



Annual Report Carl Zeiss Group
2005/06



We make it visible.

Carl Zeiss is an international group of companies which is a global leader in the optical and opto-electronic industry. In fiscal year 2005/06, 11,249 employees all over the world generated revenues totaling EUR 2,433 million. The basis of our success is our consistent customer orientation, our leading edge technology and our innovative strength.

Carl Zeiss is a stock corporation which is wholly owned by the Carl Zeiss Stiftung (Carl Zeiss Foundation). The Carl Zeiss Stiftung is committed to the continued existence of the company, fulfilling its social responsibility, supporting the optical and precision engineering industries and cultivating research and education.

The business groups of the Carl Zeiss Group operate in the growth markets of Medical and Research Solutions, Industrial Solutions and Lifestyle Products. Our ZEISS brand stands for precision, quality and innovative ideas.

Since pioneering science in optics, we continue to challenge the limits of man's imagination. With our passion for excellence, we create value for our customers and inspire the world in new ways: our solutions, technologies and know-how are found in many aspects of modern life.

We make it visible.

Semiconductor Technology

• Organizers, laptops, cell phones – to enhance the convenience of modern communication and entertainment electronics, increasingly small and powerful microchips are needed. Carl Zeiss is the global market leader for lithography optics – the basic technology for microchip production. We lead the field in electron and ion beam technology. With scanning and transmission electron microscopes as well as ion beam systems, we can make even the tiniest structures visible.

Medical Systems

• Nowadays, two out of every three microsurgions worldwide use surgical microscopes from Carl Zeiss. Our instruments are used in ophthalmology, neurosurgery and ENT surgery. Office-based physicians also put their trust in our know-how. Our solutions help our customers to achieve better treatment outcomes. In this way, patients also benefit from the innovative, leading edge technology from Carl Zeiss.

Microscopy

• Microscopes from Carl Zeiss help research scientists all over the world to combat disease. Our instruments provide unique insights into the worlds of biology, medicine, pharmacy and chemistry. The systems can be used to observe living cells or to separate cell components with the aid of laser technology. The product portfolio also includes systems for industrial materials analysis and instruments with which school and college students are introduced to the fascination of microscopy.

Industrial Metrology

• Measuring systems from Carl Zeiss help to make airplanes safer, cars more streamlined and plastic components more resilient. Without measuring technology, the development, large-scale production and quality of everyday products would be inconceivable. From cars and hairdryers to precision-engineering components such as those used in DVD recorders: they all feature quality that has been tested using measuring technology from Carl Zeiss. We also offer customer services – from contract programming to global on-site support.

Opto-electronic Systems

• Binoculars, spotting scopes, lenses for still and cine cameras, planetarium technology and opto-electronic products from Carl Zeiss all have one thing in common: they carry the ZEISS name to millions of people all over the world. Innovative technology and the quality of the products give customer the satisfaction of having made the right decision. Through our cooperation with Sony and Nokia, we focus the attention of many people around the globe on the ZEISS brand.

Carl Zeiss Vision
50 percent interest

• Products and services centered on the eye are the business of Carl Zeiss Vision, in which Carl Zeiss holds a 50 percent interest. Around the globe, two people per second decide to purchase eyeglass lenses from Carl Zeiss Vision. This makes the company the no. 2 on the world eyeglass market. Carl Zeiss Vision also offers instruments for eye care professionals who optimize the fitting of eyeglasses using the Relaxed Vision System.

Financial Highlights

(IFRS)

	2004/05		2005/06	
	million EUR	%	million EUR	%
Sales revenues	2,217	100	2,433	100
Domestic (Germany)	389	18	380	16
Foreign	1,828	82	2,053	84
EBIT	250	11	313	13
Consolidated net income	128	6	167	7
Income taxes	82	3	89	4
Earnings before taxes	210	9	256	11
Depreciation of fixed assets net of post-capitalization/write-ups	119	5	120	5
Changes in the provisions for pensions and other noncurrent provisions ¹⁾	13	1	16	–
Adjustment for non-cash and unusual cash-relevant expenses and income of a material nature	–2	–	18	1
Cash flows before income taxes²⁾	340	15	410	17
Cash flows from operating activities	175		265	
Cash flows from investing activities	–340		–304	
Cash flows from financing activities	260		–62	
Total assets	3,060	100	3,017	100
Property, plant and equipment	542	18	551	18
Capital expenditure	108		118	
Depreciation	100		99	
Inventories	591	19	635	21
Equity	526	17	660	22
Net liquid assets³⁾	471		275	
Number of employees at balance sheet date (September 30)	11,049		11,249	
Domestic (Germany)	7,686		7,843	
Foreign	3,363		3,406	

¹⁾ Adjusted for initial investment in CTA in Germany (see Management Report, page 19)

²⁾ Determined following the recommendations of the German Financial Analysis Association/Schmalenbach-Gesellschaft

³⁾ Cash, cash equivalents and securities net of loans and liabilities to banks or similar credit institutions/items



Promoting the up-and-coming generation: Carl Zeiss supports initiatives which trigger the interest and enthusiasm of students for science and technology. The young researchers of today are our innovative specialists of tomorrow.

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- Carl Zeiss AG is fully owned by the Carl Zeiss Stiftung (Carl Zeiss Foundation). Here you can learn more about the function and tradition of this foundation.

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- This chapter contains the consolidated financial statements of the Carl Zeiss Group using the International Financial Reporting Standards, as well as the auditor's report.

*Cover photo:
New perspectives – Carl Zeiss
SMT AG has completed the world's
most modern development and
production center for lithography
optics.*



Hermann Gerlinger, Dr. rer. nat.

Since 1 October 2006, Member of the Executive Board responsible for Semiconductor Technology, Quality and Processes, Corporate Purchasing and the Service Centers, as well as President and CEO of Carl Zeiss SMT AG.

Born in Bad Mergentheim, Germany, in 1953. 1973 – 1979 Studies of physics at the University of Würzburg. Subsequent doctorate at the same university. Appointment to the Academic Committee in 1984.

1984 Joined Carl Zeiss. Project manager and head of a product area. 1995 Development manager, Lithography Optics Division. 1997 Operations manager, Lithography Optics Division. 1999 Executive Vice President and General Manager, Semiconductor Technology Group. Since 2001, President and CEO of Carl Zeiss SMT AG.

Dieter Kurz, Dr. rer. nat.

President and Chief Executive Officer since 1 January 2001. Labor Director. Member of the Board since 1 January 1999. Since 1 October 2006, Member of the Board responsible for Industrial Measuring Technology, Consumer Optics, Optronics, Strategic Corporate Development, Corporate Research and Technology, Corporate Communications, Corporate Human Resources, Corporate Auditing, Risk Management and Legal Affairs and Patents.

Born in Tübingen, Germany, in 1948. 1969 – 1974 Studies of physics at the Eberhard Karls University in Tübingen, subsequently member of scientific staff and doctorate.

1979 Joined Carl Zeiss. Management positions in development, research, marketing, sales and general management, including two years in North America. Vice President and General Manager, Semiconductor Technology Division, and Executive Vice President and General Manager, Semiconductor Technology Group.

Michael Kaschke, Dr. sc. nat.

