma can be diagnosed earlier than hitherto. Sales revenues for the Humphrey® Field Analyzer HFA II-*i* diagnostic system exhibited a positive trend. The latter is used to measure the visual field for the detection of glaucomas. Regional sales strongholds of the two systems were USA and Japan. A further major contribution to the growth in sales in USA and Europe was made by the IOLMaster®. The IOLMaster® is employed for non-contact, precise measurement of the eye prior to a cataract operation and to date it is the only system of its kind on the market. Other innovative products such as the VISUCAM™ lite and the fundus cameras have also contributed to the increase in sales.

The most important product in the laser sector is the MEL 80™, used for the safe and precise correction of vision defects, so-called refractive surgery. In the financial year 2002/2003 a growing share of group sales was attributable to this device. As the pre-eminent product in this sector, the MEL 80™, was launched in the second quarter of the current financial year. This resulted in a time lag in sales. However, the high level of market acceptance for the system and marketing efforts have partly compensated for the resulting delay.

The following chart gives a breakdown of group sales by business unit:

*Group sales by business unit*

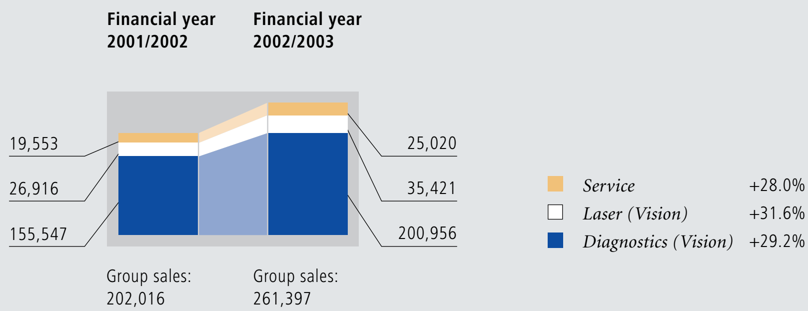
*(in € '000)*




Had **exchange rates remained constant** compared to the previous year, there would have been a sharper rise in **Group sales**. Compared to the previous year, sales revenue would have increased by 29.4%, putting Group sales at € 261.4 million (€ 25.7 million more than reported). At closer inspection it becomes obvious that the Group was able to substantially improve its market position compared to the previous year, in particular in the diagnostic systems and service sectors.

*Group sales by business unit on constant currency base*

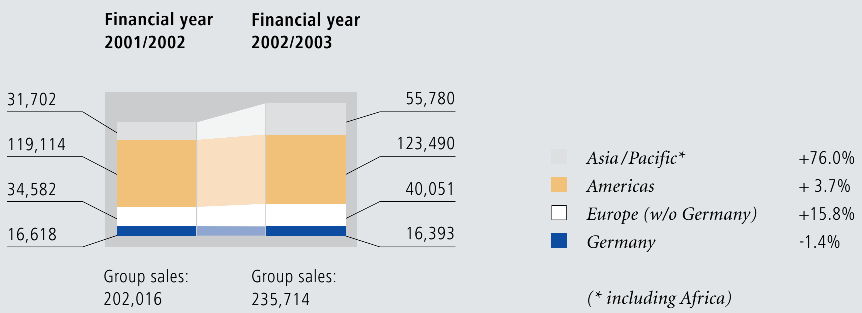
*(in € '000)*



A breakdown of Group sales by region presents the following picture:

*Group sales by region*

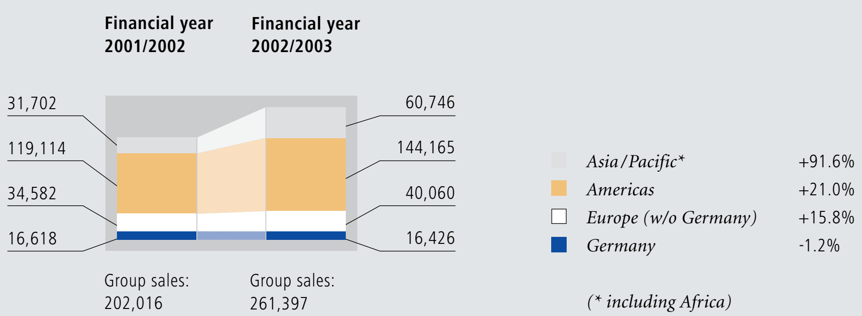
*(in € '000)*




A comparison with the previous year's figures on the basis of a constant exchange rate shows that despite adverse underlying conditions the Group was able to consolidate its **regional market position**, particularly in the world's two largest medical technology markets. In the Americas region – mainly comprising the USA – sales would have totalled € 144.2 million compared to € 123.5 million in the previous year, representing an increase of 21.0%. In the Asia/Pacific region a growth by 91.6% would have been recorded. Thus, sales would have amounted to € 60.7 million.

*Group sales by region on constant currency base*

*(in € '000)*




## 4. Orders on hand

As of 30 September 2003 the **Group's orders on hand** amounted to € 13.2 million (previous year: € 31.2 million). In the view of the Carl Zeiss Meditec Group, the explanation for this decline compared to the previous year is that uncertain economic conditions have prompted customers to place significantly shorter-term orders than hitherto.

## 5. Production planning and production

The Group has **two production sites**. These are located at Jena, Germany and Dublin, USA. The financial year 2002/2003 saw the consolidation of the existing production capacities of various facilities in Jena. In the process, production of the MEL 80™ refractive laser system was optimally integrated into the existing procurement infrastructure, ensuring the availability of existing production capacities.

The Company's core competencies embrace the development of new technologies, products and applications (cf. Research and Development Report) and the manufacture of key components. The main focus of product manufacturing by the Carl Zeiss Meditec Group is on the **assembly of system components**. More than two-thirds of the parts or components required in Jena are purchased from external suppliers. The remaining third is divided almost equally between other members of the Carl Zeiss Group and the Company's own component manufacturing facilities. Most of the parts or components used in Dublin are purchased from external suppliers.

**Production planning** in Jena is based on the rolling forecast method used by the sales partners. This method requires the latter to prepare a rolling sales forecast as a basis for ordering individual items and manufacturing components. For the purposes of restricting stock-keeping to a minimum, final assembly is usually performed to customer orders. Products at Dublin are made to meet the orders of marketing partners according to the demand-flow principle.

## 6. Development of manufacturing capacities

The Carl Zeiss Meditec Group compensates for fluctuations in demand by **flexible deployment of production personnel**. One prerequisite for this is an appropriate training system, by which the employees are qualified for work on the different production lines.

## 7. Procurement

As described under "Production planning and production", products are assembled almost exclusively to meet customer orders. The purpose of this is to keep stocks as low as possible. Accordingly, the respective components are not called up from suppliers until one to two months prior to the production date. Carl Zeiss Meditec attaches great importance to **long-term partnerships with its suppliers and regular qualification audits**.

## 8. Quality management

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

## 9. Registrations and approvals

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

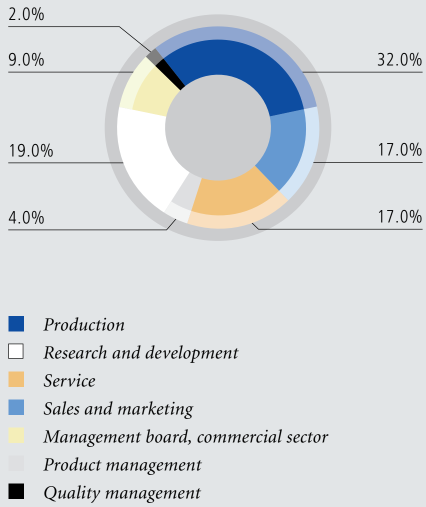
With the exception of the refractive laser MEL 80™, for which the approval procedure takes longer, particularly in the USA und Japan, the Group's **complete range of products** has been **approved in all major countries of the world**.

## 10. Personnel

As of 30 September 2003 a **workforce** of **752** was employed in the **Carl Zeiss Meditec Group**, plus 24 trainees at the Jena facility (Germany). The corresponding figures for the previous year were 869 employees, plus 26 trainees. Partially retired employees in Germany were not included in this figure.

To a large extent the decline in the workforce was attributable to the disposal of the Aesthetic and Dental business units as of 1 May 2003 and the related transfer of personnel into the new company. A further influencing factor was the optimisation of the worldwide Group structure and the related marketing integration or sale of business operations at the facilities in Italy and UK (cf. also 12. Events of particular significance).

The following graphic provides an overview of the personnel structure at the Carl Zeiss Meditec Group as of 30 September 2003:




*Personnel structure at Carl Zeiss Meditec Group as of 30 September 2003*

## 11. Environmental protection

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

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

## 12. Events of particular significance

On 9 October 2002 the Company announced the **start of direct sales in Japan** through a subidiary in which it owns 51% of the share capital. The remaining 49% are held by Carl Zeiss Co. Ltd., Tokyo, Japan. This enabled Carl Zeiss Meditec to consolidate its position in the important Japanese market.

In the financial year 2002/2003 the **Group's structure was further optimised**. In the course of sales integration, the activities of the former Asclepion subsidiaries were absorbed into the existing sales structure.

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

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

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

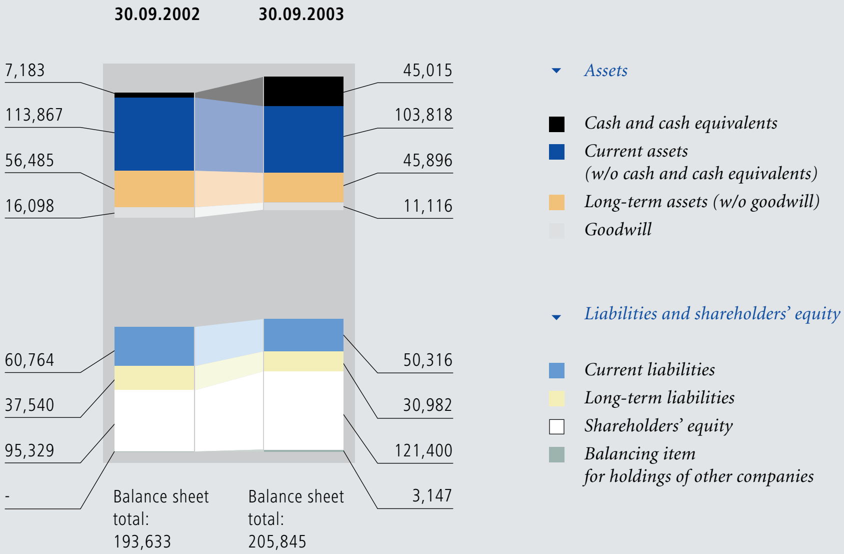
Furthermore, the Group is now **focusing** completely on its **core ophthalmic business**. With effect from 1 May 2003 the peripheral activities in the dermatological and dental laser sector were sold to the Italian companies EL.EN S.P.A., Florence, Italy, and Quanta System S.P.A., Milan, Italy. Earnings before income tax totalling € -5.9 million were generated in these two sectors. These allow for a loss of € 4.5 million on the sale (cf. also 16. Earnings position).

On 18 September 2003 the Group **increased** its **share capital** of € 25.8 million by 10% to € 28.4 million by issuing 2.6 million new shares, each representing a pro rata amount of € 1.00 of the share capital. The subscription price of these shares was € 9.70. After subtracting issuing costs and deferred taxes, the corresponding net cash inflow was € 24.6 million.

## 13. Net worth

### *a) Statement of net worth*

Compared to the previous year, there has been an improvement in major **balance sheet items**. A substantial cash inflow from operating activities and the capital increase of September 2003 resulted in a sharp **rise in liquid assets**. The Company's equity base was thus further solidified. There has been a reduction in **current assets** and **goodwill** on the assets side and **accounts payable** on the liabilities side. The following diagram shows the structural improvements in the Group balance sheet.




*Consolidated balance sheet structure at Carl Zeiss Meditec AG as of 30 September 2002 and 2003*

*(in € '000)*

The **consolidated balance sheet total** of Carl Zeiss Meditec as of 30 September 2003 stood at € 205.8 million. Compared to the previous year (€ 193.6 million) this constituted an increase of 6.3%. For the main part, this was attributable to the **sharp increase** of € 37.8 million **in cash on hand** to € 45.0 million from € 7.2 million in the previous year. This more than compensated for the various contracting effects on the assets side of the balance sheet. These include:

· Sharp **reduction in trade accounts receivable**. This is mainly due to optimised collection management. In addition, a conservative estimate was made of accounts receivable. Long-term accounts receivable also diminished.

· The **reduction in inventories**. This is due on the one hand to management efforts to reduce inventories in the long-term as well as the effects of exchange rates. The inclusion of the Japanese subsidiary in the reporting entity and the accumulation of inventories for discontinued activities had the opposite effect.

· **Retirements from tangible fixed assets and inventories** resulting from the **disposal of peripheral operations** Aesthetic and Dental. The corresponding net effect is € 4.7 million.

· The **reduction** of **goodwill** as disclosed in the balance sheet. A major role was played in this respect by the reduction in deferred tax liabilities resulting from the reverse acquisition of the former Asclepion-Meditec AG by Carl Zeiss Ophthalmic Systems AG in the previous year which have been offset against goodwill. This brought about a € 3.7 million reduction in goodwill without affecting earnings.

**Accounts receivable due from related parties** as of 30 September 2003 totalled € 20.5 million (previous year: € 16.8 million). These relate exclusively to accounts receivable from members of the Carl Zeiss Group. Compared to the previous year it must be noted that starting with the financial year 2002/2003 receivables and liabilities – insofar as they pertain to the same company and have the same due date – are offset against each other. The total is shown either under the balance sheet item "Accounts receivable" or "Liabilities", depending on which of the two values is greater. When considering this balance sheet item it is also important to consider that in the past financial year **all liabilities** to the group treasury of the Carl Zeiss Group were **repaid in full**. As of 30 September 2003 the credit balance with the Carl Zeiss Group treasury disclosed under this item stood at € 12.1 million. (See also 14. Financial position)

The capital increase of 18 September 2003 generated net issuing proceeds of € 24.6 million for the Group. In the course of this transaction **capital reserves** increased by € 22.0 million, i.e. the amount in excess of the newly subscribed capital of € 2.6 million.

There has been a **substantial reduction in liabilities** due to affiliated companies, i.e. members of the Carl Zeiss Group, compared to the previous year. As of 30 September 2003 the latter totalled € 5.9 million (previous year: € 13.6 million). Besides the repayment of liabilities to the Carl Zeiss Group treasury, other existing liabilities were also reduced. Furthermore, the above-mentioned effect of offsetting receivables and liabilities pertaining to the same company comes to bear here. In addition, substantial current liabilities were paid off. Thus there was a 17.2% reduction in overall current liabilities from € 60.8 million in the previous year to € 50.3 million.

## *b) Key ratios of net worth*

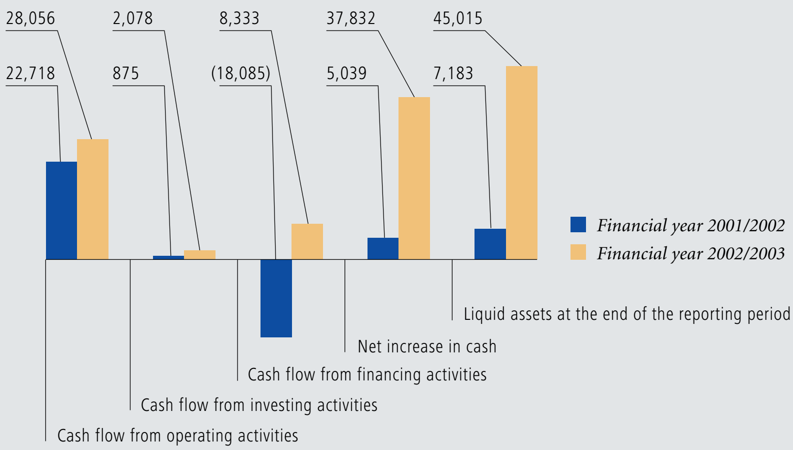
In the financial year 2002/2003 the Carl Zeiss Meditec Group was able to further consolidate its already sound net worth structure.

*Key ratios of net worth*

| Key ratios | Definition | 30 September 2002 | 30 September 2003 | Change over previous year |
|---|---|---|---|---|
| Equity ratio | Equity capital / Balance sheet total | 49.2% | 59.0% | +9.8 percentage points |
| Net debt | Liabilities less cash and cash equivalents less accounts receivable from Carl Zeiss Group treasury | € 82,957,000 | € 24,194,000 | -70.8% |
| Inventory turnover | Cost of goods sold / Average on inventories | 3.3 | 3.4 | +3.0% |
| Days of Sales Outstanding (DSO) | Trade accounts receivable / Consolidated sales x 360 days | 87.0 days | 59.1 days | -32.1% |
| Equity/assets ratio | Equity capital / Fixed assets | 212.5% | 358.1% | +145.6 percentage points |

## 14. Financial position

### *a) Statement of financial position*




*Consolidated cash flow statement (summary)*

*(in € '000)*

The Group's **financial power** was **substantially augmented** in the reporting period. As of 30 September 2003 cash and cash equivalents amounted to € 45.0 million (previous year: € 7.2 million). The net increase in cash in the financial year 2002/2003 amounted to € 37.8 million (previous year: € 5.0 million). The positive development of operative cash flow and revenue from the capital increase were instrumental in this.

**Cash flow from operating activities** in the reporting period stood at € 28.1 million (previous year: € 22.7 million). Special mention should be given to the first successes of the system implemented to monitor and control the working capital. Optimised collection management enabled accounts receivable to be reduced compared to the previous year. Due to this and the influence of exchange rates, receivables fell by about a quarter compared to the previous year to € 30.3 million. In addition, conservative standards were observed in accounting for accounts receivable. The increase in inventories from continuing operations ran contrary to this trend. The main reason for this was the inclusion of the Japanese subsidiary in the Group's reporting entity.

In the reporting period **cash flow from investing activities** amounted to € 2.1 million (previous year: € 0.9 million). This development is mainly attributable to the inflow of funds from the repayment of loans and investments, the disposal by sale of the Aesthetic and Dental sectors and sales integration.

In the reporting period the **cash flow from financing activities** amounted to € 8.3 million (previous year: € -18.1 million). The main influencing factor in this case was cash inflow from the capital increase of September 2003.

Due to increased liquidity in the operative sector, in the reporting period the Group was able **to pay off all liabilities** to the **Carl Zeiss Group treasury**. As of 30 September 2003 the balance was € 12.1 million (previous year: net liabilities of € 1.6 million). This balance accrues interest at the customary market rate and is at the Group's disposal at any time.