Member of the Executive Board since 1 October 2000. Member of the Board responsible for Medical Systems, Microscopy, Corporate Finance, Controlling and Taxes as well as Corporate Information Technology since 1 October 2006.

Born in Greiz, Germany, in 1957. 1979 – 1983 Studies of physics at the Friedrich Schiller University in Jena. Subsequently scientific assistant, doctorate, guest scientist at the Max Planck Institute, Göttingen and member of the scientific staff at IBM, USA.

1992 Joined Carl Zeiss in Oberkochen, 1998 Vice President and General Manager, Surgical Products Division. 1999 Executive Vice President and General Manager, Medical Systems Group.

Norbert Gorny, Dr. rer. nat.

Until 30 September 2006, Member of the Executive Board responsible for Microscopy, Opto-Electronic Systems, the Service Centers, Corporate Information Technology, Corporate Purchasing, Quality and Processes.

Born in Schweinfurt, Germany, in 1963. 1984 – 1989 Studies in biology at the Universities of Marburg, Tübingen and Rome. 1990 – 1993 Doctorate in Tübingen and Constance, where he was also a member of the scientific staff from 1990 to 1994. 1994 – 1998 Consultant at McKinsey & Company, Stuttgart.

1998 Joined Carl Zeiss as Vice President and General Manager, Light Microscopy Division. 1999 Executive Vice President and General Manager, Microscopy Group and General Manager of the Göttingen plant. 2001 Member of the Board.

Since 1 October 2006, President and CEO of Carl Zeiss Vision International GmbH.

Carl Zeiss Group in 2005/06 – Dynamic Trend Continued

**Ladies and Gentlemen,
Dear Business Partners,**

Life Sciences, nanotechnology, medical technology, automation and software solutions – these are the subjects of the future. Carl Zeiss is at home in these promising sectors. We have consistently and systematically tailored our portfolio to these needs: our microscopes play an active role in the advances being achieved in the life sciences. The Semiconductor Technology Group develops leading edge optics for the production of even more powerful microchips in the future. Carl Zeiss Medical Systems help doctors to achieve better treatment outcomes, and Industrial Metrology sets standards in the field of quality inspection.

Our products and services are linked by the excellent reputation enjoyed by our name. The ZEISS brand stands for quality, precision and reliability. Lifestyle products such as camera phones or digital cameras featuring ZEISS optics as well as binoculars and spotting scopes play their part in further increasing the world renown of our brand.



2005/06 was a successful fiscal year for the Carl Zeiss Group. The excellent results show that we operate successfully in attractive markets. Through profitable growth, we have once again achieved a very good result.

Innovation is the basis of our success and has a long tradition in our company. For 160 years, the name Carl Zeiss has stood for innovative products. The pioneers and founding fathers of the company – Carl Zeiss and Ernst Abbe – already made research and development into integral components of our corporate culture. We are continuing this tradition: we invest a good ten percent of revenues in R&D. A corporate-wide innovation contest motivates our employees to embark on new ventures and develop new ideas. The success of this policy is underscored by the outstanding product innovations with which we have advanced into new market segments in fiscal year 2005/06: the delivery of the first EUV alpha tools for microchip production demonstrated our technology leadership in the semiconductor



industry. Our top position in technology was further supported by the market launch of *METROTOM*[®], a new measuring system combining computer tomography and metrology.

We have prepared the consolidated financial statements for fiscal year 2005/06 using the International Financial Reporting Standards (IFRS) for the very first time. As a global player, we are improving the comparability of our business figures and the transparency of our reporting procedure by using this system. To ensure that the previous year's figures are comparable, they have also been calculated on the basis of the IFRS.

During the reporting period, we have implemented targeted measures to optimize our balance sheet structure. The transfer of provisions for pension plans to a contractual trust arrangement is one example. This allows us to clearly separate funds for operational business from our employee pension obligations. Our pension commitments remain unchanged.

We have used fiscal year 2005/06 to further enhance the company's structure. Through active portfolio management, we have focused the Carl Zeiss Group on the markets of the future – Medical and Research Solutions, Industrial Solutions and Lifestyle Products. For example, we prepared the merger of Carl Zeiss



Surgical with Carl Zeiss Meditec during the fiscal year. The transaction was finalized after the end of the fiscal year. In addition, we have restructured some of our sales organizations in Europe and Japan. The Carl Zeiss Group is also very well positioned internationally: we generate 84 percent of our revenues outside Germany. We are making use of the opportunities offered by internationalization.

The center of our activities is always our customers. We help them to be successful. For us, customer orientation is more than a trend that we feel obliged to follow. We are working constantly on our processes in order to meet the needs of our customers even more quickly and effectively in the future.

We would like to thank our customers and business partners for the good collaboration during the past year and for the many ideas and suggestions we received from them. Their satisfaction rewards our efforts and motivates us to continue to implement our aspiration "We make it visible" time and time again in the future.

Our special gratitude goes to our employees. Their know-how, skills, enthusiasm and performance are the foundation of our success. Together with them, we look forward to fulfilling the wishes and requirements of our customers and partners in fiscal year 2006/07.

Dr. Hermann Gerlinger

Dr. Dieter Kurz

Dr. Michael Kaschke

Report from the Supervisory Board

Ladies and Gentlemen,

In fiscal year 2005/06, the Carl Zeiss Group developed outstandingly: the record values for revenues and earnings show that the employees and management achieved excellent work in the past year.

The Supervisory Board closely followed the business trend and performed its duties in accordance with the law and the rules of procedure. It regularly advised the Executive Board in the management of the enterprise and constantly monitored the conduct of business. The Executive Board informed the Supervisory Board regularly, promptly and comprehensively about the course of business and about important developments and upcoming decisions.

In its meetings the Supervisory Board discussed all issues relevant to the company. In this way, it was constantly informed about the course of business, the situation of the company and of the entire Group, the business policy and the individual, important business processes. It was directly involved in all decisions that were of fundamental importance for the company.

As Chairman of the Supervisory Board, I was in constant contact with the President and CEO, also outside the framework of the meetings, concerning important issues and forthcoming decisions.



Tilman Todenhöfer
*Chairman of the Carl Zeiss AG
Supervisory Board*

Developing the Portfolio

During the reporting period, the Supervisory Board held a total of five meetings, two of which were extraordinary.

In October 2005, corporate planning for fiscal year 2005/06 and the mid-term financing strategy were discussed. The Supervisory Board examined in detail the plans for the further development of the business portfolio. This included the integration of Carl Zeiss Surgical into Carl Zeiss Meditec AG within the framework of a combined capital increase in cash and contribution in kind. The Executive Board was empowered to conduct the transaction in

an extraordinary meeting held in December 2005. This portfolio measure has now been completed. It strengthens the medical technology business and enables access to further growth markets.

The Supervisory Board also approved the acquisition of the company ALIS Corporation, Peabody, Massachusetts (USA) by Carl Zeiss SMT AG. After the company had successfully positioned itself as the technology leader through the acquisition of NaWoTec GmbH, Rossdorf, last year, the expansion of the technology portfolio now achieved is an important step towards gaining market leadership in the field of semi-conductor technology and nano-technology.

Profit-sharing Certificates and Pensions

The Supervisory Board conferred on the issue of profit-sharing certificates to employees in Germany. In accordance with the recommendation of the Supervisory Board, the shareholder's meeting approved the issue of profit-sharing certificates to a total value of EUR 25 million by 2008.

The Supervisory Board gave its consent to a Contractual Trust Arrangement (CTA), with which Carl Zeiss is using funds exclusively for the fulfillment of pension commitments to its active employees in Germany for the first time. This measure additionally improves the balance sheet structure.

Changes to the Executive Board

In February 2006 the Supervisory Board extended the contract of Dr. Dieter Kurz as President and CEO for a further four years to 31 December 2010 and thanked him for his successful work for the company.

In an extraordinary meeting on 11 September 2006, the Supervisory Board approved the termination of Dr. Norbert Gorny's office on the Board. On 1 October 2006, he transferred to Carl Zeiss Vision International GmbH, the world's second biggest eyeglass lens manufacturer and the largest interest held by Carl Zeiss AG in another company. The Supervisory Board thanked Dr. Gorny for his successful work and his commitment to Carl Zeiss AG. At the same time, Dr. Hermann Gerlinger, President and CEO of the subsidiary Carl Zeiss SMT AG, was appointed to the Carl Zeiss AG Executive Board, and the adjustment of the distribution-of-business plan within the Executive Board was approved.

Work of the Committees

The Supervisory Board has set up a total of three committees.

The Chairman's Committee convened four times during the reporting period. In its meetings it primarily examined basic issues concerning the compensation and composition of the Board. For example, the extension of the contract of the President and CEO and the changes made to the Board at the end of the fiscal year were prepared in the committee.

The Auditing Committee convened for three meetings. It dealt in detail with the conversion to the International Financial Reporting Standards (IFRS) and with risk management. The subjects of in-depth consultation included the stipulation of the focal points to be covered by the annual audit and the granting of the audit assignment to the external auditor after establishing its independence. In the presence of the auditor and the Executive Board, the financial statements of Carl Zeiss AG and of the Carl Zeiss Group as well as the proposed appropriation of earnings were discussed, and a recommendation prepared for the decision of Supervisory Board. At the end of the fiscal year, the Auditing Committee began the process of examining its own efficiency and effectiveness.

The Mediation Committee formed in accordance with German corporate law did not need to convene.

The committees reported regularly about their work to the Supervisory Board.

Financial Statements Approved

The KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main, audited the financial statements of Carl Zeiss AG and of the Carl Zeiss Group as per 30 September 2006 and the accompanying Management Reports. The present consolidated financial statements have been drawn up in accordance with IFRS for the first time.

The audits resulted in an unqualified auditor's report in each case. The balance sheet and income statements as well as the auditor's reports were submitted to all members of the Supervisory Board. The approval documents were discussed in detail in the Auditing Committee and in the balance sheet meeting of the Supervisory Board on 8 February 2007. The auditor took part in both meetings and explained the major results of his audit. The Supervisory Board approved the result of the audits and endorsed the consolidated financial statements presented by the Executive Board. The financial statements submitted by the Executive Board have therefore been adopted.

The Supervisory Board accepted the Executive Board's proposal for the use of net income, including the payment of a dividend to the value of EUR 6,253,000.23 to the sole shareholder, the Carl Zeiss Foundation.

The Supervisory Board would like to express its appreciation to all employees who, through their dedication and commitment, have made it possible for the Carl Zeiss Group to look back on a very successful fiscal year.

On behalf of the Executive Board, I would like to thank the Executive Board of Carl Zeiss AG for the very good and trusting cooperation.

Stuttgart, February 2007



For the Supervisory Board
Tilman Todenhöfer
Chairman

Management Report

In fiscal year 2005/06 (balance sheet date 30 September), the Carl Zeiss Group, to which Carl Zeiss AG, Oberkochen, and a number of subsidiaries in Germany and abroad belong, continued to show a positive trend. The company is focusing its activities on the future-oriented markets of Medical and Research Solutions, Industrial Solutions and Lifestyle Products. These markets are served by the business groups Medical Systems and Microscopy (Medical and Research Solutions), Semiconductor Technology, Industrial Metrology and Opto-electronic Systems with the Optronics division (Industrial Solutions), and the business units Camera Lenses, Sports Optics and Planetariums in the Opto-electronic Systems Group (Lifestyle Products).

All business groups contributed to the good result and to the growth of the Carl Zeiss Group.

We have prepared the consolidated financial statements for 2005/06 using the International Financial Reporting Standards (IFRS) for the very first time. The corresponding figures of the comparable period in fiscal year 2004/05 were also converted to IFRS.

Business and Strategy

Business Trend in 2005/06

2005/06 was another successful fiscal year for the Carl Zeiss Group. Compared to the previous year, sales revenues and net income increased substantially.

Two-digit growth was generated by the Semiconductor Technology, Medical Systems, Microscopy and Industrial Metrology Groups.

Outside Germany, the fiscal year followed a very favorable course, particularly in the European and American regions. Here, an increase was reported in both incoming orders and revenues.

Concentrating on Markets of the Future

The Carl Zeiss Group is well positioned to meet the challenges posed by the future-oriented markets of Medical and Research Solutions, Industrial Solutions und Lifestyle Products. During the reporting year, we further focused our portfolio on these growth fields. The business groups have continued to strengthen their position in the respective markets by expanding their core business, alliances and acquisitions.

R&D Investments Increased

In the 2005/06 fiscal year, the Carl Zeiss Group once again invested heavily in research and development. Spending in this area totaled EUR 254 million (last year: EUR 230 million), the equivalent of 10 percent of revenues.

The high percentage of new products in overall sales shows that we can successfully turn our innovative strength into market success. In fiscal year 2005/06, we generated 47 percent of our revenues with products that are less than three years old. The most important new products introduced during fiscal year 2005/06 include the METROTOM® computer tomograph of the Industrial Metrology Group and the Particle Analyzer for materials analysis of the Microscopy Group. We underscored our technology leadership in the semiconductor industry with the delivery of the first EUV alpha tool for microchip production.

The Carl Zeiss Group employs 1,748 (last year: 1,605) people in the research and development area. This corresponds to 16 percent of the workforce. During the reporting year, applications were made for 368 new patents.

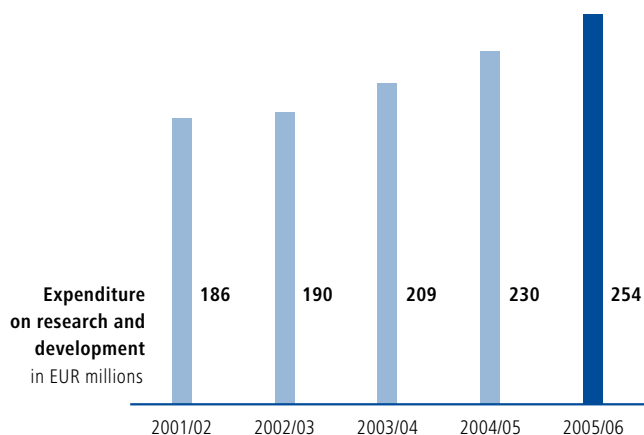
The Environment in Focus

With its production techniques and the materials it processes, the Carl Zeiss Group is active in fields which involve little environmental pollution. The largest manufacturing sites in Oberkochen and Jena are certified to ISO 14001, as are the most important corporate divisions, including the Optronics division and Carl Zeiss Microlmaging GmbH for the first time during the reporting year. A number of subsidiaries outside Germany are also certified.