### *b) Key ratios of financial position*

*Key ratios of financial postition*

| **Key ratios** (in € '000) | **Definition** | **30 September 2002** | **30 September 2003** | **Change over previous year** |
|---|---|---|---|---|
| Liquid funds | Cash at bank and in hand | 7,183 | 45,015 | +526.7% |
| Cash and cash equivalents | Cash at bank and in hand + accounts receivable (prev. year: liabilities) against Carl Zeiss Group treasury | 5,562 | 57,067 | +926.0% |
| Net working capital | Current assets less cash and cash equivalents less accounts receivable from Carl Zeiss Group treasury less current liabilities | 44,939 | 41,413 | -7.8% |
| Working capital ratio | Current assets / Current liabilities | 199.2% | 295.8% | +96,6 percentage points |

The substantial increase in working capital ratio compared to the previous year is mainly attributable to the increase in cash on hand and the balance of € 12.1 million in the Carl Zeiss Group treasury (previous year: liabilities of € 1.6 million). Adjusted for these items net working capital decreased by 7.8% to € 41.4 million compared to the previous year.

## 15. Investing activities

In the past financial year **no noteworthy investments were effected** by the Company. The sum total of investments in tangible fixed assets was € 2.8 million (previous year: € 1.8 million). The increase in investment activities is mainly attributable to the inclusion of the Japanese subsidiary in the Group's reporting entity.

## 16. Earnings position

### *a) Statement of earnings*

Consolidated income statement (summary)

| (in € '000) | Financial year 2001/2002 | Financial year 2002/2003 | Change over previous year |
|---|---|---|---|
| Revenues | 202,016 | 235,714 | +16.7% |
| Earnings before interest and taxes (EBIT) | 10,016 | 24,723 | +146.8% |
| Consolidated net income from continuing operations | 4,654 | 10,754 | +131.1% |
| Earnings per share from continuing operations (in €) | 0.22 | 0.41 | +86.4% |
| Consolidated net income from discontinued operations | (1,273) | (4,196) | n/a |
| Consolidated net income | 3,381 | 6,558 | +94.0% |

There was a significant improvement in the **Group's gross margin** compared to the previous year. In the financial year 2002/2003 the latter stood at 43.5% compared to 34.8% in the previous year – an increase of 8.7 percentage points. This trend is attributable to the following:

- **Decrease in production costs**: Improvements in this sector were achieved in particular through process optimisation.
- **Change in product mix sold**: Improvements here are mainly due to the increase in sales of innovative and efficient diagnostic and therapeutic systems.
- **Price trends on the Japanese market**: Since the beginning of the financial year 2002/2003 the Carl Zeiss Meditec Group has had a presence in Japan in the form of a subsidiary that was included in the consolidated entity for the first time in the reporting period.

There was also a considerably improvement in earnings before interest and taxes (EBIT). In the reporting period, EBIT increased by a factor of 1.5 to € 24.7 million (previous year: € 10.0 million). This represents an EBIT margin of 10.5% (previous year: 5.0%). Besides the distinct improvement in gross earnings it should be noted that the proceeds from the sale of the Aesthetic and Dental business units have not been included in the EBIT (cf. 2. Structure of the consolidated financial statements).

**Functional costs** have increased compared to the previous year An increase has occurred in selling and marketing expenses as well as administrative costs. In the reporting period, marketing and selling costs stood at € 42.6 million following € 31.8 million in the previous year. This represents an increase of 34.1%. There was a 35.3% rise in general and administrative expenses from € 8.2 million in the previous year to € 11.1 million. In both of these areas this is mainly attributable to the inclusion of the Japanese subsidiary in the consolidated entity of the Carl Zeiss Meditec Group. The intensified marketing activities for the STRATUSOCT™ diagnostic system are a further reason for the increase in selling and marketing expenses. Furthermore, the launch of the MEL 80™ refractive laser also resulted in an increase in costs in this sector.

Overall, the Group anticipates a normalisation of cost trends in these sectors in the future. The realisation of synergies at the Jena facility had a reverse, i.e. cost-cutting, effect. Here significant savings were implemented in functional costs (cf. Management report on the individual annual financial statements). At 10.1% expenses for research and development (allowing for subsidies) as a proportion of Group sales fell slightly compared to the previous year's figure (10.3%) In absolute terms, however, there was a 14.7% increase in costs to € 23.9 million (previous year: € 20.8 million).

**Earnings before tax (EBT)** increased significantly compared to the previous year. They amounted to € 22.6 million (previous year: € 6.9 million). In addition to the positive trend in EBIT, this was also attributable to the substantial decrease in interest expenses. They fell from € 3.1 million in the previous year to € 2.1 million in the financial year 2002/2003 . This was partly attributable to the full repayment of liabilities to the Group treasury of the Carl Zeiss Group in the reporting period due to the positive development of cash flow from operating activities (cf. 14. Financial position).

The Carl Zeiss Meditec Group generated **consolidated net income** of € 10.8 million from **continuing operations** (previous year: € 4.7 million). This represents an improvement of 131.1%. This development was mainly influenced by income tax expenses and minority interests. Income tax expenses increased to € 9.0 million (previous year: € 2.3 million) on account of positive business trends. The income tax ratio in the reporting period thus stood at 39.8% (previous year: 32.6%). The sum of € 2.9 million (previous year: € 0) was accounted for by outside shareholders. This was due from Carl Zeiss Co., Ltd., Tokyo, Japan, which is a 49% shareholder in the Japanese subsidiary Carl Zeiss Meditec, Co. Ltd., but receives 66% of future dividends due to the granting of preferred shares. The agreement on the granting of preferred shares is due to be renegotiated upon expiration of three financial years. The preferred shares were conveyed in compensation for advance services performed by Carl Zeiss Co., Ltd. in the field of marketing, the establishment of a service structure and support for the approval of the Group's products.

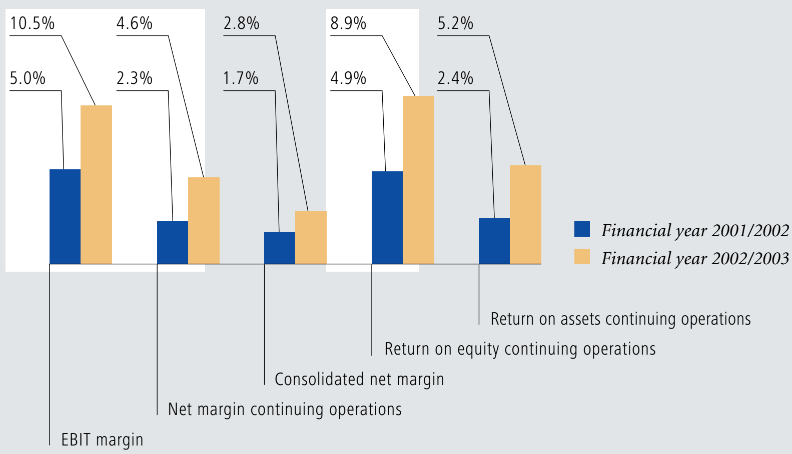
**Earnings per share from continuing operations** thus almost doubled compared to the previous year. The latter amounted to € 0.41 (previous year: € 0.22).

**Net consolidated income from discontinued operations** in the financial year 2002/2003 stood at € -4.2 million (previous year: € - 1.3 million). Pre-tax profits from discontinued operations totalled € -5.9 million (previous year: € -1.6 million) and included a loss on sale of € 4.5 million. The latter includes for the main part follow-up expenses incurred for the complete focusing of the Carl Zeiss Meditec Group on its core ophthalmic business and the disposal of inventory, plant, property and equipment in conjunction with the sale of the Aesthetic and Dental business units. The remaining € 1.4 million are attributable to losses associated with business activities of operations disposed of by sale.

Overall, due to its solid economic growth the Carl Zeiss Meditec Group was able to compensate for substantial **encumbrances** on **consolidated net income** resulting from the focus on core business. **Consolidated net income**, for instance, **was double** the previous year's figure. It stood at € 6.6 million compared to € 3.4 million in the previous year.

This corresponds to **earnings per share** of € 0.25 (previous year: € 0.16). In this context it must be noted that the weighted average for outstanding stock in the reporting period increased to 25.9 million. The respective figure for the previous year was 21.1 million shares.

## *b) Key ratios of earnings position*




*Development of key ratios of earnings position*

# *Risk report*

## 1. Risk management system

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

Risk management at the Group is an integral part of corporate management and based on three major components:

- **Risk management system**: In order to identify and assess risks in good time and take the appropriate steps, the Company introduced a risk management system. An important component is the IT-based tool for recording, systemising and analysing risks and their potential. Carl Zeiss Meditec thus satisfies the legal requirements with regard to the German Control and Transparency Act (KonTraG).

- **Controlling instruments**: Controlling at the Carl Zeiss Meditec Group keeps the Management Board and all responsible decision-makers within the Company regularly informed on occurring risks on the basis of key ratios, thereby supplementing the risk management system.

- **Certified quality management**: A further critical component is the Company's certified quality management (see also: Business Report, 8. Quality management). Clearly structured and documented processes within the framework of quality management ensure not only transparency – in most markets they are meanwhile a prerequisite for the sale of medical products. The quality assurance system employed by the Carl Zeiss Meditec Group was certified by DQS GmbH at the Jena and Dublin locations and conforms to the US standard for "Good Manufacturing Practice" (GMP), 21 C.F.R. part 820, QSR. A major objective of this certified process is risk avoidance.

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

The main features of this system are:

- Under the direction of a central risk manager, the responsible staff regularly examines processes, transactions and developments for existing risks.

- Risk identification and evaluation using standardised risk matrices.

- Regular risk reports are sent to the Management Board and other decision-makers within the Company on the basis of given threshold values for relevant risks and according to the classification using the risk matrices.

- On this basis suitable steps are taken to avoid identified risks, reduce the likelihood of such risks occurring or minimise the financial losses incurred.

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

## 2. Market and competition

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

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

## 3. Product development

Medical technology as a whole, particularly in the field of ophthalmology, is undergoing an extremely dynamic development process. New scientific findings lead to shorter development and product cycles. Furthermore, such findings may have a negative impact on existing methods and products and also on new methods and products upon which the Company's business success is founded.

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

## 4. Approval of products

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

There is no guarantee that the Company's numerous registrations will continue to be valid in the future, renewed or obtained in good time for launching new products ahead of the competitive field. Furthermore, stricter registration requirements must be reckoned with in future. This could be an impediment to sales and to the future growth of the Company. Such an event would have negative consequences for the earnings situation of the Group.

## 5. Dependence on suppliers

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

## 6. Patents and intellectual property

The Company is not aware of any violation of patent rights or other industrial property rights of third parties. The possibility that a third party may assert claims against the Company for the violation of industrial property rights cannot, however, be ruled out for the future. Such a violation could result in a delay in the delivery of products. In case of a negative outcome of a possibly resulting trial, the Company may be obliged to enter into fee or licensing arrangements. There is a risk that such copyright or licensing agreements are only available on unacceptable terms. A lawsuit against the Company due to the violation of industrial property rights could therefore have a negative impact on the net worth, financial situation and earnings of the Company.

The competitive position of the Carl Zeiss Meditec Group depends on securing its technological innovations. To guarantee these, the Company acquires patents for its own and third-party inventions and takes steps to protect its business secrets. The expiration of industrial property rights or patents could result in the appearance of new competitors on the market or strengthen the position of competitors who are already on the market.

## 7. Protection against loss of confidential data

In the sphere of IT-solutions the Company has established a number of mechanisms for the protection of confidential data. Nevertheless, breaches of security and the loss of this data cannot be completely ruled out. This could have an adverse effect on the competitive position of the Group.

## 8. Product liability risk

In the Company's products employed for medical treatments there is an inherent risk that malfunctions during the treatment of eye ailments result in injury to the patient. Despite employing all reasonable quality control measures and complying with all legal provisions , this risk cannot be completely excluded. Although the Carl Zeiss Meditec Group has to date not been obliged to pay any major claims for compensation arising from product liability, no guarantee can be given that the Company will not be confronted with such claims in the future. The Company has covered itself against possible product liability claims by means of product liability insurance. A particular risk is posed by potential product liability claims brought against the Company in the USA as the damages awarded by the courts there may be very large indeed. There can be no guarantee that the Company's existing insurance cover provides sufficient cover for potential warranty claims in the USA.

## 9. Subsidiaries

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

## 10. Goodwill

In accordance with SFAS No. 142, scheduled amortisation is no longer calculated on goodwill, but rather its value is regularly assessed in impairment tests. An impairment test performed in the reporting period produced the full value of this balance sheet item. On the basis of trends in the business development, the Group anticipates positive results for future tests. However, there could be still a risk of a long-term deterioration in the net worth, financial position and earnings, producing consequences for the amount of goodwill to be shown in the balance sheet.

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

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

# *Research and development report*

## 1. General comments

After deducting subsidies the Carl Zeiss Meditec Group spent € 23.9 million on research and development in the financial year 2002/2003 (previous year: € 20.8 million). A total of € 1.8 million was granted in subsidies (previous year: € 1.0 million). At 10.1% of sales revenue the R&D ratio remained almost constant in comparison to the previous year (10.3%). This is clear evidence of the importance attached to research and development in securing the future growth of the Group.

In the Group as a whole 143 employees are engaged in R&D, representing 19% of the workforce.

## 2. Projects

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

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

It is proposed to exploit completely new and supplementary fields of application based on the technology platforms of the two successful products IOLMaster® and STRATUSOCT™. For example, a nomative database that enables more reliable and significantly earlier recognition of glaucoma than up to now was certified by the US Food and Drug Administration (FDA) at the beginning of May 2003. This was preceded by extensive development work.

In the reporting period development work was completed on the Humphrey® Matrix diagnostic system and the product was introduced on the market. The Humphrey® Matrix rounds off the family of systems for the diagnosis and treatment of the visual field (perimetry). The former also includes the Humphrey® Field Analyzer HFA II-*i* and the Humphrey® FDT.

Further projects in the sphere of research and development are concerned with the continued or new development of innovative perimetric systems, digital fundus cameras and the optimisation of the product portfolio in the field of ophthalmic lasers.

## 3. New product launches/product releases

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

- **MEL 80™**: One of the most advanced laser devices for the treatment of visual defects (syndrome: refraction).

- **Humphrey® Matrix**: The latter is an innovative system for the diagnosis and treatment of the field of vision (perimetry) (cf. 2. Projects). The product was launched on the US market in March 2003. Approval certificates for other countries (e.g. Germany) are to follow in the course of the financial year.

- **STRATUSOCT™ for early recognition of glaucoma**: A new version of STRATUSOCT™ was launched in May 2003, intially in USA. With the aid of a so-called normative database it enables significantly earlier diagnosis of glaucoma.

- **VISUCAM™ C**: With VISUCAM™ C the Company is broadening its product spectrum in the field of fully digital fundus cameras (syndrome: retina).

- **CRS-Master™**: The CRS-Master™ is a treatment concept that links the MEL 80™ laser to a highly advanced diagnostic system (based on wavefront aberrometry). It enables the treatment of vision defects with the MEL 80™ tailored to the patient’s individual requirements (customized ablation).

## *Supplementary report*

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

## *Forecast*

### 1. Economic conditions[3]

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

### 2. Outlook

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

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

## 3. Strategy

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

In addition, the product range for diagnostic and therapeutic systems is to be expanded. The fields of application include early recognition of serious eye diseases or the individual correction of visual defects. This step will be taken partly on the basis of technologies which are exclusively accessible by the Group. Moreover, the Carl Zeiss Meditec Group will continue its endeavours to expand the product portfolio by means of product development, cooperations and, as the occasion arises, complementary acquisitions.

Jena, 21 November 2003
Carl Zeiss Meditec AG

**Ulrich Krauss**
*President and CEO*

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

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

# Consolidated income statement

## Financial years 2001/2002 and 2002/2003

| € '000 | *Notes* | Financial year 2001/2002 | | Financial year 2002/2003 | |
|---|---|---|---|---|---|
| **Sales** | *(2p)(23)* | | **202,016** | | **235,714** |
| Costs of goods sold | *(2r)* | | (131,680) | | (133,184) |
| **Gross profit** | | | **70,336** | | **102,530** |
| Selling and marketing expenses | | | (31,756) | | (42,586) |
| General and administrative expenses | | | (8,212) | | (11,112) |
| Research and development expenses | | (21,799) | | (25,665) | |
| Minus government grants received | *(2v)(16)* | 983 | (20,816) | 1,790 | (23,875) |
| Amortisation of goodwill | | | (228) | | - |
| Other operating income / (expense), net | | | 207 | | 519 |
| Foreign currency gains / (losses) | *(2b)(2l)* | | 485 | | (753) |
| **Income before interest result and income taxes** | | | **10,016** | | **24,723** |
| Foreign currency gains / (losses) | | | (31) | | - |
| Interest income / (expense), net | | | (3,104) | | (2,075) |
| Appreciation, depreciation and valuation adjustments on financial assets | | | 24 | | - |
| **Income before income taxes** | | | **6,905** | | **22,648** |
| Income tax expense from continuing operations | *(22)* | | (2,251) | | (9,014) |
| Minority interests | *(21)* | | - | | (2,880) |
| **Net income from continuing operations** | | | **4,654** | | **10,754** |
| Income / (loss) before income taxes from discontinued operations* | *(3)* | | (1,630) | | (5,934) |
| Income tax benefit from discontinued operations | *(22)* | | 357 | | 1,738 |
| **Net income from discontinued operations** | | | **(1,273)** | | **(4,196)** |
| **Net income** | | | **3,381** | | **6,558** |
| | | | | | |
| **Earnings per share, basic (€):** | *(2t)* | | | | |
| **from continuing operations** | | | **0.22** | | **0.41** |
| **from discontinued operations** | | | **(0.06)** | | **(0.16)** |
| **Total** | | | **0.16** | | **0.25** |
| **Earnings per share, diluted (€)** | *(2t)* | | | | |
| **from continuing operations** | | | **0.22** | | **0.41** |
| **from discontinued operations** | | | **(0.06)** | | **(0.16)** |
| **Total** | | | **0.16** | | **0.25** |
| Average number of shares outstanding: | | | | | |
| **Basic** | | | **21,128,095** | | **25,918,166** |
| **Diluted** | | | **21,128,095** | | **25,918,166** |

** Including a loss on disposal of € 4,5m in the financial year 2002/2003.*

*The following notes on the consolidated financial statements are part of the consolidated financial statements.*