An important factor for the environmental compatibility of products and processes is the careful selection of the materials utilized in the products. To record all materials and substances used, we have set up a corporate-wide database system for product-integrated environmental protection. Here, all materials and components used in ZEISS products are documented. Therefore, the system offers comprehensive proof of the testing of products in accordance with the European RoHS directive (Restriction of the Use of Hazardous Substances).

Increasing Brand Awareness

The ZEISS brand enjoys a unique, high-value profile. Our customers associate the ZEISS brand with leading product and service quality.



Through alliances with renowned manufacturers of entertainment electronics, we are continuing to increase brand awareness in the consumer business: we have been working successfully with Sony for several years now. High-performance, high-quality digital cameras from the global electronics player are equipped with ZEISS optics. Fiscal year 2005/06 saw the launch of the second generation of Nokia cell phones featuring optics from Carl Zeiss. Excellent image quality with a resolution of 3.2 mega pixels is the outstanding feature of these premium products. This provides an ideal means of making young, technology-oriented users more aware of the ZEISS brand.

Optimizing the Portfolio

The value-oriented development of the corporate portfolio is a focal point of the Carl Zeiss Group's growth strategy. This also involves the adaptation of the portfolio to changing market conditions: for example, the Microscopy Group has been operating as the separate legal entity Carl Zeiss MicroImaging GmbH since 1 March 2006. The company is headquartered in Jena. The Göttingen location, as well as two consolidated companies – Carl Zeiss Imaging Solutions GmbH in Hallbergmoos and P.A.L.M. Microlaser Technologies GmbH in Bernried – belong to this wholly owned subsidiary of Carl Zeiss AG.

In July 2006, the Semiconductor Technology Group acquired the US start-up company ALIS Corporation based in Peabody, Massachusetts. This company develops helium-ion microscopes and therefore adds a promising, new imaging technique to the business group's portfolio.

In addition, the Semiconductor Technology Group agreed on an alliance with SII Nano-Technology Inc., Tokyo (Japan), a subsidiary of the Seiko Instruments Incorporation, in March 2006. The strategic partnership covers the distribution, service and development of joint products for both companies. This allows us to offer new solutions for the semiconductor industry and also improve our access to the Japanese market.

On 10 July 2006, Carl Zeiss Meditec AG acquired a further 9.3 percent of the shares in IOLTECH S.A., La Rochelle (France), a transaction that increased its investment holdings to 96.5 percent. Full acquisition was finalized, effective 15 November 2006, after the end of the fiscal year (see page 25).

On 1 May 2006, we incorporated the Display Technologies division of our Opto-electronic Systems Group in a joint venture with the US electronics specialist Jabil Circuit Inc., St. Petersburg, Florida (USA). The market environment in which this division operates is characterized by intense competitive pressure. With Jabil Circuit Inc., we gained an experienced partner. Carl Zeiss holds a minority share of 19.8 percent in the Jena-based joint venture, Sypro Optics GmbH. The employees of the Display Technologies division were absorbed by Sypro Optics GmbH.

*“Our brand
is a promise.”*

From the Carl Zeiss corporate Vision

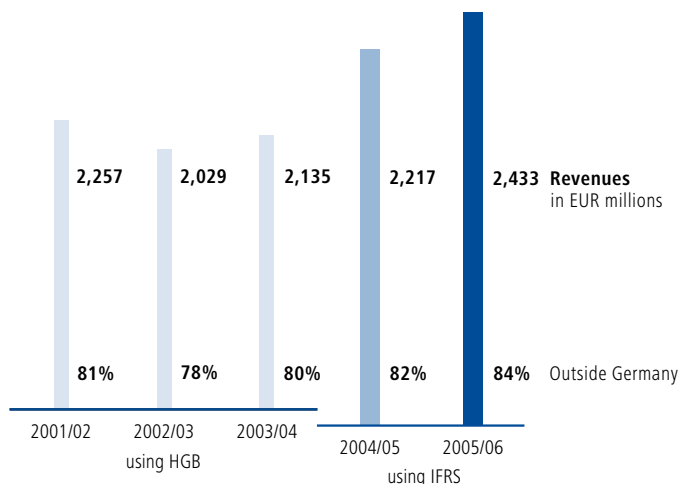
Listed on the Prime Standard of the German Stock Exchange, Carl Zeiss Meditec AG intended to acquire Carl Zeiss Surgical in order to further strengthen its international competitiveness and develop additional growth options. Despite approval by more than 99 percent of the share capital, the acquisition was delayed due to legal action taken by individual shareholders, with the result that the transaction could not be finalized until after the end of fiscal year 2005/06.

In strategically important markets the business groups assume responsibility for the distribution of their products and services themselves. This will expand the groups into full-fledged enterprises in their own right and further strengthen their entrepreneurial responsibility. To achieve this objective, we have adapted the structure of some foreign sales organizations in Europe and Japan.

Results of Operations, Financial Position, Net Assets

Increase in Revenues

In fiscal year 2005/06, revenues of the Carl Zeiss Group rose ten percent to EUR 2,433 million (last year: EUR 2,217 million). This increase was achieved primarily through organic growth. During the first half of fiscal year 2004/05, business with eyeglass lenses was still included in the consolidated figures. Calculated on a comparable basis, a rise of 14 percent in revenues was recorded for FY 2005/06. In the reporting year, changes to the scope of consolidation had no major impact on this development.



Consolidated statement using IFRS for first time

As a globally operating group of companies, Carl Zeiss has prepared its consolidated financial statements for fiscal year 2005/06 in accordance with the International Financial Reporting Standards (IFRS) for the first time. The previous year's figures have also been prepared in accordance with IFRS.

The first use of these international accounting standards results in differences to the former reporting method HGB (German Commercial Code). The details are explained in the Notes to the Consolidated Financial Statements from page 102.

Virtually all business groups recorded strong, two-digit growth in revenues. The percentage of foreign business in overall sales increased to 84 percent (last year: 82 percent). Comparable incoming orders rose by 18 percent to EUR 2,529 million (last year: EUR 2,230 million).

Further Improvement in Earnings

The consistent focusing of the company on growth, profit and value enhancement paid off in fiscal year 2005/06: earnings rose sharply and once again surpassed last year's good value. All business groups contributed to this positive trend.

Overall, the Carl Zeiss Group generated an EBIT (Earnings Before Interest and Taxes) of EUR 313 million, corresponding to a rise of 25 percent over the previous year (EUR 250 million).

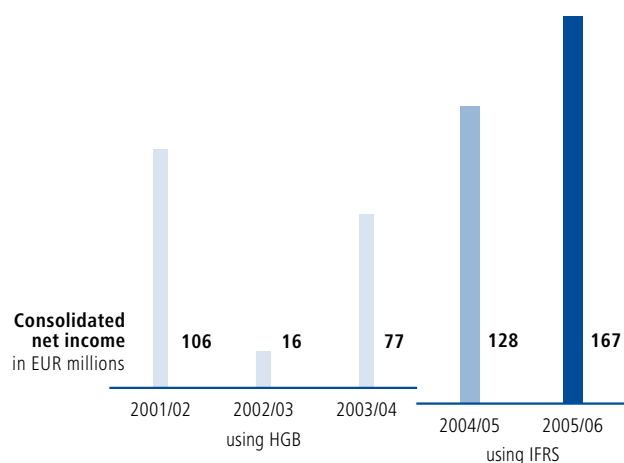
Earnings before income taxes improved to EUR 256 million (last year: EUR 210 million).

Consolidated net income also lay clearly above

last year's level: after deduction of taxes, income totaled EUR 167 million (last year: EUR 128 million), an increase of 30 percent.

The substantial growth in earnings is attributable in particular to enhanced operating performance and increased revenues. These positive effects more than compensated for the increase in the cost of materials ratio (cost of materials in proportion to total output) by two percentage points to 37 percent, and for the raise in other operating expenses by EUR 35 million to EUR 497 million. The increased cost of materials was due to the higher-quality product mix and to increased external purchases caused, among other factors, by fire damage to the Oberkochen plant in October 2005. Other operating expenses include not only revenue-variable expenses such as agents' commissions and warranties, but also repair costs resulting from the fire. Despite the increase in manpower, personnel costs in Germany increased sub-proportionally compared to sales revenues. This gain in efficiency is reflected in a decrease in the personnel expense ratio (personnel expenses in proportion to total output) to 32 percent (last year: 34 percent).

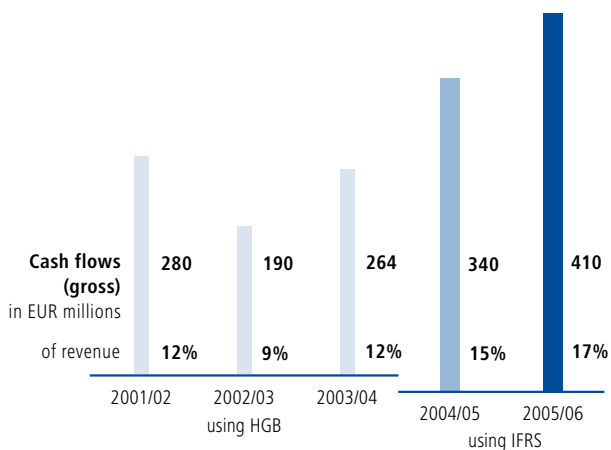
Considering the positive one-time effect totaling EUR 24 million reported the previous year, the further improvement result must be seen in an even more favorable light. This amount arose from the transitional consolidation of Carl Zeiss Vision which was presented as financial income in the consolidated profit and loss statement.



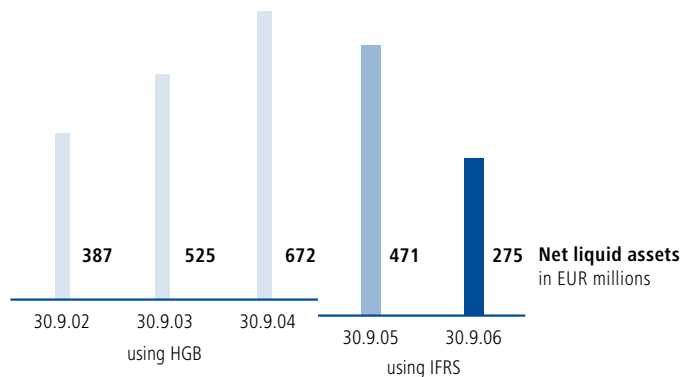
Cash Funds Provide Scope for Action

The further rise in earning power is also reflected in the cash flows before income taxes¹⁾, which improved once again to EUR 410 million (last year: EUR 340 million), the equivalent of 17 percent of revenues.

The outflow of funds for investments and the financing of pension obligations through a CTA (Contractual Trust Arrangement) is largely covered by the inflow of funds from current business activity. The repayment of a private placement by a US subsidiary was the main cause of the outflow of funds from financing activity in the reporting year.

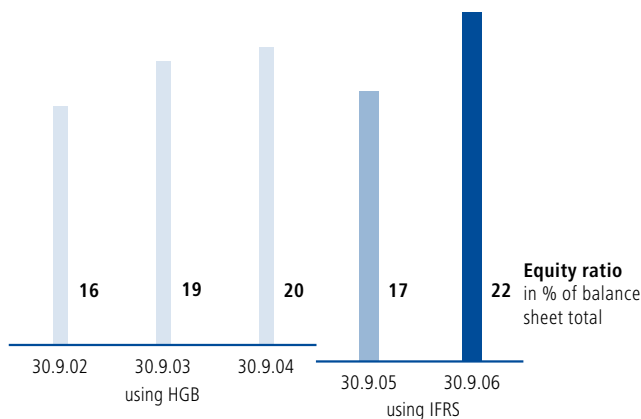


On the balance sheet date, cash funds²⁾ totaled EUR 637 million, offering the Carl Zeiss Group sufficient scope for action. Net liquid assets totaled EUR 275 million.



Corporate Value Continues to Rise

In the process of increasing its corporate value, Carl Zeiss also reached an outstanding level, clearly exceeding the comparable value of the year before. All business groups have achieved value enhancement according to the financial performance ratio EVA® (Economic Value Added), which serves as an internal indicator of business success. The EVA® of the Carl Zeiss Group amounted to EUR 82 million.



¹⁾ Calculated using the method recommended by the German Financial Analysis Association/Schmalenbach-Gesellschaft DVFA/SG
²⁾ Cash/cash equivalents plus securities

Equity Ratio Increased

The equity ratio grew by five percentage points to 22 percent. This is attributable, above all, to the good operating result and the changed balance sheet structure resulting from the CTA.

Pension Obligations Restructured

In the reporting year, Carl Zeiss restructured the financing of its pension obligations. Around EUR 242 million was transferred to a Contractual Trust Arrangement (CTA). The healthy liquidity situation, the high cash flow and the positive business trend offered the scope required for this measure.

The company is transferring the funds needed to meet its pension obligations toward active employees in Germany to this dedicated trust. This clearly separates the funds required for operational business from pension obligations and increases the transparency and international comparability of our financial reporting.

The legally independent trust invests the assets transferred to it on the basis of an appropriate long-term investment strategy. The assets transferred to the trust are used exclusively for the purpose of fulfilling pension obligations. The company's pension commitments remain unchanged. They will continue to be shown in full on the balance sheet of Carl Zeiss AG and its subsidiaries. In the consolidated financial statements, the pension obligations are offset against the appropriated trust assets, leading to a reduction in the balance sheet total.

Employees Benefit from Success

In fiscal year 2005/06 – as in the previous year – Carl Zeiss AG issued profit-participating certificates to its employees. These non-transferable certificates to the value of EUR 250 entitle employees of the Carl Zeiss Group in Germany to receive annual distributions, depending on the company's success. The rate of interest of the certificate is dependent on the company's return on sales. It has a term of five years, after which the employee is reimbursed the value of the certificate. The certificates issued by the company last year bore interest at a rate of 20 percent.