# Consolidated balance sheet

## 30 September 2002 and 30 September 2003

| € '000 | *Notes* | 30 September 2002 | 30 September 2003 |
|---|---|---|---|
| Assets | | | |
| Current assets: | | | |
| Cash | *(2d)* | 7,183 | 45,015 |
| Restricted Cash | *(2d)* | - | 850 |
| Trade accounts receivable, net of allowances of € 10.478m (2002: € 8.459m) | *(2e)(5)* | 40,156 | 30,344 |
| Accounts receivable from related parties | *(4)* | 16,848 | 20,451 |
| Inventories | *(2f)(7)* | 40,057 | 38,611 |
| Prepaid expenses | | 1,294 | 1,132 |
| Deferred income taxes | *(2o)(22)* | 6,960 | 7,958 |
| Other assets | *(6)* | 4,440 | 4,472 |
| Current assets related to discontinued operations | *(3)* | 4,112 | - |
| **Total current assets** | | **121,050** | **148,833** |
| Property, plant, and equipment, net | *(2g)(8)* | 33,401 | 26,000 |
| Goodwill | *(2h)(3)* | 16,098 | 11,116 |
| Other intangible assets, net | *(3)(9)* | 6,449 | 5,079 |
| Other long-term accounts receivable, net of allowances of € 0.047m (2002: € 0.962m) | *(5)* | 3,142 | 718 |
| Investments | *(10)* | 129 | - |
| Loans | *(10)* | 4,874 | 2,818 |
| Deferred income taxes | *(22)* | 7,878 | 11,281 |
| Assets related to discontinued operations | *(3)* | 612 | - |
| **Total assets** | | **193,633** | **205,845** |

| € '000 | *Notes* | **30 September 2002** | **30 September 2003** |
|---|---|---|---|
| Liabilities and shareholders' equity | | | |
| Current liabilities: | | | |
| Short-term debt | *(14)* | 1,368 | - |
| Current portion of long-term debt | *(14)* | 179 | 187 |
| Current portion of capital lease obligations | *(18)* | 1,314 | 374 |
| Trade accounts payable | | 9,419 | 10,636 |
| Accounts payable to related parties | *(4)* | 13,601 | 5,919 |
| Income taxes payable | | 160 | 6,655 |
| Deferred income | | 4,997 | 4,870 |
| Deferred income taxes | *(22)* | 8 | 8 |
| Accrued expenses | *(11)(13)* | 25,975 | 20,527 |
| Other current liabilities | *(12)* | 3,743 | 1,140 |
| **Total current liabilities** | | **60,764** | **50,316** |
| Long-term debt, net of current portion | *(15)* | 5,027 | 4,841 |
| Capital lease obligations, less current portion | *(18)* | 30,573 | 24,731 |
| Long-term deferred income | | 1,118 | 1,007 |
| Deferred income taxes | *(22)* | 396 | 226 |
| Other liabilities | | 426 | 177 |
| **Total liabilities** | | **98,304** | **81,298** |
| Balancing items for holdings of other companies | *(21)* | - | 3.147 |
| Shareholders' equity: | | | |
| Ordinary shares, imputed nominal value € 1.00, 28,416,629 shares authorized, issued, and outstanding, respectively | *(20)* | 25,833 | 28,417 |
| Additional paid-in capital | *(20)* | 67,389 | 89,433 |
| Retained earnings | *(20)* | 5,474 | 12,032 |
| Accumulated other comprehensive loss | *(2s)(20)* | (3,367) | (8,374) |
| Treasury stock | *(20)* | - | (108) |
| **Total shareholders' equity** | | **95,329** | **121,400** |
| **Total liabilities and shareholders' equity** | | **193,633** | **205,845** |

*The following notes on the consolidated financial statements are part of the consolidated financial statements.*

# Consolidated cash flow statement

## Financial years 2001/2002 and 2002/2003

| € '000 | Financial year 2001/2002 | Financial year 2002/2003 |
|---|---|---|
| Cash flow from operating activities: | | |
| Net income | 3,381 | 6,558 |
| Adjustments to reconcile net income to net cash provided by / (used in) operating activities: | | |
| Minority interest | - | 2,880 |
| Depreciation and amortisation | 5,297 | 5,775 |
| Gains from interest accruing of interest-free receivables | - | (125) |
| Loss on disposal of fixed assets | 7 | 216 |
| Loss on disposal of discontinued operations | - | 4,500 |
| Deferred taxes related to capital increase | - | 281 |
| Deferred taxes | 1,581 | (2,409) |
| Change in working capital: | | |
| Trade accounts receivable | (3,614) | 10,385 |
| Inventories | 5,325 | (5,059) |
| Prepaid expenses and other current assets | 1,876 | 1,585 |
| Trade accounts payable | 1,773 | 2,360 |
| Accrued tax expenses | (1,848) | 6,518 |
| Other accrued expenses and liabilities | 8,169 | (5,868) |
| Deferred income | 771 | 459 |
| **Total adjustments** | **19,337** | **21,498** |
| **Net cash provided by / (used in) operating activities** | **22,718** | **28,056** |
| Cash flow from investing activities: | | |
| Increase of restricted cash | - | (850) |
| Purchase of fixed assets | (1,841) | (2,790) |
| Gain on sale of fixed assets | 176 | 146 |
| Repayments of loans and investments | 199 | 2,310 |
| Inpayment due to the sale of a subsidiary in the context of an asset deal | - | 200 |
| Inpayment due to the disposal of discontinued operations | - | 1,365 |
| Acquisition of consolidated companies, net of funds received (Asclepion-Meditec AG: € 2.341m, Japanese subsidiary: € 1.697m) | 2,341 | 1,697 |
| **Net cash provided by / (used in) investing activities** | **875** | **2,078** |
| Cash flow from financing activities: | | |
| Repayments of short-term debt | (129) | (1,368) |
| Repayments of long-term debt | (48) | (178) |
| Inpayments from taking up loans from related parties | - | 796 |
| Decrease in liabilities due to Treasury | (26,807) | (9,785) |
| (Increase) / decrease in accounts receivable due to Treasury | 9,441 | (5,134) |
| Repayments under capital lease contracts | (875) | (347) |
| Inpayments due to sale and lease-back transactions | 281 | 110 |
| Inpayments to additional paid-in capital | 52 | - |
| Proceeds from capital increase (net) | - | 24,347 |
| Purchase of treasury stock | - | (108) |
| **Net cash provided by / (used in) financing activities** | **(18,085)** | **8,333** |
| Effect of exchange rate changes on liquid assets | (469) | (635) |
| **Net increase in cash** | **5,039** | **37,832** |
| Cash, beginning of the reporting period | 2,144 | 7,183 |
| **Cash, end of the reporting period** | **7,183** | **45,015** |
| Supplemental disclosures concerning the cash flow: | | |
| **Interest paid** | **3,725** | **2,676** |
| **Income taxes paid** | **3,705** | **4,175** |
| Investing and financing activities not affecting payment | | |
| Financial leasing | 240 | - |
| Acquisition of consolidated company against issuance of 6,200,000 shares at a price of € 10.19 | 63.414 | - |

*The following notes on the consolidated financial statements are part of the consolidated financial statements.*

# Consolidated statement of changes in shareholders' equity

| € '000 | Share capital | Additional paid-in capital | Retained earnings | Accumulated other comprehensive loss | Treasury stock | Total shareholders' equity |
|---|---|---|---|---|---|---|
| **As per 30 September 2001** | **19,633** | **10,048** | **2,093** | **(944)** | **-** | **30,830** |
| Net income | - | - | 3,381 | - | - | 3,381 |
| Other comprehensive loss (due to currency conversions) | - | - | - | (2,423) | - | (2,423) |
| Accumulated comprehensive income | - | - | - | - | - | 958 |
| Capital contribution from shareholders | - | 52 | - | - | - | 52 |
| Fictitious capital contribution from shareholders | - | 75 | - | - | - | 75 |
| Capital contribution from shareholders | 6,200 | 57,214 | - | - | - | 63,414 |
| **As per 30 September 2002** | **25,833** | **67,389** | **5,474** | **(3,367)** | **-** | **95,329** |
| Net income | - | - | 6,558 | - | - | 6,558 |
| Other comprehensive loss (due to currency conversions) | - | - | - | (5,007) | - | (5,007) |
| Accumulated comprehensive income | - | - | - | - | - | 1,551 |
| Purchase of treasury stock | - | - | - | - | (108) | (108) |
| Capital increase | 2,584 | 22,044 | - | - | - | 24,628 |
| **As per 30 September 2003** | **28,417** | **89,433** | **12,032** | **(8,374)** | **(108)** | **121,400** |

*The following notes on the consolidated financial statements are part of the consolidated financial statements.*

# Development of consolidated fixed assets

## Financial year 2002/2003

| € '000 | | | | | | **Purchase/manufacturing costs** |
|---|---|---|---|---|---|---|
| | 1.10.2002 | Additions | Transfers | Disposals | Currency adjustments | 30.9.2003 |
| Intangible assets | | | | | | |
| Goodwill | 18,393 | - | - | 4,843 | (500) | 13,050 |
| Self-constructed software | 444 | - | - | - | - | 444 |
| Other intangible assets | 6,733 | - | - | - | - | 6,733 |
| | **25,570** | **-** | **-** | **4,843** | **(500)** | **20,227** |
| Property, plant and equipment | | | | | | |
| Land, buildings and leasehold improvement | 30,774 | 343 | (79) | 3 | (3,812) | 27,223 |
| Plant and machinery | 12,018 | 14 | 831 | 3,049 | (1,545) | 8,269 |
| Other fixtures and fittings, tools and equipment | 13,014 | 854 | 328 | 1,637 | (894) | 11,665 |
| Payments on account and tangible assets in course of construction | 179 | 1,579 | (1,080) | - | (166) | 512 |
| | **55,985** | **2,790** | **-** | **4,689** | **(6,417)** | **47,669** |
| Financial Assets | | | | | | |
| Investments | 129 | - | - | 129 | - | - |
| Other loans | 4,830 | - | - | 2,012 | - | 2,818 |
| | **4,959** | **-** | **-** | **2,141** | **-** | **2,818** |
| | **86,514** | **2,790** | **-** | **11,673** | **(6,917)** | **70,714** |

*The following notes on the consolidated financial statements are part of the consolidated financial statements.*

| Cumulated depreciation | | | | | Residual book values | |
|---|---|---|---|---|---|---|
| 1.10.2002 | Currency differences | Additions | Disposals | 30.9.2003 | 30.9.2003 | 30.9.2002* |
| | | | | | | |
| 2,295 | (361) | - | - | 1,934 | 11,116 | 16,098 |
| 31 | - | 169 | - | 200 | 244 | 413 |
| 609 | - | 1,289 | - | 1,898 | 4,835 | 6,124 |
| **2,935** | **(361)** | **1,458** | **-** | **4,032** | **16,195** | **22,635** |
| | | | | | | |
| 5,586 | (883) | 1,643 | - | 6,346 | 20,877 | 25,188 |
| 7,836 | (1,222) | 922 | 834 | 6,702 | 1,567 | 4,182 |
| 8,638 | (662) | 1,752 | 1,107 | 8,621 | 3,044 | 4,376 |
| - | - | - | - | - | 512 | 179 |
| **22,060** | **(2,767)** | **4,317** | **1,941** | **21,669** | **26,000** | **33,925** |
| | | | | | | |
| - | - | - | - | - | - | 129 |
| (44) | - | (125) | (169) | - | 2,818 | 4,874 |
| **(44)** | **-** | **(125)** | **(169)** | **-** | **2,818** | **5,003** |
| **24,951** | **(3,128)** | **5,650** | **1,772** | **25,701** | **45,013** | **61,563** |

** Previous year including Aesthetic and Dental*

*The following notes on the consolidated financial statements are part of the consolidated financial statements.*

# Notes to the consolidated financial statements

## Notes to the consolidated financial statements

# Notes to the consolidated financial statements

## (1) The Company

### (a) Business operations

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

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

### (b) Company formation

On 25 March 2002, Asclepion-Meditec AG, Jena ("Asclepion") and Carl Zeiss Ophthalmic Systems AG, Jena ("Carl Zeiss Ophthalmic") were merged into Carl Zeiss Meditec. The merger was effected by transferring the entire assets of Carl Zeiss Ophthalmic, including all rights and obligations, to Asclepion. Upon recording of the merger in the commercial register on 4 July 2002, all assets and liabilities of Carl Zeiss Ophthalmic were transferred to Asclepion. The transferring company, Carl Zeiss Ophthalmic, ceased to exist and its shareholders became shareholders of Asclepion. Immediately thereafter, the combined company changed its name to Carl Zeiss Meditec.

Carl Zeiss Ophthalmic was founded as a "GmbH" (private limited company) with articles of partnership dated 9 July 2001 under the name of ABWIRT Erste Verwaltungsgesellschaft mbH ("ABWIRT"), based in Hamburg and entered in the commercial register of the Local Court of Hamburg on 13 November 2001 under HRB 81708. Carl Zeiss Jena GmbH, Jena ("Carl Zeiss Jena") purchased all the shares in ABWIRT by means of a Purchase and Transfer Agreement dated 14 December 2001. The transfer of the head office to Jena was also decided on 14 December 2001. The change of name and corporate status of ABWIRT were recorded in the commercial register at Hamburg Local Court under HRB 83007 on 7 March 2002. The transfer of the head office was entered on the commercial register at Gera Local Court under the number HRB 9234 on 10 May 2002. At that time, the share capital of Carl Zeiss Ophthalmic was € 50,000 and comprised 50,000 no-par-value bearer shares.

By means of a distribution and take-over agreement dated 28 March 2002, Carl Zeiss Jena spun off all the assets and liabilities attributable to the Ophthalmology division of Carl Zeiss Jena (the "OG division") to Carl Zeiss Ophthalmic. The OG division was responsible for the development, manufacture and distribution of diagnostic and therapy equipment in the field of ophthalmology. In return for the transfer of the OG division to Carl Zeiss Ophthalmic, Carl Zeiss Jena, as the transferring legal entity, received 3,000,000 new no-par-value bearer shares in Carl Zeiss Ophthalmic, which were created by means of a capital increase through the contributions in kind. This raised Carl Zeiss Ophthalmic's share capital by € 3.0 million from € 50,000 to € 3.050 million. The capital increase was recorded in the commercial register on 16 May 2002.

As the result of the post-formation and contribution agreement with Carl Zeiss Ophthalmic dated 17 May 2002, Carl Zeiss Beteiligungs-GmbH, based in Heidenheim an der Brenz, transferred all its shares in Carl Zeiss Ophthalmic Systems, Inc., Dublin, USA (hereinafter "Carl Zeiss Ophthalmic Systems Inc.") to Carl Zeiss Ophthalmic. In return for contributing the shares in Carl Zeiss Ophthalmic Systems, Inc., Carl Zeiss Beteiligungs-GmbH, as the contributing company, received a total of 2,930,400 new no-par-value bearer shares in Carl Zeiss Ophthalmic. In order to effect the contribution, the share capital of Carl Zeiss Ophthalmic was raised from € 3.050 million to € 6.0 million through the issuance of the aforementioned 2,930,400 new no-par-value bearer shares. The contribution was subject to a condition precedent that the capital increase for the merger of Carl Zeiss Ophthalmic with Asclepion-Meditec AG, Jena first be recorded in the commercial register. The capital increase was entered in the commercial register on 4 July 2002, and immediately thereafter, the contribution of Carl Zeiss Ophthalmic Systems, Inc. was made to Carl Zeiss Ophthalmic.

Post-merger, Asclepion and Carl Zeiss Ophthalmic were fully integrated into a single, unified company that has its head office in Jena. The legal basis of the merger was the Merger Agreement between Carl Zeiss Ophthalmic and Asclepion. The supervisory boards of both companies approved the draft of the Merger Agreement, drawn up by the management boards of the companies on 28 March 2002. To become effective, the Merger Agreement required a notarised deed and the approval of the shareholders of Carl Zeiss Ophthalmic and Asclepion. The unchanged version of the Merger Agreement dated 28 March 2002 was notarised on 16 April 2002.

According to the exchange ratio fixed by the management boards of Asclepion and Carl Zeiss Ophthalmic on the basis of an independent assessor's evaluation, Asclepion granted Carl Zeiss Ophthalmic shareholders a total of 19,633,300 new Asclepion shares. As a result, Carl Zeiss Ophthalmic shareholders obtained almost 76% of the total share ownership in Carl Zeiss Meditec. Specifically, Asclepion granted 10,012,970 of its shares to Carl Zeiss Jena in exchange for 3,050,000 Carl Zeiss Ophthalmic shares and 9,620,330 Asclepion shares to Carl Zeiss Beteiligungs-GmbH in exchange for 2,930,400 Carl Zeiss Ophthalmic shares. Approximately 3.28294 Asclepion shares were thus granted for each Carl Zeiss Ophthalmic share.

Asclepion shareholders approved the merger proposal at their general meeting on 28 May 2002, as did the Carl Zeiss Ophthalmic shareholders on 21 May 2002. With effect of the merger coming into effect by virtue of the latter being recorded on the commercial register at the domicile of Asclepion on 4 July 2002, Carl Zeiss Ophthalmic shares were discontinued, just as the company itself ceased to exist.

### (c) Basis of presentation

The consolidated financial statements were prepared in compliance with generally accepted accounting principles of the United States of America (US GAAP).

Under US GAAP the merger of Carl Zeiss Ophthalmic and Asclepion was treated as a reverse acquisition. With a reverse acquisition, the legal transferor is the acquiring enterprise for accounting purposes, since Carl Zeiss Ophthalmic shareholders hold the majority of the voting rights in the merged company following the merger. Accordingly, upon the initial consolidation of the combined companies, the assets and liabilities of Asclepion were recorded at their fair value. Acquisition costs in excess of the fair value of the transferred net assets were recognised as goodwill. The results of Asclepion and its subsidiaries were reflected in the financial statements of Carl Zeiss Meditec from 4 July 2002 onwards. The income statement for the financial year 2001/2002 prior to 4 July 2002, i.e. the period from 1 October 2001 to 3 July 2002, reflects the historic results of Carl Zeiss Ophthalmic.

The financial year of Carl Zeiss Meditec and its subsidiaries ends on 30 September of each year.

## *(2) Accounting and valuation principles*

### (a) Principles of consolidation

The consolidated financial statements comprise the annual financial statements of the Company and its majority-owned subsidiaries. The financial position, results of operations and cash flows of enterprises that are majority-owned by the Company are consolidated. Holdings in enterprises in which the Company exercises a substantial influence, but which it does not control (usually a share of between 20% and 50%) are reflected in the accounts by the equity method. Holdings of less than 20% are reflected in the accounts by the historical cost method if the Company is unable to exercise a significant influence on the shareholding and the latter is not listed on the stock exchange. The effects of intergroup transactions among consolidated companies have been eliminated.

An outsider to the group holds a minority interest of 49% in Japanese subsidiary Carl Zeiss Meditec Co., Ltd., Tokyo, Japan. A 51% holding in the company was acquired by Carl Zeiss Japan Co., Ltd., Tokyo, Japan on 1 November 2003.

## (b) Conversion to foreign currency

The functional currency of the Company is the euro.

The assets and liabilities of foreign subsidiaries whose functional currency is other than the euro are translated using the exchange rate as of the reporting date. Capital transactions and balances are converted using the historic rates of exchange in effect at the time the transactions were consummated. The results of operations are converted at the average exchange rate for the financial year. Differences arising from this translation process are shown under "Other comprehensive income / (loss)" within shareholders' equity.

Transactions conducted in foreign currencies are recorded using the rate of exchange in effect at the transaction date. Monetary assets and liabilities resulting form the foreign currency transactions, such as foreign denominated cash, accounts receivable or accounts payable are remeasured each reporting period until settlement. The resulting gains or losses from remeasurement are shown in the income statement under "Net foreign currency gains/(losses)"

## (c) Use of estimates

The preparation of annual financial statements in accordance with US GAAP necessitates certain assumptions and estimates. These assumptions relate to the recognition and measurement of assets and liabilities, the extent of contingent liabilities at the balance sheet date and the amount of income and expenses in the reporting period. Actual results may differ from these estimates.