Overall, Carl Zeiss AG issued EUR 3.8 million to its employees in the form of profit-participating certificates during the reporting year. With the paper, we are involving our employees directly in the success of the company.

Investments**Intangible Assets**

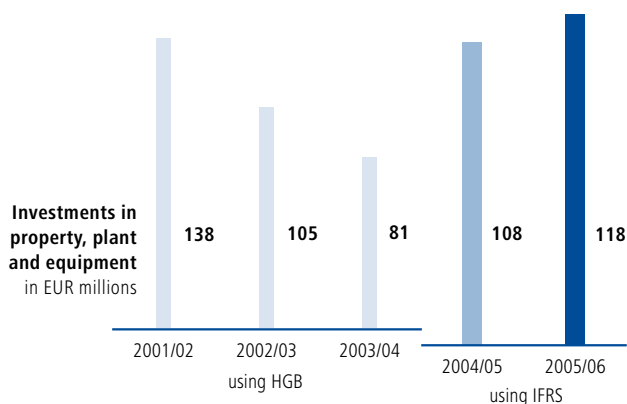
The increase in intangible assets results primarily from the acquisition of the ALIS Corporation, Peabody (MA), USA. In the context of the initial consolidation, goodwill totaling EUR 23 million and other intangible assets to the value of EUR 42 million were recognized in the consolidated balance sheet as from the date of acquisition.

Property, Plant and Equipment

In fiscal year 2005/06, we invested a total of EUR 118 million in property, plant and equipment (last year: EUR 108 million). Depreciation on property, plant and equipment amounted to EUR 99 million (last year: EUR 100 million).

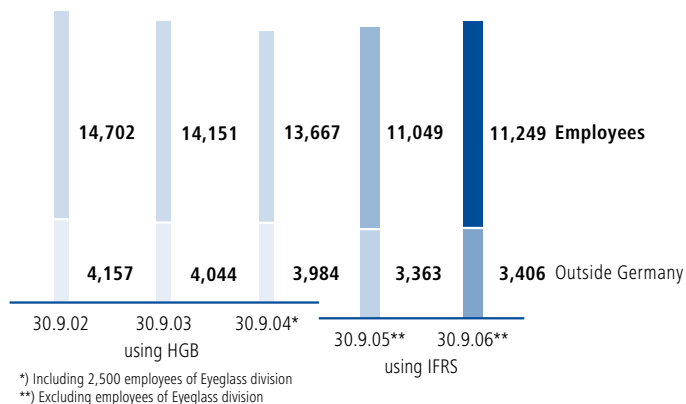
We invested particularly heavily in the Semiconductor Technology Group: in fiscal year 2005/06, the world's most modern development and production center for lithography optics was completed.

In addition to these investments, extensive modernization measures with an overall volume of EUR 24 million were commenced at the Oberkochen site during the reporting year. The work will be finalized in fiscal year 2006/07.



Employees

On September 30, 2006, the Carl Zeiss Group had 11,249 employees (11,049 last year) across the globe, of whom 3,406 (3,363 last year) worked outside Germany. Carl Zeiss recruited new personnel in Germany in particular, and created jobs primarily for highly skilled workers.



*) Including 2,500 employees of Eyeglass division
**) Excluding employees of Eyeglass division

Risk Report

Risk Management at Carl Zeiss

The Carl Zeiss Group systematically records external and internal risks for all business groups and subsidiaries. Their damage potential as well as their likelihood and possible time of occurrence are uniformly evaluated on a cross-group basis.

Risk coordinators in the individual parts of the company ensure uniform reporting. The management of the respective business unit or subsidiary is responsible for the early detection, control and communication of risks.

Risk management is coordinated from corporate headquarters and consolidated at group level. It is an important tool for value and result oriented management. The Executive Board plays an active role in the risk management of the Carl Zeiss Group: it constantly evaluates risks and the suitability of the initiated measures in order to minimize the identified risks.

Identifiable Risks for the Carl Zeiss Group

The situation on the global political stage, major natural disasters, the overall economic trend and the market developments in the various regions of the world can impact the company's prospects of success in many different ways. During the reporting period, a positive development was evident in our international target markets.

Risk: Resources

A high technology group of companies such as Carl Zeiss is particularly dependent on the availability of its IT capacity. The IT division was carved out and transferred to a competent strategic partner in 2004. Carl Zeiss still bears responsibility for the IT strategy and therefore ensures that state-of-the-art IT systems and protective devices are installed and constantly enhanced.

We are currently able to meet our requirements for specialist and management staff. We have expanded our employee development programs in order to further increase our attractiveness as an employer. In addition, our technical ladder offers an attractive career model for R&D employees.

With our consistent supply chain management, we are counteracting the risk posed by supplier dependence and short-term changes on the raw material and energy markets.

Financial Risks

The individual risks for which we are prepared include the trend in the global economy and currency parities. The trend in the exchange rates, in relation to the US dollar and Japanese yen in particular, entails risks. Carl Zeiss Financial Services GmbH conducts hedging transactions in order to ward off these risks.

Risks occurring in the Carl Zeiss Group as a result of interest rate fluctuations are controlled centrally by Carl Zeiss Financial Services GmbH by means of internal regulations and directives. For financial investments and financing procedures, internal stipulations also exist for the implementation of the value-preserving investment strategy. Financial investments are made exclusively in securities with a first-class rating.

Possible risks from acquisitions, investments, strategic alliances and equity interests are checked carefully and systematically beforehand.

In order to guarantee successful integration subsequent to transactions, we have introduced a standardized Mergers & Acquisitions process, notably for the due diligence and post-merger processes. With the acquisition of technology start-ups in particular, future technological developments are only predictable to a limited extent.

*“We act fast
and see changes
as opportunities.”*

From the Carl Zeiss corporate Vision

In fiscal year 2005/06, Carl Zeiss transferred funds totaling approx. EUR 242 million for its pension commitments toward active employees in Germany to a Contractual Trust Arrangement (CTA). The future asset development will be influenced by the trend in the capital markets and interest rates. The company controls value development through a clear investment strategy oriented toward the structure of liabilities and by monitoring asset management through the involvement of an investment committee.

Legal Risks

There are currently no pending litigations that could pose any substantial danger to any area of the company or to the company itself.

Violations of intellectual property and patent rights can jeopardize the technological lead and hence the competitiveness of the Carl Zeiss Group. Carl Zeiss is taking precautions against such risks by implementing an active property right strategy.

Risks for Business Groups

In the past few years, the Semiconductor Technology Group has recorded constant growth. We have succeeded in creating and maintaining a development lead. If a rapid, unexpected change in technology occurs, this could impair growth potential. Business in the Semiconductor Technology Group is subjected to the volatility of the industry. A large proportion of revenues is dependent on one large customer.

The risks for the Medical Systems Group are the possible constraints imposed on service providers in the health care sector which could influence our growth opportunities. The trend toward budget cutbacks is also evident in the fields of research and education, with a resulting impact on the Microscopy Group.

The development of the capital goods industry influences the business of the Industrial Metrology Group. The trend in the automotive and supplier industry is pointing toward the relocation of activities to the Asia region. In addition, there is enormous price pressure in this sector. Investment activity is once again increasing in the automotive and supplier industry. However, this development is not dynamic enough for us to assume a sustained, stable growth trend.

The consolidation of defense technology in Germany and amended procedures for the awarding of government contracts could influence the business of the Optronics division.

The Sports Optics and Camera Lens divisions must continue to adapt to strong price pressure in the consumer area.

In reporting year 2005/2006, we incorporated the Display Technologies division in a new company, in which we have a minority interest of 19.8 percent. With the US electronics specialist Jabil Circuit Inc., we have found a partner whose core competency lies in this market environment which is characterized by very strong competitive pressure.

Overall Risk Situation

Through the measures which we have initiated and planned, no individual risks are discernible that, on the basis of the information currently available to us, could significantly jeopardize the net assets, financial position and results of operations of the Carl Zeiss Group in the near future.

Outlook

Global Economic Expectations

For fiscal year 2006/07, we expect a slight downturn in global economic growth. For the economic trend in the USA, Europe and Japan, we anticipate a slowdown in growth, mirroring the trend in the global economy. An increase in the price of oil, the cool-off in the US economy and the continuing threat of terrorism could negatively influence the trend in the world economy in fiscal year 2006/07.

Market Forecasts

In the Industrial Solutions market segment, we expect further growth at the beginning of fiscal year 2006/07, particularly in the Semiconductor Technology area, followed by uncertainties in the second half of 2007.

We anticipate a modest trend in our business with the most important customers of Industrial Metrology products, the automobile manufacturers, particularly in the USA.

However, growth opportunities are emerging in this industry in Asia in particular.

In the Medical and Research Solutions market, we still foresee cutbacks in the research budgets of government authorities. However, the Microscopy Group predicts a continuation of industry's willingness to invest, particularly in future-oriented technologies such as nanotechnology or genetic technology. The demographic trend will lead to a further increase in demand in the market segment of the Medical Systems Group in the mid-term. The rising expectations of patients on the services provided by doctors and on treatment outcomes offer growth potential for our solutions. In the short term, however, regulatory effects and cost-curbing measures of the service providers may lead to a slowdown in business.

In the area of Lifestyle Products, we expect increasing competitive pressure in the binoculars market. At the same time, we anticipate a positive development in the business with digital SLR cameras and cell phones featuring high quality lenses.

Development of the Carl Zeiss Group

We look with optimism towards the future. For fiscal year 2006/07 and the mid-term, we predict a positive development for the Carl Zeiss Group. To ensure that we can continue to grow more strongly than the market in the future, we are pursuing our goals consistently and systematically. We are placing our trust in the value-oriented development of the Carl Zeiss Group, the expansion of our technology leadership, the strategic enhancement of our portfolio, our strong ZEISS brand and consistent orientation toward the needs of our customers.

*“We find the balance
between short-term and long-term
economic thinking.”*

From the Carl Zeiss corporate Vision

Events after End of Fiscal Year

Change to the Carl Zeiss AG Executive Board

Dr. Norbert Gorny, a Member of the Executive Board of the Carl Zeiss Group since 2001, transferred to Carl Zeiss Vision International GmbH on 1 October 2006. As the President and CEO of this company, he now heads the world's second largest manufacturer of eyeglass lenses. Dr. Hermann Gerlinger was newly appointed to the Carl Zeiss AG Executive Board on 1 October 2006. He has assumed this responsibility in addition to his existing position as President and CEO of Carl Zeiss SMT AG. The Supervisory Board of Carl Zeiss AG voted unanimously in favor of these appointments.

Since 1 October 2006, Dr. Dieter Kurz, President and CEO of Carl Zeiss AG, has been responsible for Industrial Metrology, Consumer Optics, Optronics, Corporate Strategic Development, Corporate Research and Technology, Corporate Communications, Corporate Human Resources, Corporate Auditing and Risk Management, as well as Legal Affairs and Patents.

Since 1 October 2006, Executive Board Member Dr. Michael Kaschke has been responsible for Microscopy, Medical Systems, Corporate Finance, Controlling and Taxes, and Corporate Information Technology.

Since 1 October 2006, Dr. Hermann Gerlinger has been a member of the Carl Zeiss AG Executive Board, responsible for Semiconductor Technology, Quality and Processes, the Service Centers and Corporate Purchasing.

Carl Zeiss Sports Optics – Company Name Echoes Product Brand

Hensoldt AG, Wetzlar, has been operating under the name Carl Zeiss Sports Optics GmbH since 1 October 2006. The products of the optics manufacturer have been sold under the ZEISS brand for many years. With this name change, the Carl Zeiss subsidiary is underscoring its sharp customer focus and harmonizing the image it conveys to the public.

Carl Zeiss Meditec Acquires Carl Zeiss Surgical

Carl Zeiss Meditec has acquired all shares in Carl Zeiss Surgical after the Thuringian Higher Regional Court in Jena overruled – in its resolution of 12 October 2006 – the objections of seven claimants against the resolution of the Gera District Court in the so-called “release procedure”. The implementation of the corresponding capital increase against cash and contribution in kind was entered in the commercial register of Jena Local Court on 26 October 2006. As a result, Carl Zeiss Surgical has been incorporated in the consolidated financial statements of Carl Zeiss Meditec since 1 November 2006.

Changes to Some European Sales Organizations

From 1 October 2006, organizational and structural changes will be implemented in selected European sales companies in order to support the course to further growth pursued by the Carl Zeiss Group. To achieve this goal, profit centers will be made legally independent and integrated into the respective business groups.

The new structure is the consistent continuation of the organizational enhancement of the Carl Zeiss Group commenced some years ago. The transfer of distribution activities to the business groups will strengthen their entrepreneurial responsibility and expand them into full-scale companies in their own right. This will enable more effective business processes aimed at meeting customer requirements even more successfully in the future.

Prontor GmbH Sold

On 1 December 2006, Carl Zeiss sold Prontor GmbH in Bad Wildbad-Calmbach to Munich-based VTC Industrieholding. The Carl Zeiss Group will continue to have access to the precision engineering and assembly know-how of Prontor GmbH in the future; the supplier relationships will remain intact. The VTC Group provides Prontor GmbH with access to new markets, customers and technologies – and therefore new growth opportunities. VTC Industrieholding has absorbed all 270 employees of Prontor GmbH. The Supervisory and Executive Boards of Carl Zeiss AG and the shareholders of VTC Industrieholding have already approved the acquisition.

Complete Acquisition of IOLTECH

Effective 15 November 2006, Carl Zeiss Meditec acquired 100 % of the shares in IOLTECH S.A., La Rochelle (France). In July 2006, the remaining minority shareholders were excluded by way of a squeeze-out in return for cash compensation after the required shareholding threshold of 95 percent was exceeded. Also effective 15 November 2006, IOLTECH S.A. was delisted from Section C of the Paris Stock Exchange.

The effects of these events on the net assets, financial position and results of operations of the Carl Zeiss Group after the balance sheet date are explained in the Notes to the Consolidated Financial Statements.