## (d) Cash and cash equivalents

Cash and cash equivalents held in banks as well as liquid securities with an original maturity of less than three months are disclosed as cash and cash equivalents. Because of their short maturity, the carrying amounts of cash and cash equivalents are approximately equal to their fair value.

The restricted cash on hand of € 850,000 results from collateral for the purchase of business assets.

### (e) Accounts receivable and loans

Trade accounts receivable and loans are disclosed at their nominal value, net of allowance for estimated uncollectible accounts.

Valuation adjustments are made on doubtful receivables and loans associated with discernible risks and unrecoverable receivables are written off. In a first step, accounts receivable are valued with the aid of a percentage adjustment based on the due date of debts. In a second step an individual estimate of the current value of receivables is made.

Long-term debts and loans are discounted; accrued interest is recognised as income by the effective interest method.

### (f) Inventories

Inventories are valued at the lower of acquisition/manufacturing cost or market value. Costs are primarily determined on the basis of the weighted average cost method. Manufacturing costs include materials and labour, as well as direct manufacturing and material overheads including depreciation.

Adjustments are made according to the lower-of-cost-or-market principle. The first step is to determine the average of acquisition price, sales price less profit margin and replacement cost. This figure is then compared to the cost of sales and if the latter are higher, an adjustment is made to the lower value. For raw materials and supplies as well as work in progress the relevant parameter is basically the procurement market, for finished goods and merchandise it is the sales market.

### (g) Property, plant and equipment

Property, plant and equipment are reported at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful economic life of each asset. The following depreciation periods are applied:

| | |
|---|---|
| Buildings and leasehold improvements | 3-44 years |
| Plant and machinery, other fixtures and fittings, tools and equipment | 1-23 years |

Leasehold improvements are depreciated over the shorter of their customary service life or the term of the rental or lease agreement. Customary service life is evaluated regularly by the Company's management in the light of current technological conditions. Maintenance and repairs are charged to expenses as incurred, while renewals and improvements that extend the useful life or increase capacity are capitalised. Upon the sale or retirement of property and equipment, the accounts are relieved of the cost and related accumulated depreciation, with any resulting gain or loss included in the income statement under "General and administrative expenses".

## (h) Goodwill

Starting 1 October 2002, Carl Zeiss Meditec AG adjusted its financial records to the Statement of Financial Accounting (SFAS) No. 142, "Goodwill and Intangible Assets" on account of which scheduled amortisation may no longer be calculated on goodwill. According to this Statement the carrying amount of goodwill is tested at least once a year for impairment. Impairment is measured as the excess of carrying value over the fair value. Accordingly, no amortisation of goodwill has been reflected in the consolidated income statement for the financial year 2002/2003.

Upon adoption of SFAS No. 142, Carl Zeiss Meditec assessed whether previously recognised intangible assets and goodwill conform to the criteria of the new standard on the day of first application. The Company examined the classification, estimated useful lives and residual book values of all intangible assets excepting goodwill and determined that no adjustments were necessary, both in relation to the carrying amount of such assets as well as their estimated remaining useful lives.

Carl Zeiss Meditec also examined whether goodwill would be impaired under the new provisions of SFAS No. 142 as of 1 October 2002. For this purpose, Carl Zeiss Meditec determined (1) the Company's reporting units, (2) the respective net assets of each reporting unit after the assignment of the Company's assets and liabilities including existing goodwill and intangible assets to these reporting units and (3) the fair value of the reporting units. Carl Zeiss Meditec concluded that there was no indication of a loss in value of goodwill in any of the Group's reporting units as of 1 October 2002.

Carl Zeiss Meditec completed the annual analysis of the current value of goodwill in the last quarter of the financial year 2002/2003 . The results of this analysis did not indicate any impairment of goodwill as of 30 September 2003.

Prior to the application of SFAS No. 142, goodwill was amortised over its anticipated useful life. Such goodwill only represented the excess of purchase cost over the acquired net assets of Humphrey Instruments, Inc. ("Humphrey"), a subsidiary of Allergan Inc. in 1991. This goodwill was amortised by the straight-line method over its anticipated useful life of 15 years. In the financial year 2001/2002 the corresponding amortisation of goodwill amounted to € 228,000.

Had the regulations of SFAS No. 141 and No. 142 already been applied in the financial year 2001/2002, goodwill would not have been subtracted from the profits of that financial year.

Under these circumstances, the net income for the year and the profit per share would have corresponded to the pro forma figures shown below:

| | Financial year 2001/2002 | Financial year 2002/2003 |
|---|---|---|
| Net income in € '000 | | |
| Result posted | 3,381 | 6,558 |
| Amortisation of goodwill | 228 | 0 |
| Pro forma earnings | 3,609 | 6,558 |
| | | |
| Earnings per share (in €) | | |
| As posted – basic and diluted | 0.16 | 0.25 |
| Amortisation of goodwill | 0.01 | 0.00 |
| Pro forma – basic and diluted | 0.17 | 0.25 |

With regard to the change in goodwill in the financial year 2002/2003 please refer to the consolidated fixed-asset movement schedule and Note 3.

## (i) Other intangible assets

In conformance with SFAS No. 86, expenses for in-house development of software to be licensed or sold are shown in the balance sheet under "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed" at acquisition cost minus accumulated depreciation. The Company develops software for its products as an integral part of the equipment sold. The capitalisation of expenses for software development begins when technical feasibility of the software has been established and ends with the first sale of the product. Capitalised software is written off according to its anticipated life cycle (4-6 years). Amortisation of capitalised software amounted to € 31,000 and € 169,000 respectively for the financial years 2001/2002 and 2002/2003.

Intangible assets (excluding acquired in-process research and development costs, recorded in the previous year and expensed upon acquisition) are valued at acquisition cost minus accumulated depreciation and written off over an average term of 5 years (see Note 3).

## (j) Long-term assets

The Company reviews its long-lived assets, including intangible assets and property, plant and equipment, whenever events or changed circumstances indicate that the book value of an asset may be impaired. To determine whether an asset is impaired, its carrying value is compared with the future non-discounted cash flow expected to be generated by the asset. If the carrying value of the asset or assets exceeds the future expected non-discounted cash flows, the asset is deemed to be impaired. Estimated fair value is generally based on either an appraised value or measured by alternative techniques, such as discounted cash flow analysis.

## (k) Leasing

The Company has leased certain assets under long-term contracts. All property under arrangements that qualify as capital leases are carried as long-term tangible assets pursuant to SFAS No. 13 "Accounting for Leases". The financial obligation resulting from such lease agreements are carried as current or long-term liabilities depending on their time to maturity. Other leasing transactions are treated as operating leases; the respective lease payments are recorded on a straight-line basis as expenses.

## (l) Financial instruments and risk provisioning

Fair value of financial instruments – The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The financial instruments of the Company primarily consist of liquid assets, trade accounts receivable, accounts payable, short-term debt and other current liabilities. In view of their short-term character, the carrying values of all financial instruments approximate their market values as of 30 September 2002 and 2003.

Derivative financial instruments – As a company with global operations, Carl Zeiss Meditec is exposed to the risk of currency rate fluctuations and has entered into currency forward contracts and options to hedge against its exchange risks on the basis of planned transactions in foreign currencies. These contracts generally cover a period of less than one year.

The nominal value of these contracts is not reflected in the consolidated financial statements. Instead, the contracts are reported at their fair value as at 30 September 2002 and 2003 and are included as current assets or liabilities in the consolidated financial statements. Changes in the fair value of these derivative instruments are recognised each reporting period in the consolidated income statement as a currency gain or loss. The management of the Company is regularly involved in decisions on risk provisioning. The Company does not own derivative financial instruments for trading or speculative purposes, nor does it act as a writer of such contracts.

Profit or loss from the revaluation of derivative financial instruments in the amount of € +436,000 (previous year € +154,000) are recorded under "Net foreign currency gains and losses" in the income statement.

The market values of derivatives and other financial instruments is outlined in Note 17.

## (m) Provision for warranties

The Company furnishes the buyer with a warranty for sold products for the contractually agreed period of 15 months. For this purpose, provisions are formed on the basis of the average values of guarantee claims made in the past. Such provisions are recorded as cost of goods sold in the same period that the initial sale is recorded.

## (n) Pension obligations

### *Defined contribution pension plans*

For the majority of its employees the US subsidiary maintains a savings scheme that is a defined contribution plan pursuant to Section 401(k) of the Internal Revenue Code. The plan enables participating employees to save a proportion of their pre- and post-tax income according to specified guidelines. The Company is currently contributing a percentage of employee contributions up to a certain limit. The "matching contributions" of the Company for the "401(k) plan" amounted to € 1.168 million in the financial year 2001/2002 and to € 1.267 million in the financial year 2002/2003.

### *Defined benefit pension plans*

The Company offers pension benefits to certain of its employees. Such benefits primarily depend upon each employee's remuneration and length of service. Pension obligations and the expenditure necessary to cover these obligations are calculated by the prescribed projected unit credit method according to SFAS No. 87 "Employers' Accounting for Pensions". The projected unit credit method reflects economic assumptions based on long-term expectations, as well as the performance of assets set aside to fund future benefit payments.

A company pension scheme based on "Benefit Regulations 2000" was set up with effect from 1 January 2000. Future benefits are calculated from the total pension units purchased during the period of employment starting 1 January 2000, calculated as the product of an annual total contribution and an age-related pension factor. The annual total contribution for individual employees is calculated as the sum of a basic contribution (1%) and a profit-related contribution based on the company's success (between 0% and 3%), calculated as a percentage of the individual benefit-related income. The Company has committed itself to raising ongoing benefit payments by 1% each year. This guaranteed adjustment is taken into account in the valuation.

In addition, accruals of € 48,000 and € 72,000 for 30 September 2002 and 30 September 2003 respectively reflect deferred compensation of Company employees.

Actuarial profits or losses that may arise from changes in the valuation premises or a deviation in actual circumstances from the evaluation basis are only shown as income if the balance of the accumulated actuarial profits or losses amounts to more than 10% of the projected benefit obligation or the market related value of plan assets under the defined pension plans. Any amount that lies outside the 10% corridor is recorded to income over the average residual term of service of employees eligible for pensions, which at 30 September 2003 is estimated to be 15 years.

## (o) Taxes on income and earnings

Taxes on income and earnings are computed annually by the asset and liability method pursuant to SFAS No. 109 "Accounting for Income Taxes". All liabilities or claims relating to taxes on income, earnings, capital and property arising during the financial year are reflected in the consolidated financial statements pursuant to the relevant tax laws. Deferred tax assets and liabilities are calculated each year for differences between the consolidated financial statement carrying amounts and tax bases of assets and liabilities, based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established for deferred tax assets as necessary to reflect the net amount that is more likely than not to be realised. Taxes on income and earnings comprise the tax payable or refundable for the reporting period, plus or minus the change in deferred tax. The effects of a change in tax rates on deferred tax assets and liabilities are recognised in income for the period in which the change was enacted.

## (p) Recording of revenues

The Company generates sales from selling products and services on the basis of contracts. A sale is effected when all the parts of the product have been delivered or the service has been provided, the risks have passed, the payment is agreed or can be determined, no substantial obligations towards the customers are outstanding and collectibility of the receivable is deemed reasonably assured. Sales are reflected net of dealer commissions, trade discounts, customer allowances and rebates.

Dealer commissions amounted to € 4.283 million and € 3.061 million, respectively in the financial years 2001/2002 and 2002/2003.

Maintenance revenue from service contracts is realised on a proportional basis throughout the contractual period of performance.

### (q) Advertising

Advertising costs are treated as expenses. In the financial years 2001/2002 and 2002/2003 advertising costs amounted to € 1.519 million and € 2.630 million, respectively and were recorded as a component of selling and marketing expense.

### (r) Product-related Costs

Research and development costs and marketing and selling expenses are charged to expenses as incurred. Research and development subsidies are set off separately from expenses at the time the entitlement for services already provided arises. Provisions for estimated warranty costs are formed in the period in which the related sales are generated; these provisions are regularly adjusted to reflect actual experience.

The Company presents freight costs charged to customers as a component of sales and reflects the corresponding freight costs in the cost of goods sold. In the financial year 2002/2003 the shipping and handling costs not billed to customers amount to € 2.604 million (previous year: € 1.442 million) and are shown in the selling and marketing expenses.

### (s) Other comprehensive income/loss

SFAS No. 130 "Reporting Comprehensive Income" requires the disclosure of "Other comprehensive income". Other comprehensive income comprises net income/loss for the period as well as all other equity changes or "other comprehensive income/loss" that have no effect on the operating result but that are not related to transactions with shareholders. Refer to Note 20 for further information.

### (t) Profit/loss per share

The basic earnings/loss per share were calculated by dividing the net income/loss for the year by the weighted average number of common shares issued in the relevant accounting period. Earnings/loss per share allowing for the dilution effect were calculated in compliance with SFAS No. 128, "Earnings per Share", such that the effect of potentially dilutive securities is reflected.

The following table shows the calculation of basic and diluted earnings per share:

| | Financial year 2001/2002 | Financial year 2002/2003 |
|---|---|---|
| Consolidated net income (in € '000) | 3,381 | 6,558 |
| Weighted average of issued shares, basic | 21,128,095 | 25,918,166 |
| Dilution effect of stock options | - | - |
| Weighted average of issued shares, allowing for the dilution effect | 21,128,095 | 25,918,166 |
| Earnings per share (in €) | 0.16 | 0.25 |

The dilution effect was calculated using the treasury stock method. However, because the average market values of the Company's common stock during the period were less than the exercise price of all stock options outstanding, stock options result in no dilutive effect on earnings/loss per share at 30 September 2002 and 2003. As of 30 September 2002 the Company had issued 241,340 stock options that would result in a dilution effect. At the year end at 30 September 2003 the Company had not issued further stock options.

## (u) Stock option plan

The Company posts its stock option plan in accordance with the "intrinsic value method" which is laid down in the regulations of the Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and the respective interpretations. Pursuant to APB No. 25, remuneration expenses for stock options are calculated on the basis of the intrinsic value. This is calculated from the difference between the market value of the shares on the measurement day and the exercise price. The measurement day is the point in time at which the number of shares to which the beneficiary is entitled and the purchase price are known. SFAS No. 123 "Accounting for Stock-based Compensation" mandates disclosure of the compensation expenses for stock-based remuneration that would have been recorded under the "fair value method". Under this method, compensation expense is calculated based on the fair value of the award at the time the stock options are granted. This compensation expense is recognised over the period through to the earliest point in time at which they may be exercised. The Company has elected to apply the provisions of APB No. 25 and to follow the disclosure stipulations of SFAS No. 123 (see Note 19).

### (v) Public subsidies

Subsidies for investments such as investment grants and tax-free investment premiums are disclosed as income (as a reduction in depreciation) over the useful life of the subsidised fixed assets. Unrecognised investment premiums are reported as deferred income on the balance sheet, whereas investment grants are subtracted from the acquisition or production costs of the related fixed assets.

Other subsidies, which are taxable, are disclosed under research and development expenses.

Public subsidies received in the financial years 2001/2002 and 2002/2003 are listed in Note 16.

### (w) Recent pronouncements on accounting principles

In April 2002 the Financial Accounting Standards Board (FASB) issued SFAS No. 145 “Rescission of FASB Statements 4, 44 and 64, Amendment of FASB Statement 13 and Technical Corrections”. SFAS No. 145 requires that gains and losses from the early extinguishments of debts be disclosed as a component of income from continuing operations and not as extraordinary items as was hitherto required by SFAS No. 4, unless such gains and losses meet the criteria for classification as extraordinary items pursuant to APB No. 30. Furthermore, SFAS No. 145 amends SFAS No. 13 "Accounting for Leases" to require that certain lease modifications whose economic effects are similar to sale-and-leaseback transactions to be accounted for as such. The provisions of SFAS No. 145 related to the rescission of SFAS No. 4 are effective for the financial years beginning after 15 May 2002. The provisions of SFAS No. 145 relating to the amendment of SFAS No. 13 are effective for transactions occurring subsequent to 15 May 2002. The application of this statement had no impact on the Company’s financial statements.

SFAS No. 146 “Accounting for Costs Associated with Exit or Disposal Activities”, was issued by the FASB in July 2002 and stipulates that the recognition of expenses as a result of exit or disposal of activities is not permissible until the obligation is incurred. Furthermore, SFAS No. 146 rescinded the Emerging Issues Task Force (“EITF”) Issue 94-3 “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)”. Certain settlements paid to employees, costs incurred by the premature termination of contracts, outlays in conjunction with the merger or closure of plants and expenses for the relocation of employees are covered by SFAS No. 146. The provisions of the new standard are to be applied prospectively to closure or disposal activities initiated after 31 December 2002; earlier application is possible. The initial application of SFAS No. 149 had no impact on the Company’s financial statements.

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-based Compensation, Transition and Disclosure”. SFAS No. 148 sets forth alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. SFAS No. 148 also requires that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. Additionally, SFAS No. 148 requires disclosure of these pro forma effects in interim financial statements. The transition and annual disclosure requirements of SFAS No. 148 are effective for financial years ended after 15 December 2002. The interim disclosure requirements of SFAS No. 148 are effective for all reporting periods beginning after 15 December 2002. The Company elected to continue to apply the provisions in APB No. 25, "Accounting for Stock Issued to Employees" and has complied with the interim and annual disclosure provisions of SFAS No. 148.

In April 2003 the FASB issued SFAS No. 149, “Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities”. The Statement amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for used hedging activities under SFAS No. 133. In particular, it (1) clarifies the circumstances under which a financial contract with an initial net investment would meet the characteristic of a derivative as discussed in SFAS No. 133, (2) clarifies when a derivative contains a financing component, (3) amends the definition of an underlying to conform to the language used in the FASB interpretation (FIN 45) and (4) amends certain other existing statements.

SFAS No. 149 applies to contracts concluded or amended after 30 June 2003. The following exceptions apply, as well as exceptions for hedging activities after 30 June 2003.

The provisions of SFAS No. 149 relating to SFAS No. 133 implementation issues that were effective for fiscal quarters beginning prior to 15 June 2003 should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after 30 June 2003. SFAS No. 149 may not be applied retroactively. The initial application of SFAS No. 149 had no impact on the Company’s financial statements.

In May 2003 the FASB issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity”. SFAS No. 150 modifies accounting procedures for certain financial instruments that under previous regulations could be disclosed by an issuer as equity. The Statement requires that these instruments be classified in the accounts as liabilities.

SFAS No. 150 affects an issuer's accounting for three types of freestanding financial instruments, namely:

- Mandatorily redeemable shares, which the issuer is obligated to buy back in exchange for cash or other assets.

- Financial instruments other than outstanding shares that require or may require the issuer to buy back some of his equity shares in exchange for cash or other assets.

- Unconditional obligations that can be settled with equity shares, the monetary value of which is fixed, tied solely or predominantly to a variable such as a market index, or varies inversely with the value of the issuer's equity shares.

SFAS No. 150 does not apply to features embedded in financial instruments that are not to be regarded overall as derivatives.

In addition, SFAS No. 150 also requires disclosures about alternative ways of settling such instruments and the capital structure of entities, all shares of which must be redeemed.

SFAS No. 150 applies to financial instruments negotiated or modified after 31 May 2003, and is otherwise effective from the first reporting period beginning after 15 June 2003.

In November 2002, the FASB issued Interpretation 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). FIN 45 elaborates on previously existing disclosure requirements for most guarantees, including guarantees of customer financing arrangements. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements.

The provisions related to recognising a liability at inception of the guarantee for the fair value of the guarantor's obligations does not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after 31 December 2002.

The initial application of FIN 45 had no impact on the Company’s financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, “Consolidation of Variable Interest Entities – and Interpretation of ARB No. 51”, (“FIN 46”). FIN 46 changes the current practice of solely determining whether consolidation is appropriate based only on control, which is generally demonstrated through the ownership of a majority of voting interests in an entity. Under the new Interpretation, a reporting company must assess whether the entities with which it has business relationships are to be classified as Variable Interests Entities (“VIE”) or Voting Interest Entities. VIEs are entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at the risk for the entity to finance its activities without additional subordinated financial support from other parties.

If an entity is a VIE, the reporting company is required to assess if it has a variable interest (“VI”) in the VIE. VIs in a VIE are contractual, ownership, or other pecuniary interests in an entity that change with changes in the entity’s net asset value. Equity interests with or without voting rights are considered variable interests if the entity is a VIE.

FIN 46 explains how to identify VIEs and how an enterprise should assess its interest in a VIE.

If the reporting company has a VI in the VIE, it must assess whether it, or another VI holder, is the primary beneficiary of the VIE. FIN 46 requires existing unconsolidated VIEs to be consolidated by their primary beneficiaries. The primary beneficiary of a variable interest entity is the party that absorbs a majority of the VIE's expected losses, receives a majority of its expected residual returns, or both.

This Interpretation applies immediately to VIEs created after 31 January 2003, and to VIEs in which an enterprise obtains an interest after that date. Otherwise FIN 46 is applicable on the last day of the first interim or annual period ending after 15 December 2003 - that is, 31 December 2003 for Carl Zeiss Meditec. This interpretation may be applied prospectively with a cumulative-effect adjustment as of the date on which it is first applied or by restating previously issued financial statements for one or more years with a cumulative-effect adjustment as of the beginning of the first year restated. It is expected that the initial application of FIN 46 will have no impact on the Company’s financial statements.

# *(3) Business acquisitions and sales*

## Transactions in the financial year 2001/2002

### *Reverse acquisition*

In 2002 Asclepion acquired the former Carl Zeiss Ophthalmic in a transaction accounted for a reverse acquisition. (see Note 1b, "Company formation")

Asclepion developed, produced and marketed medical laser systems for new medical applications, as well as for the optimisation and substitution of current medical applications. The merger with Carl Zeiss Ophthalmic resulted in the formation of a new complete solution provider for ophthalmic devices and systems.

Activities of the acquired company are reflected in the consolidated financial statements from 4 July 2002, the day of acquisition.

The following table shows the acquisition costs for the purchased company. The value of the common stock issued was estimated using the average market price for the 5-day period surrounding the measurement date (two days prior to two days after).

| | |
|---|---|
| Number of shares | 6,200,000 |
| Average price of Asclepion-Meditec shares (in €) | 10.19 |
| Corporate value on measurement day (in € '000) | 63,164 |
| Incidental and direct acquisition costs (in € '000) | 250 |
| Total purchase price (in € '000) | 63,414 |

A generally accepted method (income approach, cost approach or market approach) was used designed to provide the best approximation of fair value for each of the respective net assets acquired.

The so-called multi-period excess earnings method was used for the assessment of existing technology and in process research and development projects (also referred to as IPR&D). This model also took account of the required interest calculated on assets contributing to the generation of sales (contributory asset charges). In addition, an allowance was made for the anticipated life cycle of technology and in process research and development projects (IPR&D).

The capitalisation rates used corresponded to the required rate of return on the assets under consideration. These range from 4.5% for current assets to 35% for IPR&D.

The following table summarises the assigned fair value of the purchased assets at the time of acquisition.

| € '000 | | Useful life (years) | |
|---|---|---|---|
| Current assets | | | 40,358 |
| Property, plant and equipment | | | 8,721 |
| Fair value disclosure buildings | 637 | 32.25 | |
| Other long-term assets | | | 17,517 |
| Intangible assets (PPA*) | | | 6,733 |
| Customer base | 2,270 | 5 | |
| Patents | 2,105 | 5 | |
| Technology | 1,586 | 5 | |
| Trademarks / tradenames | 485 | 5 | |
| IPR&D | 287 | | |
| Goodwill (PPA*) | | | 11,472 |
| Purchased assets | | | 84,801 |
| Current liabilities | | | 15,784 |
| Other long-term liabilities | | | 5,603 |
| Purchased assets net | | | 63,414 |

** resulting from Purchase Price Allocation in accordance with SFAS No. 141*

The intangible assets identified within the scope of purchase price allocation are shown in the above table. All disclosed assets (except IPR&D) are depreciated over an average term of 5 calendar years. No substantial residual value exists for these assets.

On the date of acquisition, certain projects were classified as IPR&D. Such projects included those whose technical feasibility pursuant to regulations and guidelines of SFAS No. 141 were as yet uncertain and for which no alternative uses existed. Projects with a 25% to 85% percentage of completion were identified. To allow for the different risk classes, hurdle or discount rates of between 25% and 35% were applied to the projects classified as IPR&D. The projects have terms ranging from 6 months to 4 years until they are completed.

A total sum of € 287,000 was capitalised as IPR&D, and this amount was fully written off to the income statement on the date of acquisition. The charge is included as a component of research and development costs.

The acquisition resulted in goodwill valued at € 11.472 million. In accordance with SFAS No. 141 scheduled amortisation was not recorded on this amount. Instead, the acquired goodwill is subject to impairment testing provisions of SFAS No. 142.

A difference of opinion existed already in the previous year between the Management Board and the auditor with regard to assessment of the value of goodwill. This difference ensued from the choice of measurement date for the shares issued within the scope of the capital increase. The point in time is not clearly specified in the relevant US GAAP standard SFAS No. 141. This follows from the statements made by the FASB in the section **Determining the Cost of the Acquired Entity and Date of Acquisition** in the Appendix to SFAS No. 141 (Business Combinations).

In the opinion of the Management Board of Carl Zeiss Meditec the statements made in the appendix to SFAS No. 141 make it clear that at the time SFAS No. 141 was adopted in ***June 2001*** it was already obvious that the standard contained ***contradictory stipulations as far as the measurement date was concerned***. The solution to this problem was, however, to be deferred to a later time in a separate project.

In interpreting these contradictory stipulations in SFAS No. 141 the Company's Management Board assumed that in consideration of the special characteristics of German commercial, company and stock corporation law the best possible choice of measurement date is the date on which a resolution on the merger is passed by the shareholders' meeting as a decision-making body. The auditor, on the other hand, took the view that on the basis of the consensus position advocated by EITF 99-12 (Level C GAAP), the day the ad hoc notice of the proposed merger is communicated represents the date around which the value of the equity consideration issued should be measured.

In the previous year these differing opinions with regard to the measurement dates finally resulted in goodwill on the acquisition date, according to the auditor's estimate, being disclosed at an amount which is higher by € 13.716 million than it should have been reported.

However, based on an impairment test carried out in the reporting year an adjustment to the amount of the goodwill which was originally capitalised would have resulted. A value adjustment of this kind would have been needed due to the loss situation of the foreign subsidiaries of Asclepion that for this reason were restructured or wound up in the past financial year 2002/2003.

The amount of adjustment based on the impairment test would have been equal to the original difference between the value of goodwill actually disclosed and the value that in the auditor's opinion should have been disclosed.

With respect to the transfer of the ophthalmic distribution activities of Asclepion-Meditec S.R.L., Milan, Italy to Carl Zeiss S.p.A., Arese, Italy with effect from 1 February 2003 , at book value within the scope of an asset deal, goodwill as shown in the consolidated balance-sheet decreases by € 1.099 million, which is the amount allocated to Asclepion-Meditec S.R.L.

Moreover, in the reporting year the deferred tax liabilities assumed for the purchase price allocation carried out in the previous year was determined to be too conservative. Based on new findings, in the reporting year the sum of € 3.744 million was written off with no effect on income, and this resulted in a further reduction in the amount of goodwill disclosed.

Based on these facts, the total goodwill shown in the consolidated financial statements for the year ended 30 September 2003 is correct. On this point, no difference of opinion exists between the Management Board and the auditor. Accordingly, for the 2003/2004 financial year the Management Board does not anticipate that any further qualification of the auditor's report concerning the disclosed goodwill will be necessary.

In conformance with EITF 95-3 the Company recognised restructuring expenses of € 1.027 million for personnel measures which had already been introduced before the balance sheet date (30 September 2002) and which were due to be completed in the following financial year. The provisions were liquidated in full in the financial year 2002/2003.

Under the assumption that the acquisition had already been completed as of 1 October 2001 the following pro forma figures would apply in the financial year 2001/2002:

| (in € '000 excluding EPS) | **Pro forma cash flow statement for the financial year 2001/2002** | **Thereof discontinued operations (Aesthetic and Dental)** | **Pro forma statement for the financial year 2001/2002 net of discontinued operations** |
|---|---|---|---|
| Revenues | 233,792 | 12,030 | 221,762 |
| Operating income/loss | (6,553) | (6,454) | (99) |
| Net loss for the year | (13,784) | (6,776) | (7,008) |
| Earnings per share (EPS) | (0.53) | (0.26) | (0.27) |

These pro forma figures are for informational purposes only and are not necessarily indicators of what the combined company's results of operations, cash flows or financial position would have been if the acquisition had ensued at an earlier date. Moreover, the figures do not necessarily reflect future trends or expectations for the combined entity.

## Transactions in the financial year 2002/2003

### *Carl Zeiss Meditec Co., Ltd., Tokyo, Japan*

On 1 November 2002 Carl Zeiss Meditec acquired a 51% holding in the Japanese Carl Zeiss Meditec Co., Ltd. This acquisition was accounted for as a reorganisation of entities under common control, as the controlling shareholder of Carl Zeiss Meditec was also the majority shareholder in Japanese Carl Zeiss Meditec Co., Ltd. Accordingly, the assets and liabilities acquired were carried over at book values.

The following is a summary of the assets acquired and liabilities assumed in the course of the acquisition:

| € '000 | |
|---|---|
| Book value of the acquired assets | 2,170 |
| Assumed liabilities | 1,637 |
| | 533 |
| Payment for acquisition of holding (51%) | (272) |
| Minority interest | (261) |
| | - |

The balance sheet includes a "Balancing item for holdings of other companies". These are equity holdings in the subsidiary Carl Zeiss Meditec Co., Ltd. that are attributable to third parties (Carl Zeiss Japan Co. Ltd.).

As the transaction was accounted for at historical cost, no goodwill arose.

### *Asclepion-Meditec S.R.L., Milan/Italy*

With effect from 1 February 2003 the ophthalmic distribution activities (Vision) of Asclepion-Meditec S.R.L., Milan, Italy, a subsidiary of Carl Zeiss Meditec, was transferred to an affiliate, Carl Zeiss S.p.A. Arese, Italy, at book value as an asset deal. As a distributor for the Italian market, Carl Zeiss S.p.A., Arese, Italy, will continue to process and fulfil orders for the Vision division. The transaction resulted in a € 200,000 increase in the net working capital position of Carl Zeiss Meditec due to the assumption of Asclepion-Meditec S.R.L., Milan, Italy, by Carl Zeiss S.p.A., Arese, Italy.

### *Carl Zeiss Meditec Ltd. (previously Asclepion-Meditec Ltd.), Edinburgh, Scotland*

The Group company Carl Zeiss Meditec Ltd., Edinburgh, Scotland, has likewise been restructured. With effect from 1 February 2003, the Vision Business Unit was transferred to the affiliated company Carl Zeiss Ltd. at Welwyn Garden City, UK. As a distributor for the UK market, Carl Zeiss Ltd. will continue to process and fulfil orders for the Vision division throughout UK. In addition, the Dental Business Unit of Carl Zeiss Meditec Ltd. was sold to Denfotex Ltd., Wynham, UK. This transaction resulted in a minor net loss on sale of € 16,000 as disclosed in the income statement under “General and administrative costs”.

### *Asclepion-Meditec Inc., Coto de Caza, USA*

The wholly-owned subsidiaries Asclepion-Meditec USA, and Carl Zeiss Meditec, Inc., Dublin, USA, were merged with effect from 1 January 2003. The merger process had no impact on the consolidated financial statements.

### *Discontinued Aesthetic and Dental operations*

As of 1 May 2003 Carl Zeiss Meditec sold the dermatological and dental laser divisions that were not part of its core business to the Italian companies EL.EN S.P.A., Florence, and Quanta Systems S.P.A., Milan.

In conformance with the accounting rules set forth in SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" this disposal was identified as “Discontinued operations”. The consolidated income statement was adjusted to take account of these operations. The gain from the sale of the business unit, as well as the results of the unit's operations, are shown at the bottom of the income statement (“Consolidated net income from discontinued operations”). The balance sheet and corresponding notes were retroactively restated for the purposes of comparison and in accordance with SFAS No. 144.

Sales and pre-tax profits of discontinued dermatological and dental operations in the financial year 2001/2002 and the past financial year 2002/2003 are as follows:

| in € ’000 | **Financial year 2001/2002** | **Financial year 2002/2003** |
|---|---:|---:|
| Revenues | 2,546 | 4,705 |
| Result before taxes on income | (1,630) | (5,934) |

The following table shows the main assets and liabilities of the discontinued operations as of 30 September 2002 and 30 September 2003:

| in € '000 | 30 September 2002 | 30 September 2003 |
|---|---|---|
| Inventories | 4,112 | - |
| Property, plant and equipment | 524 | - |
| Intangible fixed assets | 88 | - |
| **Total** | **4,724** | **-** |

The total proceeds from the disposal of the discontinued operations are € 2.5 million. Of this figure, € 1.0 million was immediately shown as revenue. The remaining € 1.5 million is secured by a bank guarantee in favour of Carl Zeiss Meditec and is due on 31 December 2003.

## *(4) Business relationships to related parties*

The Company separately reports liabilities to and receivables from affiliated companies. The designation "affiliated companies" comprises the Carl Zeiss Stiftung, Carl Zeiss Jena and their affiliated companies.

For the purposes of furnishing the Company with short-term funds and investing surplus liquidity, Carl Zeiss Meditec has been integrated into the group cash management system of Carl Zeiss Financial Services GmbH, Oberkochen (Treasury). Advances and loans paid within the scope of this business relationship were shown as a liabilities due to or receivables due from affiliated companies (Treasury). Interest was calculated on loans and receivables at a rate bound to the 1-month EURIBOR.

In addition to financial services the Company draws various services from the Carl Zeiss Group, in particular from Carl Zeiss Jena GmbH. Contractual arrangements exist by which Carl Zeiss Jena GmbH provided, for example, research and development services, personnel and administrative functions as well as logistics, marketing and computing activities.

The Company has a number of agreements with the companies of the Carl Zeiss Stiftung resulting in the following accounts payable and receivable, sales and expenses:

| € ’000 | 30 September 2002 | 30 September 2003 |
|---|---|---|
| **Accounts receivable** | | |
| Treasury | 8,164 | 12,089 |
| Carl Zeiss Heidenheim/Oberkochen | 110 | 531 |
| Carl Zeiss Co., Ltd., Japan | 1,788 | 403 |
| Carl Zeiss Ltd., United Kingdom | 588 | - |
| Carl Zeiss S.p.A., Italy | - | 2,779 |
| Carl Zeiss Co., Ltd. South Korea | 623 | - |
| Carl Zeiss S.A.S., France | 819 | 878 |
| Carl Zeiss S.A., Spain | - | 700 |
| Carl Zeiss s.r.o., Czech Republic | 608 | - |
| Carl Zeiss de Mexico S.A. de C.V., Mexico | 743 | - |
| Other | 3,405 | 3,071 |
| **Total** | **16,848** | **20,451** |

| € ’000 | 30 September 2002 | 30 September 2003 |
|---|---|---|
| **Accounts payable** | | |
| Treasury | 9,785 | 37 |
| Carl Zeiss Heidenheim/Oberkochen | 458 | 53 |
| Carl Zeiss Jena | 1,980 | 1,825 |
| Carl Zeiss Pte. Ldt., Singapore | 305 | - |
| Carl Zeiss de Mexico S.A. de C.V., Mexico | 399 | 384 |
| Carl Zeiss Co., Ltd., Japan | - | 2,489 |
| Carl Zeiss Holding Co., Inc., USA | 262 | 33 |
| Other | 412 | 1,098 |
| **Total** | **13,601** | **5,919** |

| € '000 | Financial year 2001/2002 | Financial year 2002/2003 |
|---|---|---|
| **Sales** | | |
| Carl Zeiss Heidenheim/Oberkochen | 1,472 | 1,311 |
| Carl Zeiss Ltd., United Kingdom | 5,315 | 5,049 |
| Carl Zeiss S.p.A., Italy | 5,732 | 7,112 |
| Carl Zeiss S.A., Spain | 4,365 | 5,954 |
| Carl Zeiss Co., Ltd., Japan | 15,221 | 1,021 |
| Carl Zeiss Far East Co. Ltd., Kowloon | - | 3,863 |
| Carl Zeiss S.A.S., France | - | 4,690 |
| Carl Zeiss Co., Ltd., South Korea | - | 2,155 |
| Carl Zeiss de Mexico S.A. de C.V., Mexico | - | 2,155 |
| Carl Zeiss Canada Ltd., Canada | - | 3,200 |
| Carl Zeiss GmbH, Wien, Austria | - | 2,315 |
| Carl Zeiss Pty. Ltd., Camperdown, Australia | - | 1,694 |
| Other | 21,588 | 8,760 |
| **Total** | **53,693** | **49,279** |

The Company took delivery of goods (inventories) as follows:

| € '000 | Financial year 2001/2002 | Financial year 2002/2003 |
|---|---|---|
| **Costs of goods delivered** | | |
| Carl Zeiss Heidenheim/Oberkochen | 272 | 1,157 |
| Carl Zeiss Jena GmbH | 3,673 | 10,646 |
| Other | 246 | 643 |
| **Total** | **4,191** | **12,446** |

The Company also purchased services as follows:

| € '000 | Financial year 2001/2002 | Financial year 2002/2003 |
|---|---|---|
| Services | | |
| Carl Zeiss Heidenheim/Oberkochen | 1,043 | 1,557 |
| Carl Zeiss Jena GmbH | 10,567 | 7,699 |
| Carl Zeiss Co., Ltd., Japan | - | 13,955 |
| Carl Zeiss Holding Co., Inc., USA | 412 | 352 |
| Other | 315 | 976 |
| **Total** | **12,337** | **24,539** |

Purchased services include € 2.276 million in research and development costs commissioned with Carl Zeiss Group for the financial year 2002/2003 (previous year: € 918,000).

The Company purchases laser components and services, including certain administrative services, from JENOPTIK AG, Jena, or commissions JENOPTIK AG, Jena, to manufacture products as a supplier. These purchases amounted to some € 533,000 and € 3.857 million, respectively, in the financial years 2001/2002 and 2002/2003. € 277,000 thereof were shown as liabilities on 30 September 2003. In the financial year 2002/2003 sales of € 107,000 were generated through Jenoptik Leasing GmbH & Co. KG.

The Company is of the opinion that all contracts, agreements and other business transactions with associated third parties have been concluded on a legally independent basis.

## *(5) Trade accounts receivable*

| € '000 | 30 September 2002 | 30 September 2003 |
|---|---|---|
| Short-term accounts receivable | 48,615 | 40,822 |
| Non-current accounts receivable | 4,104 | 765 |
| Valuation adjustments | 9,421 | 10,525 |
| **Trade accounts receivable** | **43,298** | **31,062** |

On 30 September 2002 and 2003 no single customer accounted for more than 10% of total accounts receivable.

Long-term accounts receivable are recorded on a discounted basis and accredited over the term of each receivable. The unamortised discount was € 471,000 as of 30 September 2002 and € 12,000 as of 30 September 2003.

## *(6) Other current assets*

Other current assets is comprised as follows:

| € ’000 | 30 September 2002 | 30 September 2003 |
|---|---|---|
| Accounts receivable from R&D subsidies | 352 | 495 |
| Derivative financial instruments | 488 | 436 |
| Accounts receivable from Revenue Office | 1,559 | - |
| Accounts receivable from the sale of discontinued operations | - | 1,811 |
| Other accounts receivable | 2,041 | 1,730 |
| **Other current assets** | **4,440** | **4,472** |

## *(7) Inventories*

The inventories (net) comprise

| € ’000 | 30 September 2002 | 30 September 2003 |
|---|---|---|
| Raw materials and supplies | 18,156 | 17,106 |
| Work in progress | 7,925 | 7,325 |
| Finished goods | 24,643 | 21,337 |
| Payments on account | 91 | 34 |
| **Total inventories, gross** | **50,815** | **45,802** |
| Valuation adjustments | 10,758 | 7,191 |
| **Total inventories, net** | **40,057** | **38,611** |

In the previous year inventories worth € 4.112 million were shown under current assets from discontinued operations.

## (8) Property, plant and equipment

Property, plant, and equipment comprise:

| € '000 | 30 September 2002 | 30 September 2003 |
|---|---|---|
| Land, buildings and leasehold improvements | 30,763 | 27,223 |
| Plant and machinery | 11,812 | 8,269 |
| Other fixtures and fittings, tools and equipment | 12,653 | 11,665 |
| Payments on account and tangible assets in course of construction | 179 | 512 |
| | **55,407** | **47,669** |
| Minus: accumulated depreciation and amortisation | 22,006 | 21,669 |
| **Property, plant and equipment, net** | **33,401** | **26,000** |

Depreciation amounted to € 4.421 million and € 4.317 million respectively for the financial years 2001/2002 and 2002/2003.

The posted property, plant, and equipment include leased assets with a net book value of approximately € 15.412 million. These assets have a gross balance of € 22.060 million, accumulated depreciation at 30 September 2003 is € 6.648 million. Depreciation on leased assets is included in the depreciation expense.

## (9) Other intangible assets

The item "Other intangible assets" comprises exclusively the following assets subject to scheduled depreciation:

| € '000 | 30 September 2002 | | | 30 September 2003 | | |
|---|---|---|---|---|---|---|
| | Acquisition/ production cost | Cumulative depreciation | Book value | Acquisition/ production cost | Cumulative depreciation | Book value |
| Customer base | 2,270 | 114 | 2,156 | 2,270 | 567 | 1,703 |
| Patents | 2,105 | 105 | 2,000 | 2,105 | 526 | 1,579 |
| Technology | 1,586 | 79 | 1,507 | 1,586 | 397 | 1,189 |
| Trademarks / tradenames | 485 | 24 | 461 | 485 | 121 | 364 |
| IP R&D | 287 | 287 | - | 287 | 287 | - |
| Software | 444 | 31 | 413 | 444 | 200 | 244 |
| Intangible fixed assets | 7,177 | 640 | 6,537 | 7,177 | 2,098 | 5,079 |
| Less discontinued operations | 98 | 10 | 88 | 98 | 98 | - |
| Intangible fixed assets | 7,079 | 630 | 6,449 | 7,079 | 2,000 | 5,079 |

Depreciation and amortisation amounted to € 640,000 and € 1.458 million respectively for the financial years 2001/2002 and 2002/2003.

Estimated aggregate amortisation on other intangible assets for the next five years is as follows:

| € '000 | |
|---|---|
| Year | |
| 2003/2004 | 1,370 |
| 2004/2005 | 1,370 |
| 2005/2006 | 1,370 |
| 2006/2007 | 969 |
| 2007/2008 | - |

Besides the goodwill shown in the consolidated financial statements, Carl Zeiss Meditec has no intangible assets that are not subject to scheduled amortisation.

## *(10) Financial Assets*

This item comprises:

| € '000 | 30 September 2002 | 30 September 2003 |
|---|---|---|
| Notes receivable / loans | 4,830 | 2,818 |
| Investments | 129 | - |
| Valuation adjustments | (44) | - |
| **Financial assets after deduction of valuation adjustments** | **5,003** | **2,818** |

## *(11) Provisions*

The accrued expenses/provisions comprise the following:

| € '000 | 30 September 2002 | 30 September 2003 |
|---|---|---|
| Provisions for outstanding invoices and services | 6,123 | 4,985 |
| Provisions for personnel expenses | 9,533 | 9,446 |
| Provisions for taxation | 756 | 807 |
| Provisions for warranty payments | 3,537 | 3,856 |
| Provisions for licenses | 1,389 | 666 |
| Provisions for commissions | 1,489 | 291 |
| Other | 3,148 | 476 |
| **Total accrued expenses** | **25,975** | **20,527** |

As of 30 September 2002 and 2003 provisioins comprised € 684,000 and € 839,000 respectively in personnel costs and provisions for pension, as well as provisions in connection with the "401 (k) Plan".

### Provisions for warranty payments

The following table shows the change in warranty provisions from 1 October 2002 to 30 September 2003:

| € '000 | |
|---|---|
| Value at beginning of period, 1 October 2002 | 3,537 |
| Addition | 3,190 |
| Reversal of excess reserves | (141) |
| Utilisation | (2,526) |
| Currency effects | (204) |
| **Value at end of period, 30 September 2003** | **3,856** |

## *(12) Other current liabilities*

Other current liabilities is comprised as follows:

| € '000 | 30 September 2002 | 30 September 2003 |
|---|---|---|
| Accrued commissions | 2,503 | - |
| Liabilities from taxation | 393 | 232 |
| Liabilities from social security | 470 | 388 |
| Other liabilities | 377 | 520 |
| **Other current liabilities** | **3,743** | **1,140** |

## (13) Pension obligations

The following table shows the funded status and the contributions which the Company discloses in the balance sheet as provisions for pension:

| € '000 | 30 September 2002 | 30 September 2003 |
|---|---:|---:|
| - Non-forfeitable payments | 161 | 672 |
| - Forfeitable payments | 339 | 77 |
| Accumulated benefit obligations | 500 | 749 |
| Projected benefit obligations | 550 | 923 |
| Unrealised net profit/(loss) | (73) | (279) |
| **Provisions for pensions** | **477** | **644** |

Pension expenditure is as follows:

| € '000 | Financial year 2001/2002 | Financial year 2002/2003 |
|---|---:|---:|
| Wages and salaries | 60 | 94 |
| Interest expenses for projected benefit obligations | 25 | 33 |
| Amortisation of actuarial profits/losses | - | 1 |
| **Pension expenditure** | **85** | **128** |

The Company does not fund pension obligations from external sources.

The benefit obligation of 30 September 2003 has been discounted at a rate of 6%, consistent with the previous year. Future salary increases have been estimated at 2.5%. The annual pension increase was 1.5%. The pension calculation considers employee turnover. It was assumed that benefit payments would begin at age 65.

## (14) Short-term debt

The short-term debt is comprised as follows:

| € '000 | 30 September 2002 | 30 September 2003 |
|---|---|---|
| Interim financing | 1,176 | - |
| Other short-term debt | 192 | - |
| Current portion of long-term debt | 179 | 187 |
| **Total short-term debt** | **1,547** | **187** |

Interim financing is subject to variable interest based on the 6-month EURIBOR.

The Company participates in the cash management system of the Carl Zeiss Group.

## (15) Long-term debt

The long-term debt is comprised as follows:

| € '000 | 30 September 2002 | 30 September 2003 |
|---|---|---|
| Annuity loan, repayable in quarterly instalments of € 123,719 including interest, term 18 years, interest rate of 6.24% fixed for 10 years | 5,203 | 5,028 |
| Borrowings under revolving lines of credit | 3 | - |
| **Total long-term debt** | **5,206** | **5,028** |
| Less current portion of long-term debt | 179 | 187 |
| **Long-term debt, net of current portion** | **5,027** | **4,841** |

Interest rates for long-term borrowing under revolving lines of credit range from 1.75% to 3% above the UK base rate.

As of 30 September 2003 the Company's long-term liabilities have the following contractual maturities:

| € '000 | Liabilities |
|---|---|
| 2004 | 187 |
| 2005 | 198 |
| 2006 | 211 |
| 2007 | 225 |
| 2008 | 239 |
| Thereafter | 3,968 |
| **Total long-term liabilities** | **5,028** |

## *(16) Public subsidies*

The Company received subsidies from various public bodies within the framework of state economic development programmes, including for the construction of manufacturing facilities, as well as research and development, advanced training programmes and interest subsidies. The grants reflected in the consolidated financial statements in hand for the years ending 30 September 2002 and 2003 are as follows:

| € '000 | Financial year 2001/2002 | Financial year 2002/2003 |
|---|---|---|
| Research and development subsidies | 983 | 1,790 |
| Other subsidies | 94 | 302 |
| **Total** | **1,077** | **2,092** |
| **Investment grants set off from acquisition costs for property, plant and equipment** | **94** | **158** |

## (17) Financial instruments and risk provisioning

The market value of a financial instrument is taken as the amount which can be obtained under current market conditions between a party wishing to enter into contract and an independent contract partner.

The Company is of the opinion that the credit risk for these types of transaction is minimal.

The market values were calculated on the basis of market conditions as of the balance sheet date – interest rates, currency rates, commodity prices – by the evaluation methods described below. The market values of derivative instruments are calculated independently of and do not consider movements in the fair value of underlying transactions that are economically hedged by these instruments.

Financial assets and liabilities whose book values approximate market value include cash and cash equivalents, short-term financial assets, trade accounts receivable and payable and other short-term liabilities. The market value of financial instruments for which stock exchange quotations exist is deemed to be these quotations. Long-term investments are carried at their book value, as an estimate of the market value does not appear to be practicable and no stock exchange quotations exist.

The market value of debt or similar long-term liabilities is the present value of cash flows anticipated in the future. The discount rate is based on applicable interest rates (for comparable loans to borrowers with similar credit standing) as of the balance sheet date.

The market value of forward currency contracts is calculated on the basis of the average spot exchange rate as of the balance sheet date, adjusted for forward premiums and discounts for the respective residual term of the contract, as compared to the contracted forward exchange rate.

In the case of currency options, acknowledged models were used to determine the option price. In addition to the residual term, the market value of an option is also influenced by other factors, e.g. the current level and volatility of the underlying base lending or exchange rate.

As of 30 September 2003 the Company had currency forward contracts with a total nominal value of € 1.150 million (previous year: € 2.599 million).

The following table shows the book values and estimated market values of the financing instruments as of 30 September 2002 and 30 September 2003:

| € '000 | 30 September 2002 | | 30 September 2003 | |
|---|---|---|---|---|
| | Book value | Market value | Book value | Market value |
| Original financial instruments | | | | |
| Assets | | | | |
| Notes receivable / loans | 4,874 | 4,874 | 2,818 | 2,818 |
| Securities | - | - | - | - |
| Cash and cash equivalents | 7,183 | 7,183 | 45,015 | 45,015 |
| Treasury receivables | 8,164 | 8,164 | 12,089 | 12,089 |
| Liabilities | | | | |
| Liabilities | 5,206 | 5,206 | 5,028 | 5,028 |
| Leasing commitments | 31,887 | 31,887 | 25,105 | 26,107 |
| Derivative financial instruments | | | | |
| Assets | | | | |
| Currency hedging contracts | 488 | 488 | 436 | 436 |
| Liabilities | | | | |
| Currency hedging contracts | 170 | 170 | - | - |

# *(18) Contingent liabilities and other financial obligations*

## Leases and rental agreements

The Company leases office space, land and equipment under leasing and rental agreements which are limited or which may not be cancelled during the basic term. Lease and rental expenses for the financial years 2001/2002 and 2002/2003 amounted to € 1.845 million and € 2.355 million respectively.

The future minimum rental and leasing payments on the basis of non-cancellable lease and rental agreements are:

| € '000 | Leases and rental agreements |
|---|---|
| 2003/2004 | 1,413 |
| 2004/2005 | 1,197 |
| 2005/2006 | 1,040 |
| 2006/2007 | 510 |
| 2007/2008 | 2 |
| **Total minimum payments** | **4,162** |

## Sale-and-lease-back transactions

In the financial year 2001/2002, the Company entered into sale-and-lease-back transactions related to its excimer lasers. The lasers were sold to a leasing company for € 605,000. These lasers were leased back from the leasing company and sold to a group company in the financial year 2001/2002.

Additional sale-and-lease-back transactions from previous years were entered into by Asclepion prior its acquisition by the Company. These devices were leased by the subsidiary to final customers. These transactions also have a term of 1-3 years. Payments of € 811,000 were made in the financial year 2001/2002. The resulting leasing claims are listed below.

| € '000 | **30 September 2002** |
|---|---|
| Leasing claims | 1,594 |
| Minus current portion | 599 |
| **Long-term leasing claims** | **995** |

Since this sale-and-leaseback transaction was effected by Asclepion-Meditec S.R.L., Milan/Italy and the business of this company – as stated in Note 3 – was sold, the future lease payments resulting from these transactions are no longer incurred.

On 28 September 1999 the Company sold land, building and leasehold improvements in Dublin for approx. € 34.081 million and simultaneously entered into a long-term leasing agreement for this same property. This sale-and-lease-back arrangement is a financial lease in accordance with SFAS No. 98 whereby the land, buildings and leasehold improvements continue to be carried and depreciated on the lessee's books. The leasing agreement has a term of 20 years. Deferred unrealised profits from sale-and-lease-back transactions are realised over the period of the leasing contract.

The following table shows the leasing instalments to be paid each year for the building. In the financial years 2001/2002 and 2002/2003 € 2.904 million (US$ 2.613 million and € 251,000) and € 2.418 million ($ 2.613 million) were paid respectively:

| € ’000 | |
|---|---|
| Leasing commitments | Leasing payments |
| 2004 | 2,235 |
| 2005 | 2,526 |
| 2006 | 2,526 |
| 2007 | 2,526 |
| 2008 | 2,526 |
| From 2009 | 32,927 |
| **Total leasing liabilities** | **45,266** |
| Minus interest | (20,161) |
| **Net leasing liability** | **25,105** |
| Minus current portion | (374) |
| **Long-term net leasing liability** | **24,731** |

## Guarantees

There are guarantees towards third parties amounting to € 494,000.

For the main part these are guarantees to banks for services to customers and suppliers.

No provision in compliance with FIN 45 was formed for these guarantees, since a payment obligation is not likely to occur.

## Litigation

The Company has filed a suit for damages against I-Spire s.p.r.l., Brussels/Belgium and its sole proprietor. By way of an asset deal, I-Spire s.p.r.l. acquired partial assets and liabilities of the former Asclepion-Meditec marketing partner Icon Laser Eye Centers, Inc., of Toronto, Canada. The substance of the action by Carl Zeiss Meditec is a claim for damages for breach of contract, outstanding debts and the repayment of loans. The lawsuit relates to the overall balance sheet item “Other Loans” totalling € 2,818 million, although the sum involved is substantially in excess of this amount. The appropriate adjustments had already been made on “Other Loans” in the financial year 2001/2002. At the present time the responsibility of the Belgian courts for this case is being negotiated. In the opinion of Carl Zeiss Meditec there is at least one unequivocal obligation to pay outstanding debts ensuing from contracts between the former Asclepion-Meditec AG and Icon/I-Spire. However, should the Company's claim be dismissed, this would result in depreciation requirements to the full amount disclosed under "Other Loans".

In addition, legal proceedings initiated by De Ceunynck & Co. NV are still pending. This claim involves payment of damages for a prematurely cancelled agency agreement. The likelihood of this sum being awarded cannot be forecasted with any certainty, but the Company believes that any resulting obligation will not have material effect on the net worth, financial position and earnings of the Company.

## (19) Stock option plan

With the resolution adopted by Asclepion's extraordinary general meeting on 10 March 2000 the Management Board was authorised, subject to the approval of the Supervisory Board, to issue 400,000 option rights. The following conditions were applicable to the issue and exercising of the rights:

- The Management Board and the employees of the Company are eligible to subscribe.

- The recipients must be employed by a member company of the Carl Zeiss Meditec Group at the time the rights are issued.

Of the 400,000 options approx. 300,000 are issued to existing employees (those employed on 5 June 2000). The remaining 100,000 options would be issued to persons who enter into the employment of the Carl Zeiss Meditec Group through to 1 October 2003. The purchase price for the existing employees is the issue price of € 29; in the case of options issued thereafter the purchase price will be the average of the Xetra closing prices on the five stock exchange trading days before and after the options are granted minus a discount of 30%. The initial options granted were exercisable in three tranches: up to one third of the options received may be exercised following the publication of the half-year report 2001/2002, up to two thirds following the publication of the half-year report 2002/2003, and all the options after the publication of the half-year report 2004/2005. Analogous regulations are applicable to the subsequent option grants. However, options may only be exercised if the reference price for Carl Zeiss Meditec shares for the first tranche has increased by at least 30% over the issue price (for subsequent option grants: the granting price). A 45% increase is required for the second tranche to become exercisable and a 60% increase is necessary for the third tranche to be vested. The reference price is the average of the Xetra closing prices on the five stock exchange trading days before and after the publication of the respective half-year report.

The following shows the Company's stock options as of 30 September 2002 and 2003.

| | **Financial year 2001/2002** | | **Financial year 2002/2003** | |
|---|---|---|---|---|
| | Number of options | Average exercise price in € | Number of options | Average exercise price in € |
| Outstanding options at the beginning of the financial year | 286,600 | 27.71 | 241,360 | 26.91 |
| Granted (Total) | 20,660 | | - | - |
| Existing employees | 2,060 | 29.00 | - | - |
| New employees | 18,600 | 12.90 | - | - |
| Terminated (Total) | (65,900) | | (132,660) | |
| Existing employees | (50,500) | 29.00 | (105,160) | 29.00 |
| New employees | (15,400) | 18.33 | (27,500) | 13.31 |
| Exercised | - | - | - | - |
| **Outstanding options at the end of the financial year** | **241.360** | **26.91** | **108,700** | **28.33** |

The status of the stock options as of 30 September 2003 is as follows:

| **Status of stock options** | |
|---|---|
| Issued | |
| Average fair value of the options granted in the course of the year (per option) in € | 15.75 |
| Exercisable | |
| Number of options | - |
| Average exercise price in € | - |

The Company has not posted any remuneration expenses pursuant to APB No. 25 since during all periods presented, the intrinsic value of the awards was zero. This was due to the fact that the exercise hurdle on none of the options was not exceeded.

The average fair value of the options granted during the year (per option) is divided among the recipients as follows: (Figures for existing employees, new employees I and II relate to the options issued in the financial year 2000. New employees III–VI relate to the quarters of the 2001 financial year):

| € '000 | Fair value per option |
|---|---|
| Existing employees | 16.26 |
| New employees I | 25.00 |
| New employees II | 21.35 |
| New employees III | 16.26 |
| New employees IV | 9.79 |
| New employees V | 9.30 |
| New employees VI | 4.69 |

The entire fair value of options granted in the financial year within the framework of the stock option plan was € 178,000, using a Black/Scholes option price model with the following assumptions:

| Black/Scholes option price model | |
|---|---|
| Expected volatility for stock options issued in FY 2000 | 69.70% |
| Expected volatility for stock options issued in FY 2001 | 99.30% |
| Expected dividend return | 0% |
| Risk-free interest rate for stock options issued in FY 2000 | 4.83% |
| Risk-free interest rate for stock options issued in FY 2001 | 3.90% |
| Expected term | 4 years |

The fair value of the options granted in the financial year ending on 30 September 2003 was calculated on the assumption that approx. 30% of the granted options would lapse before the necessary vesting conditions would be achieved.

The risk-free interest rate was set in accordance with the current yield for German treasury bonds (Bundesanleihen) with a term of 3-5 years.

The volatility assumption was based upon a study of a peer group. This peer group comprises various companies on the US market. The companies concerned belong to the same industry as Carl Zeiss Meditec. The volatilities of the peer group in the past 4 years, which corresponds to the expected term of the options, and the volatility of the Company's own shares, have been included in the above volatility calculation at a weighting of 50 % each. The Company believes that the result approximates the expected future volatility over the assumed lives of the options.

Had the fair value method defined in SFAS No. 123 been employed in the calculation of the remuneration expenses, net income for the year and the earnings per share would have been as follows:

| € '000 | **Financial year 2001/2002** | **Financial year 2002/2003** |
|---|---|---|
| Consolidated net income as posted | 3,381 | 6,558 |
| Stock options expenses (after tax) according to SFAS No. 123 | (65) | (110) |
| Pro forma consolidated net income | 3,316 | 6,448 |
| Earnings per share (in €): | | |
| as posted | 0.16 | 0.25 |
| pro forma | 0.16 | 0.25 |
| Earnings per share allowing for the dilution effect (in euro): | | |
| as posted | 0.16 | 0.25 |
| pro forma | 0.16 | 0.25 |

## *(20) Equity capital*

### Reverse acquisition in the financial year 2001/2002

As of 30 September 2001 the share capital of Carl Zeiss Ophthalmic amounted to € 3.0 million subdivided into 3,000,000 shares, each representing a pro rata amount of € 1.00 of the share capital. Asclepion reported of share capital totalling € 6.2 million, subdivided into 6,200,000 shares, each representing a pro rata amount of € 1.00 of the share capital. According to the exchange ratio fixed by the management boards of Asclepion and Carl Zeiss Ophthalmic on the basis of the independent assessor's evaluation, Asclepion granted Carl Zeiss Ophthalmic shareholders a total of 19,633,300 new Asclepion shares.

The legal take-over of Carl Zeiss Ophthalmic by Asclepion is presented in the capital consolidation as a "reverse acquisition" whereby, in a deviation from the legal structure of the transaction, the transferor entity is regarded as the commercial purchaser. This is because the shareholders of the transferor entity will receive the majority of the voting rights in the merged company following the merger. As a result, the differences between the reported and fair values of net assets of the former Asclepion are recognised and become a part of the consolidated equity of Carl Zeiss Meditec. The resulting consolidated equity of Carl Zeiss Meditec is then to be divided as follows as a reverse acquisition:

| | |
|---|---|
| Subscribed capital: | Subscribed capital of Asclepion, recorded in the commercial register (after merger); |
| Retained earnings: | Retained earnings of Carl Zeiss Ophthalmic according to US GAAP as of the merger date. |
| Additional paid-in capital: | Remaining shareholders' equity; |

The equity of the transferor company (Carl Zeiss Ophthalmic) is shown as equity of the combined/merged company (Carl Zeiss Meditec). The share capital of the transferor company (Carl Zeiss Ophthalmic) was adjusted by the nominal amount of the transferor's outstanding shares for legal purposes (Asclepion), considering the shares issued within the scope of the acquisition.

The difference between the share capital of the transferor company (Carl Zeiss Ophthalmic) and the transferor's share capital for legal purposes (Asclepion) (shown as the share capital of the merged company Carl Zeiss Meditec) is recorded as an adjustment to additional paid-in capital of the merged company (Carl Zeiss Meditec).

For periods prior to the merger the equity of the merged company (Carl Zeiss Meditec) is the historic equity of the transferor company (Carl Zeiss Ophthalmic) prior to the merger; such share capital is adjusted, however, by the number of shares received in the business combination. The retained earnings of the transferor company (Carl Zeiss Ophthalmic) were carried forward subsequent to the acquisition. Earnings per share (EPS) for periods prior to the business combination were restated to reflect the number of equivalent shares received by the acquiring enterprise.

Consequently, in the 2001 financial year the retroactively adjusted share capital belonging to Carl Zeiss Ophthalmic totals € 19.633 million. On the effective date of acquisition the total share capital was increased to € 25.833 million by the addition of the capital of Asclepion-Meditec AG (€ 6.200 million). As a result of the reverse acquisition the additional paid-in capital increased by € 57.214 million.

A further change in the additional paid-in capital resulted from a capital contribution by Carl Zeiss Jena. The latter acquired all holdings in the "shell company" ABWIRT Erste Verwaltungsgesellschaft mbH under the sales and takeover agreement of 14 December 2001. The capital stock of ABWIRT at the time of acquisition amounted to € 25,000 and in the course of conversion and name change to Carl Zeiss Ophthalmic this was increased by € 25,000 plus a premium of 10%. The integration of the shell company was disclosed as a shareholder's contribution of € 52,000.

No separate tax declaration was prepared for Carl Zeiss Ophthalmic for the financial year ending 30 September 2001 since at that time the latter was a division of Carl Zeiss Jena and thus an integral part of Carl Zeiss, Heidenheim/Oberkochen for turnover, trade and corporation tax purposes. Intergroup reallocations were made to Carl Zeiss Jena for corporation and trade tax. In addition, other expenses were passed to Carl Zeiss Jena as intergroup reallocations. The other expenses and tax on earnings paid during this period by Carl Zeiss was recorded as fictitious capital contribution in the statement of shareholders' equity.

## Treasury stock in the financial year 2002/2003

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

As of 30 September 2003 a total of 14,252 shares had been purchased at an average price of € 7.58 per share and reported as "Treasury stock" under shareholders' equity.

## Cash capital increase in the financial year 2002/2003

On 18 September 2003 Carl Zeiss Meditec effected a capital increase against cash contributions, taking advantage of the authorised capital. A total of 2,583,329 new no-par value bearer shares were tendered by public offering in Germany and international private placement at a subscription price of € 9.70 per share. After issue expenses (after tax) of € 430,000 had been subtracted from the gross earnings of € 25.058 million, the net cash inflow to Carl Zeiss Meditec from the capital increase amounted to € 24.628 million.

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

The share capital of Carl Zeiss Ophthalmic had thus increased by € 2.584 million from € 25.833 million to € 28.417 million. The capital reserve increased accordingly by € 22.044 million to € 89.433 million.

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

### Other comprehensive loss not affecting net income

The following table shows the movement of the components of other comprehensive loss:

| € '000 | Financial year 2001/2002 | Financial year 2002/2003 |
|---|---|---|
| Difference arising from currency conversion | | |
| Change in unrealised gains / losses | (2,423) | (5,007) |
| **Change in other comprehensive loss** | **(2,423)** | **(5,007)** |

Under the German Stock Corporation Act, the amount of dividends available for distribution to the shareholders is dependent upon the equity of the Company as reported in its financial statements drawn up on a stand-alone basis in accordance with the German Commercial Code. Dividends may only be declared and paid from the retained earnings (after transfer to statutory reserves) as posted in the Company's annual German statutory financial statements. Such amounts differ from the total retained earnings as shown in the accompanying financial statements prepared in accordance with US GAAP. As of 30 September 2003, the Company's German statutory financial statements posted an accumulated deficit of € -158,000.

## *(21) Shares of outside shareholders*

The shares of outside shareholders relate to the equity share held by Carl Zeiss Meditec Co., Ltd., Japan. The Group purchased 51% of the shares at their book value. Due to Carl Zeiss Co., Ltd.'s entitlement to preferred shares, for at least the three financial years following the acquisition date Carl Zeiss Co. Ltd. will receive 66% of the future dividend payments. The preferred shares were conveyed as compensation for advance services performed by Carl Zeiss Co., Ltd. in the field of marketing, establishment of a service structure and support for the approval procedures of Carl Zeiss Meditec products.

## *(22) Taxes on income and earnings*

Income (loss) before income taxes is attributable to the following geographic regions:

| € ’000 | **Financial year 2001/2002** | **Financial year 2002/2003** |
|---|---|---|
| Germany | 649 | (3,123) |
| Abroad | 4,626 | 19,837 |
| | **5,275** | **16,714** |

Taxes on income and earnings are as follows:

| € ’000 | **Financial year 2001/2002** | **Financial year 2002/2003** |
|---|---|---|
| Current taxes: | | |
| Germany | 74 | 284 |
| Abroad | (2,850) | 9,401 |
| | **(2,776)** | **9,685** |
| Deferred taxes | | |
| Germany | 26 | (1,207) |
| Abroad | 856 | (1,202) |
| | **882** | **(2,409)** |
| | **(1,894)** | **7,276** |

Since 1 January 2001 a uniform tax rate has been applied for taxing the income of joint stock corporations under German corporate tax law (Körperschaftsteuergesetz). In accordance with the tax law applicable in the 2002 financial year, the Company’s income was subject to a corporate tax rate of 25% plus a solidarity surcharge of 5.5%. The total tax rate including solidarity surcharge amounts to 26.4%. The law stipulating a one-time increase in corporation tax to 26.5% for the calendar year 2003 was announced in September 2002. The majority of German companies are liable to two types of income tax: trade earnings tax and corporation tax. The trade earnings tax of the Company in Jena amounted to 15.97 % for each of the financial years ending on 30 September 2001 and 2002. Trade taxes are deductible for the purpose of computing corporate income taxes. Together with trade tax of 15.97% the Company’s tax burden in the financial year 2001/2002 totalled 38.13%, in the financial year 2002/2003 39.46%.

The expected income tax benefit (expense), based on income (loss) before income taxes of € 5.275 million and € 16.714 million and statutory rates of 38.13% in the financial year 2001/2002 and 39.46% in the financial year 2002/2003 to actual income tax expense is as follows:

| € '000 | **Financial year 2001/2002** | **Financial year 2002/2003** |
|---|---|---|
| Expected tax expense at statutory rate | 2,012 | 6,595 |
| Increase in deferred tax assets valuation adjustment | 263 | 566 |
| Non-deductible expenses | 69 | 69 |
| Tax-exempt earnings | (398) | (938) |
| Effect of change in statutory tax rate | - | - |
| Foreign tax rate differential | 141 | 759 |
| Other | (193) | 225 |
| **Taxes on income** | **1,894** | **7,276** |
| Thereof from continuing operations | 2,251 | 9,014 |
| Thereof from discontinued operations | (357) | (1,738) |
| Effective taxation ratio | 35.92% | 43.53% |

Deferred tax assets and liabilities are made up of the following:

| € '000 | Financial year 2001/2002 | Financial year 2002/2003 |
|---|---|---|
| Loss carryforward | 8,547 | 9,126 |
| Fixed assets | 5,177 | 4,471 |
| Accounts receivable | 965 | 1,077 |
| Provisions | 1,638 | 2,110 |
| Inventories | 4,286 | 4,340 |
| Deferred income | 641 | - |
| Other current assets | 282 | 220 |
| Other long-term assets | 16 | 70 |
| Notes receivable / loans | 2,278 | 2,097 |
| Liabilities | 253 | 406 |
| **Deferred tax assets** | **24,083** | **23,917** |
| Valuation adjustments | 2,366 | 2,588 |
| **Deferred tax assets (net)** | **21,717** | **21,329** |
| Fixed assets | 305 | 295 |
| Intangible assets | 2,487 | 1,937 |
| Loans to affiliated companies | 2,485 | - |
| Accounts receivable due from affiliated companies | 1,259 | - |
| Inventories | 146 | - |
| Other assets | 346 | 10 |
| Liabilities | 255 | 82 |
| **Deferred tax liabilities** | **7,283** | **2,324** |
| **Deferred tax assets (net)** | **14,434** | **19,005** |

Deferred tax assets and liabilities were disclosed in the consolidated balance sheet as of 30 September 2002 and 2003 as follows:

| € '000 | 30 September 2002 | 30 September 2003 |
|---|---|---|
| Deferred tax assets, short term | 6,960 | 7,958 |
| Deferred tax assets, long term | 7,878 | 11,281 |
| Deferred tax liabilities, short term | 8 | 8 |
| Deferred tax liabilities, long term | 396 | 226 |
| | **14,434** | **19,005** |

The consolidated financial statements of the Company in the financial year 2001/2002 carried a valuation discount of € 2.588 million for deferred taxes. This valuation allowance reduced the deferred tax asset to a net amount which the Company believed more likely than not that it would realise, based on the Company's estimate of future earnings and the expected timing of temporary difference reversals. As of 30 September 2003 the Company had a tax credit of € 9.162 million from loss carryforwards, of which about € 915,000 can be carried forward to 2020, € 444,000 to 2021 and € 7.803 million treated as unlimited carryforwards. This credit relates to the United Kingdom, USA and Germany taxing jurisdictions.

## *(23) Segment information*

Up until the financial year 2002/2003 the Company operated as a single-segment enterprise. During the financial year 2002/2003 the reporting segments were reorganised on the basis of the geographical regions Germany, USA and Japan. Each segment offers the same type of products and services. The segment information for the previous year was adjusted to correspond to the new reporting and presentation structure for the reporting year, thus enabling direct comparison.

| € '000 | **Germany** | **USA** | **Rest of Europe** | **Eliminations** | **Consolidated** |
|---|---|---|---|---|---|
| Sales revenues | 83,703 | 149,642 | 1,035 | (32,364) | 202,016 |
| Cost of goods sold | (59,348) | (102,868) | (869) | 31,405 | (131,680) |
| Selling and marketing expenses | (10,061) | (21,496) | (270) | 71 | (31,756) |
| General and administrative expenses | (3,552) | (4,670) | (9) | 19 | (8,212) |
| Research and development expenses | (8,024) | (12,835) | - | 43 | (20,816) |
| Other expenses | (67) | 84 | - | (38) | (21) |
| Foreign currency exchange gains / losses | 421 | 49 | - | 15 | 485 |
| Operating income / loss | 3,072 | 7,906 | (113) | (849) | 10,016 |
| Long-term assets | 16,742 | 23,317 | 2,815 | (3,946) | 38,928 |
| Depreciation | 1,324 | 3,845 | 226 | (98) | 5,297 |
| Interest expenses | 632 | 3,015 | 95 | (129) | 3,613 |
| Capital expenditure | 2,234 | 1,477 | 435 | (446) | 3,700 |
| Balance sheet total | 224,773 | 86,928 | 9,524 | (127,592) | 193,633 |

| € '000 | Germany | USA | Japan | Rest of Europe | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Sales revenues | 96,686 | 148,456 | 31,851 | 717 | (41,996) | 235,714 |
| Cost of goods sold | (60,602) | (95,131) | (16,114) | (707) | 39,370 | (133,184) |
| Selling and marketing expenses | (14,596) | (22,009) | (5,644) | (609) | 272 | (42,586) |
| General and administrative expenses | (5,235) | (3,260) | (2,531) | (116) | 30 | (11,112) |
| Research and development expenses | (10,894) | (13,443) | - | (4) | 466 | (23,875) |
| Other expenses | 253 | 630 | - | 795 | (1,159) | 519 |
| Foreign currency exchange gains / losses | (601) | (43) | 113 | (1) | (221) | (753) |
| Operating income / loss | 5,011 | 15,200 | 7,675 | 75 | (3,238) | 24,723 |
| Long-term assets | 14,071 | 18,063 | 222 | - | (3,538) | 28,818 |
| Depreciation | 2,673 | 2,927 | 55 | 19 | (24) | 5,650 |
| Interest expenses | 507 | 2,051 | 47 | 84 | (127) | 2,562 |
| Capital expenditure | 899 | 1,744 | 277 | - | (130) | 2,790 |
| Balance sheet total | 232,678 | 84,145 | 14,346 | 532 | (125,856) | 205,845 |

Sales revenue is allocated according to the geographic region of the subsidiary that generates the revenue. Long-term assets comprise long-term tangible assets and loans, but not goodwill, intangible assets, long-term accounts receivable or deferred tax assets.

Inter-segmental sales and revenue are largely calculated at the same prices as negotiated with outsiders to the Group.

Capital expenditure relates to the purchase of property, plant and equipment.

## Geographic information

Sales revenues are attributed to geographical regions based on the location of the customer:

| € '000 | Financial year 2001/2002 | Financial year 2002/2003 |
|---|---|---|
| Germany | 16,618 | 16,393 |
| Europe, not including Germany | 34,582 | 40,051 |
| Americas | 119,114 | 123,490 |
| Asia / Pacific region* | 31,702 | 55,780 |
| | **202,016** | **235,714** |

** including Africa*

## Information on major customers

In the financial years 2001/2002 and 2002/2003 no single customer accounted for more than 10% of total sales.

## *(24) Transactions subject to reporting requirements during the period*

The following is a summary of securities transactions carried out by members of the Management and Supervisory Boards in the financial year 2002/2003 that were subject to reporting requirements pursuant to Art. 15a of the German Securities Trading Act (WpHG).

| Name | Function | Date | Purchase / sale | Number of shares | Price (in €) |
|---|---|---|---|---|---|
| Bernd Hirsch | Member of the Management Board, CFO | 20.02.2003 | Purchase | 500 | 7.28 |
| Ulrich Krauss | President and CEO | 26.02.2003 | Purchase | 500 | 7.03 |
| Dr. Manfred Fritsch | Member of the Supervisory Board | 04.03.2003 | Purchase | 450 | 7.85 |
| Alexander von Witzleben | Deputy Chairman of the Supervisory Board | 04.03.2003 | Purchase | 594 | 7.80 |
| Jürgen Dömel | Member of the Supervisory Board | 05.03.2003 | Purchase | 291 | 7.79 |
| Dr Franz-Ferdinand von Falkenhausen | Member of the Supervisory Board | 05.03.2003 | Purchase | 450 | 7.85 |
| Franz-Jörg Stündel | Member of the Supervisory Board | 05.03.2003 | Purchase | 284 | 7.85 |
| Dr Michael Kaschke | Chairman of the Supervisory Board | 06.03.2003 | Purchase | 750 | 7.85 |
| Franz-Jörg Stündel | Member of the Supervisory Board | 26.09.2003 | Sale | 190 | 10.70 |

# *Special comments and compulsory disclosures to Art. 292a HGB*

## Divergent accounting, valuation and consolidation methods

The consolidated financial statements of Carl Zeiss Meditec were prepared in accordance with Art. 292a HGB and considering the exemption for HGB consolidated financial statements in compliance with the valid American accounting principles, US GAAP, as of the balance-sheet date.

In conformity with the interpretation of the German Accounting Standards Committee (DRSC) in DRS 1 the consolidated reporting of the parent company complies with Directive 83/349/EEC.

The applied accounting, valuation and consolidation methods in accordance with US GAAP essentially differ in the following respects:

## Balance sheet layout

The balance sheet and the income statement for the German annual financial statements was laid out in accordance with Art. 266, 275 HGB. SEC/ US GAAP prescribes a different layout: The balance sheet items are ordered in accordance with their realisability – beginning with the most liquid items. Furthermore, short-term components of the long-term assets and liabilities are posted separately. Treasury stock was not shown as an asset, but openly deducted on the liabilities side under Shareholders' equity.

## Self-constructed software

According to HGB self-constructed software must not be posted on the balance sheet, but the resulting costs are to be recorded immediately as expenses.

Under US GAAP expenses for software developments may be capitalised in accordance with SFAS No. 86 "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed" and depreciated over the probable service life. Once technological feasibility has been proven, the development costs for software (attributable material and labour costs and overheads) for sale to third parties from the time of technical feasibility to market maturity are to be capitalised.

## Business combinations

According to German accounting rules, business combinations must be taken into consideration as of their effective date. A choice may be made between the book value method and the fair value (Art. 301 HGB). By the book value method capital is carried at an amount equal to the book value of the assets to be included in the consolidated financial statements. Hidden reserves may only be recorded to the amount of the differential between the book value of participations and the calculated equity capital. By the revaluation method hidden reserves are reflected independently of the proportional holding.

According to US GAAP the date the merger was recorded in the commercial register is the date on which the acquisition is recorded. The fair value of the assets and liabilities apportionable to the legal transferee at the time of acquisition must be recorded.

## Goodwill

Starting 1 October 2002 the Company has adjusted its financial records to conform to SFAS No. 142, "Goodwill and Intangible Assets" which prohibits the recognition of scheduled depreciation on goodwill. According to this regulation the current value of goodwill is periodically assessed for impairment and impairment write-offs are recorded as necessary. HGB stipulates that goodwill be amortised over the anticipated useful life.

## Uncompleted development projects at acquisitions

In conformity with HGB, expenses for uncompleted development projects at acquired subsidiaries are not recognised separately, but as a constituent part of goodwill. According to US GAAP, these costs are identified separately at the date of acquisition and disclosed as expenses.

## Leasing

According to US accounting standards there is a fundamental difference between "capital lease" and "operating lease". In the case of a capital lease, the lessee is the economic owner and capitalises the leased property. In the case of an operating lease, the leased property is attributed to the lessor and the lessee makes periodic rental payment to use the property.

There are special regulations for posting sale-and-lease-back agreements. The profit from the sale of the equipment is deferred and expensed pro rata temporis over the term of the agreement.

## Unrealised profit / loss within the framework of valuation on the effective date

Under HGB only unrealised losses are reported in the income statement (imparity principle). US GAAP, on the other hand, also takes into account any unrealised profit.

Accounts receivable and liabilities denominated in foreign currencies and which are not hedged are valued under German accounting legislation at cost price or the lower exchange rate on the balance sheet date. Under American accounting standards (SFAS No. 52) all foreign currency accounts receivable and liabilities are translated at the exchange rate on the reporting date and unrealised exchange rate gains and losses reflected in the operating results.

The valuation of derivative financial instruments pursuant to HGB takes into account the principles of cost price, realisation and imparity.

Under US GAAP financial instruments are stated at their market value. Any resulting unrealised profit or loss is reflected in the results.

## Deferred taxes

Pursuant to HGB, deferred taxes are calculated for all different timing differences between the recognition of income for tax purposes and for the consolidated income statement (timing concept). No deferred taxes are shown for losses carried forward. However, DRS 10, Deferred taxes in consolidated financial statements, requires that losses carried forward for financial years beginning after 31 December 2002 be disclosed if the tax advantage can be realised with a reasonable degree of certainty.

Pursuant to SFAS No. 109, however, deferred taxes must be calculated for all temporary differences between the tax bases of assets and liabilities and the respective amounts reported in the consolidated balance sheet (temporary concept). Deferred taxes on loss carryforwards are to be recognised. In this respect the future rate of taxation is also applied if the rate has been enacted.

## Provisions for pensions

Pursuant to both HGB and US GAAP provisions must be made for pension obligations. The value to be recorded under US GAAP is to be based on anticipated discounted future payments. Pursuant to HGB, various insurance mathematical methods may be used. According to US GAAP the projected unit credit method must be applied (SFAS No. 87). Pursuant to SFAS No. 87, in the case of schemes financed by means of funds, certain qualified assets must be offset against the total obligation or capitalised.

## Employee participation programme

In accordance with US GAAP there are two alternatives for the valuation of option awards granted to employees. Under APB No. 25 the intrinsic value of the award, as determined on the measurement date, is recorded as an expense over the vesting period of the option award. Alternatively, SFAS No. 123 may be applied. Under this method, the fair value of the options is determined with the aid of a statistical method (Black/Scholes option price model) and expensed over the period through which the employee provides all service to vest in the awards. The Company applies APB No. 25 in the consolidated financial statements. The result using SFAS No. 123 is disclosed in the notes as a pro forma figure.

According to HGB there are no expenses for stock option plans from contingent capital.

## Outside interests in shareholders' equity

Pursuant to HGB, shares held by outside investors are disclosed according to the entity theory of consolidation as a component part of shareholders' equity and the net result for the year. In accordance with US accounting rules, shares held by outside investors are according to the parent company theory not shown as a component part of shareholders' equity, but as a separate balance sheet item after shareholders' equity and the share of profits apportioned to the minorities disclosed as an expense or, in the case of a deficit, as income in the income statement.

# *Other mandatory disclosures pursuant to Art. 292 Commercial Code (HGB)*

## Details on executive bodies of the parent company

### *Management Board*

The following persons were appointed to the Management Board in the financial year 2002/2003 and their names recorded in the commercial register:

**Ulrich Krauss**, Dipl.-Kaufmann (MBA), Weimar
President and CEO, responsible for Sales, Marketing, Service, HR, IT, Refractive Surgery and Business Development

**Bernd Hirsch**, Dipl.-Kaufmann (MBA), Weimar
Member of the Management Board, responsible for Finances, Investor Relations and Legal Affairs

**Dr rer.nat. Walter-Gerhard Wrobel**, Physicist, Jena,
Member of the Management Board, responsible for Logistics and Production, Research and Development, Quality and Product Management

The active members of the Management Board received a total remuneration of € 571,000 for the financial year 2002/2003.

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

### *Supervisory Board*

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

**Dr Michael Kaschke**, Oberkochen, Member of the Managing Board of the Stiftungsunternehmen Carl Zeiss, Oberkochen
Chairman of the Supervisory Board,
**Other mandates**:
Member of the Supervisory Board of Carl Zeiss Semiconductor Manufacturing Technologies AG, Oberkochen, Germany
Chairman of the Board of Carl Zeiss Meditec Inc., Dublin, USA,
Chairman of the Board of Carl Zeiss Optical, Inc., Chester, USA,
Chairman of the Board of Carl Zeiss Australia Ltd., Camperdown, Australia
Chairman of the Board of Carl Zeiss Co. Ltd., Tokyo, Japan,
Chairman of the Board of Carl Zeiss Surgical, Inc., Thornwood, USA,
Chairman of SPECTARIS, the German Industrial Association for Optical, Medical and Mechatronical Technologies, Cologne.

**Alexander von Witzleben**, Weimar, Chairman of the Management Board of Jenoptik AG, Jena.
Deputy Chairman of the Supervisory Board.
**Other mandates**:
Chairman of the Supervisory Board of Analytik Jena AG, Jena,
Chairman of the Supervisory Board of Meissner+Wurst Zander Holding AG, Stuttgart,
Chairman of the Supervisory Board of JENOPTIK Photonics AG, Jena,
Chairman of the Supervisory Board of DEWB AG, Jena,
Member of the Supervisory Board of KRONE GmbH, Berlin.

**Dr Franz-Ferdinand von Falkenhausen**, Jena, Management Spokesman of Carl Zeiss Jena GmbH, Jena,
Member of the Supervisory Board.
**Other mandates**:
Member of the Supervisory Board of Carl Zeiss Semiconductor Manufacturing Technologies AG, Oberkochen, Germany
Member of the Supervisory Board of FC Carl Zeiss Jena, Jena
President of the IHK (Chamber of Commerce) East Thuringia, Gera
Chairman of the Board of Trustees of the Fraunhofer Institute (IOF), Jena,
Member of the Board of Trustees of Innovent Jena e.V., Jena,
Chairman of the Advisory Board of the Thüringer Aufbaubank, Erfurt,
Member of the Advisory Board of ZSP Geodätische System GmbH, Jena (Trimble Group)
Member of the Advisory Board of AJZ Engineering GmbH, Jena.

**Dr Manfred Fritsch**, Kleinpürschütz/Jena, member of the management of Carl Zeiss Jena GmbH, Jena,
Member of the Supervisory Board.
**Other mandates**:
Member of the Supervisory Board of MAZet Mikroelektronik Anwendungszentrum Thüringen, Erfurt, Germany
Member of the Supervisory Board of Messe AG, Erfurt.

**Franz-Jörg Stündel**, Jena, Service Engineer at Carl Zeiss Meditec AG, Jena,
Member of the Supervisory Board on behalf of the employees,
no other mandates.

**Jürgen Dömel**, Jena, Chairman of the Works Council at Carl Zeiss Jena GmbH, Jena,
Member of the Supervisory Board on behalf of the employees,
**Other mandate**:
Member of the Supervisory Board of Carl Zeiss Jena GmbH, Jena.

The active members of the Supervisory Board received a total remuneration of € 100,000 for the financial year 2002/2003. The amount of fixed and variable remuneration of individual members of the Supervisory Board is calculated in compliance with the Company's articles of association.

## Personnel expenses

Personnel expenses for the financial years 2001/2002 and 2002/2003 were as follows:

| € '000 | Financial year 2001/2002 | Financial year 2002/2003 |
|---|---|---|
| Wages and salaries | 50,252 | 55,586 |
| Social security expenses | 5,276 | 5,909 |
| | **55,528** | **61,495** |

The expenses for employee pensions amounted to € 1.253 million and € 1.395 million in the financial years 2001/2002 and 2002/2003 respectively.

As of the cut-off date 30 September 2003 the number of staff was 752 (previous year: 869) plus 24 trainees (previous year: 26). The annual average of Company employees was 798 (previous year: 871).

## Cost of materials

The cost of materials for the financial years 2001/2002 and 2002/2003 comprised the following:

| € '000 | Financial year 2001/2002 | Financial year 2002/2003 |
|---|---|---|
| Raw materials and supplies | 90,815 | 107,984 |
| Purchased services | 14,536 | 17,974 |
| | **105,351** | **125,958** |

## Details of shareholdings (fully consolidated companies)

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

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

The declaration of compliance according to Art. 161 *AktG* (German Stock Corporation Act) was released by the Management and Supervisory Boards and was made available to all shareholders.

Jena, 21 November 2003
Carl Zeiss Meditec AG

**Ulrich Krauss**
*President and CEO*

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

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

## *Audit opinion*

We have audited the consolidated financial statements, comprising the balance sheet, income statement and the statement of changes in shareholders’ equity and cash flows as well as the notes to the financial statements, prepared by Carl Zeiss Meditec AG, for the financial year from 1 October 2002 to 30 September 2003. The preparation and the content of the consolidated financial statements are the responsibility of the Company’s Management Board. Our responsibility is to express an opinion whether the consolidated financial statements are in accordance with United States Generally Accepted Accounting Principles (US GAAP).

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and generally accepted standards for the audit of financial statements promulgated by Institut der Wirtschaftsprüfer (IDW, German Institute of Auditors). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made made by the management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

With the exception of the following qualification our audit did not lead to any objections: As described in section (3) of the notes to the consolidated financial statement of the Company there is a difference of opinion between the auditor and the Management Board of the Company with regard to the measurement date for the accounting of the merger of Carl Zeiss Ophthalmic Systems AG with Asclepion-Meditec AG. This would have resulted in an increase of € 13.7 million in the corporate value of Asclepion-Meditec AG and thus in a higher goodwill to the same amount. On the basis of an assessment of the current value of goodwill in the financial year 2002/2003, however, there should have been a value adjustment to the amount of this unrecorded goodwill. Based on these facts, the goodwill shown in the consolidated financial statements for the year ended 30 September 2003 is correct. The respective value adjustment could not be shown in the income statement for the financial year 2002/2003 due to lack of original capitalisation of goodwill in connection with the previous year's merger.

Considering this qualification, in our opinion, the consolidated financial statements provide a suitable understanding of the net assets, financial position and results of operations as well as cash flows of the Group for the financial year in compliance with United States Generally Accepted Accounting Principles.

Our audit, which also extends to the consolidated management report prepared by the Management Board for the financial year from 1 October to 30 September 2003, did not lead to any reservations. The consolidated management report provides a suitable understanding of the Company’s position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the consolidated management report for the financial year from 1 October 2002 to 30 September 2003 satisfy the condiditions required for Company's exemption from its obligation to prepare consolidated financial statements and the group management report in accordance with German law.

Stuttgart, 26 November 2003

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

| | |
|---|---|
| Schupeck | Barth |
| Wirtschaftsprüfer | Wirtschaftsprüfer |
| (German Public Auditor) | (German Public Auditor) |

# Glossary of medical and technical terms

| | | |
|---|---|---|
| A | Ablation | Removal of tissue by laser treatment in ▸ refractive surgery; here: removal of corneal tissue. *back* |
| | Accommodation | Refocusing of the eye on close objects by contraction of the ciliary muscle. |
| B | Biometry | Measurement of the eye prior to cataract surgery in order to determine the refractive power of the ▸ intraocular lens (IOL). |
| C | Cataract | Deterioration of vision through opacity of the lens, typical disease among older people, most common cause of blindness world-wide. *back* |
| | Customized Ablation | Individual correction of ▸ refractive defects of the eye in ▸ refractive surgery. *back* |
| E | Excimer laser | Type of laser, today's standard in ▸ refractive surgery for ▸ ablation of corneal tissue. *back* |
| F | Femtosecond *(abbr. fs)* | Miniscule time unit: 1 fs = $10^{-15}$ seconds |
| | Field Analyzer | Device for ▸ field of vision measurements in ▸ glaucoma treatment. *back* |
| | Field of vision measurement *(also perimetry)* | Measurement to determine the areas at the back of the eye which are still functioning. Used in the diagnosis of ▸ glaucoma. *back* |
| | Fundus camera | Special camera making a photograph or digital image of the back of the eye. *back* |
| G | Glaucoma | Eye disease which leads to restriction of the field of vision, often caused by increased ocular pressure; in industrialised countries second most common cause of blindness. *back* |
| H | Hyperopia *(also farsightedness)* | Vision defect in which the focal point of the eye is behind the visual plane (i.e. the ▸ retina), causing close objects to be out of focus. |

| | | |
|---|---|---|
| I | Intraocular lens (IOL) | Synthetic lens to replace the natural lens of the eye. Used in ▸ cataract surgery. *back* |
| L | Laser *(Acronym created from light amplification by stimulated emission of radiation)* | Device in which coherent light beams are generated through light amplification by means of induced emission. |
| | LASIK *Acronym created from Laser in situ Keratomileusis (latin)* | Method of treatment in ▸ refractive surgery, where a thin flap is cut and folded back, then the ▸ excimer laser reshapes the underlying corneal tissue and afterwards, the flap is folded back over the treated tissue. Benefits of this method: more rapid wound healing and less pain. |
| M | Macular degeneration, age-related | Retinal disease of the area of maximum visual acuity (macula) which leads to the loss of central vision; most common cause of age-related blindness in industrialised countries. *back* |
| | Myopia *(also nearsightedness)* | Vision defect in which the focal point of the eye is in front of the visual plane, causing distant objects to be out of focus. *back* |
| O | Optical Coherence Tomography (OCT) | Optical procedure which uses partially coherent light to generate virtual cross-sectional images (tomograms) of the underlying tissue structure using a contact-free technique. |
| | Optometrist | An eyecare practitioner who has a specialised education for prescribing corrective lenses and limited authority to diagnose and treat eye disease. This profession is more common to Anglo-Saxon countries. *back* |
| P | Perimetry | ▸ Field of vision measurement |
| | Presbyopia *(also age-related farsightedness or presbytia)* | Inability to focus on close objects, especially when reading, due to decreasing ability to ▸ accommodate. The cause is age-related decreased elasticity of the lens of the eye. |

| | | |
|---|---|---|
| R | Refraction, refractive defect | Optical performance of the eye's overall system; refractive defects lead to impairment of vision ▸ myopia, ▸ hyperopia. *back* |
| | Refractive surgery | Improvement of eyesight by surgical correction of ▸ refractive defects, e.g. ▸ ablation with the aid of ▸ excimer lasers. *back* |
| | Retina | Light-sensitive membrane lining the inner wall of the back of the eye. *back* |

# Financial calendar and contact

| Date | Financial year 2003/2004 |
|---|---|
| 12-Feb-04 | *Three-Month Report* |
| 12-Feb-04 | *Telephone Conference* |
| 19-Mar-04 | *General Meeting* |
| 14-May-04 | *Six-Month Report* |
| 14-May-04 | *Analysts' Meeting, Frankfurt am Main* |
| 12-Aug-04 | *Nine-Month Report* |
| 12-Aug-04 | *Telephone Conference* |
| 15-Dec-04 | *Annual Financial Statements 2003/2004* |
| 15-Dec-04 | *Balance Sheet Press Conference, Frankfurt am Main* |
| 15-Dec-04 | *Analysts' Meeting, Frankfurt am Main* |

*i*

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Both versions are available for downloading from the following address:

www.meditec.zeiss.com/ir

*Jens Brajer*


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