What Our Customers want

Carl Zeiss maintains close contact with its customers around the world. The majority of its products and services are marketed by the company's own direct sales force which employs 1,900 people – a good 17 percent of total manpower. This demonstrates that, here once again, the company attaches prime importance to customer orientation.

However, this is not limited to sales. All areas of Carl Zeiss – from production to the Executive Board – focus their attention on the customer. At an international executive forum in Munich, more than 320 top managers took a very practical approach to the subject: in 42 teams, they set out to visit and survey customers in an around Munich. The following article provides an insight into the results.



“Hi. I’m Marc Shipman-Mueller and I love my job”, boasted the ARRI product manager for movie cameras and lenses as he greeted seven Carl Zeiss executives. Headquartered in Munich, ARRI – Arnold & Richter Cine Technik – is a traditional company with many enthusiastic customers around the world. ARRI’s business is professional movie cameras, lighting equipment and systems for projection and film editing. ARRI is virtually a must if you want to produce top-quality movies.

The greeting from Marc Shipman-Mueller made it clear what awaited the guests: ARRI employees who pour their heart and soul into their jobs. They demand the very best from their own products and their suppliers, and Carl Zeiss is one of their most important.

ARRI did not receive the Zeiss employees just anywhere; they were taken to the most “sacred” of all places in the company – the color-grading room. This room is usually rented by such directors as Tom Tykwer (“Perfume”, “Run Lola Run”) or Kevin Reynolds (“Tristan and Isolde”, “Waterworld”, “Robin Hood”) to put the finishing touches on their masterpieces. Carl Zeiss

Dr. Rolf Slatter, Head of Marketing and Sales at ARRI, would like to strengthen the joint marketing activities of the two companies.





◀ *Carl Zeiss executives wanted to hear, on-site, from their customers – in this case, ARRI, the specialist for movie cameras and lighting equipment – what is going well and what needs to improve.*

executives from India, Australia, France, the USA and Germany were given a rare opportunity to set foot on the hallowed grounds. Managers and specialists from the company that specializes in optics made their way to the site in Munich to meet directly with ARRI President Franz Krauss, Marketing and Sales Manager Dr. Rolf Slatter, Financial Controller of the Camera Division Gregor Vollath and Product Manager Marc Shipman-Mueller, and to find out what ARRI sees as Carl Zeiss' strengths and where there is room for improvement.

ARRI enjoys a legendary reputation in the world of camera crews and production specialists. Well-known box-office hits such as "The Lord of the Rings", "Harry Potter", "King Kong", "Brokeback Mountain" and, most recently, "Perfume" were filmed using ARRI cameras with ZEISS lenses. Munich is home to part of the development area, design and final production. Founded in 1917, the company is represented at every important film location in the world.

While the seven sat in the color-grading room, almost 320 executives from the optics company were on their way to visit 41 additional customers in and around Munich,

including well-known carmakers, Max Planck Institutes, hospitals, and independent optometrists. The Oberkochen-based enterprise uses its annual executive forum not only to discuss theories on customer orientation, but also to make the subject something that can be actively experienced in practice.

How did the idea of visiting customers come about in the first place? Customers from all business units were contacted and requested to receive a ZEISS team. The suggestion was met with great approval – successful businesses know that dialog between both parties is an absolute must for good customer relations.

▼ *Product Manager Marc Shipman-Mueller (center) explained that Steven Spielberg also enjoys working with ARRI cameras featuring ZEISS lenses.*



► More than 50 measuring machines from Carl Zeiss are in operation at Audi in Ingolstadt, explains Hans-Martin Biedenbach (second from left), Metrology Manager at Audi.



Each team was given a questionnaire which requested specific suggestions for improvement. The report received from Group 32 – the ARRI visitors – features talks on service and joint marketing activities.

ARRI proved to be satisfied with the quality of the company's products, their good relationships with Carl Zeiss staff and the understanding shown for their processes and applications.

This opinion was shared by the other businesses visited. The ZEISS brand also received high marks. Many customers use the excellent reputation of the brand for their own marketing purposes.

ZEISS employees wanted to find out on site where the company must improve. At the top of the wish list was more active communication about new products and services. Customers are not always happy with accessibility and reaction times. Customers stated that tailor-made, total solutions and the user friendliness of the products, primarily the interface to the user, are important.

Several points are listed later in the report from Dr. Rainer Ohnheiser. He is responsible for Industrial Metrology at Carl Zeiss. The President and CEO of the Carl Zeiss metrology subsidiary is always in his element when he is visiting customers whom he always treats with his own, very special mixture of respect and cordiality. His arrival at Audi in Ingolstadt with seven colleagues was no different.

The people from Zeiss received a warm welcome from Hans-Martin Biedenbach, who is responsible for more than 50 measuring machines from Carl Zeiss in his capacity as Manager of Metrology for Systems and Development at Audi. Biedenbach had a lot to tell. He made it clear that "a product launch would not be possible at Audi without your measuring machines." Audi and Carl Zeiss work closely together, something that requires mutual trust. "We need a reliable partner who is focused on the long-term – and that is precisely





◀ *Close and trusting, says Audi Manager Biedenbach (third from right) describing the relationship with partner and supplier Carl Zeiss.*

what we have in Carl Zeiss”, emphasizes Biedenbach. The contact with the key account is so intensive that information is exchanged right at the planning phase of projects.

The same holds true at ARRI. Current developments are discussed in a telephone conference between Munich and Oberkochen at least once per week. However, ARRI wants more. Shipman-Mueller would like to see “closer cooperation on the part of Carl Zeiss in mutual marketing activities.” This is the only way to fend off the challenge of competitors located directly in Hollywood. This wish has found an attentive ear. Dr. Winfried Scherle, Vice President and General Manager of the Camera Lens Division, has already scheduled a meeting in the near future, in which he will discuss how Carl Zeiss and ARRI can together ensure that directors such as Tom Tykwer, Peter Jackson, Ang Lee and others continue to use ARRI cameras with ZEISS lenses.

After a good hour, Rainer Ohnheiser and his team also knew where the deficits are. Measures were discussed during the hour-long trip back to their hotel in Munich. All team members, including those from completely different product areas, learned a lot while visiting the customer.

Some time later, all Carl Zeiss executives gathered again at the hotel. The noise level increased with each returning group. What followed was a rare, lively discussion with anyone and everyone. Several weeks later, you can still hear “and what customer did you visit?” in the hallways and meeting rooms of Carl Zeiss in Oberkochen, Jena, Singapore and Thornwood.



“Customer orientation is the key to all our activities.”

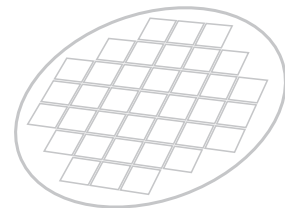
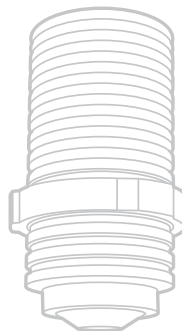
From the Carl Zeiss corporate Vision

Enjoy Performance

Read your email in New York before your flight. Surf the Internet the same night in Tokyo. Modern communication media give us this freedom. Small microchips and processors are the basis of all the instruments that make our work and leisure time more comfortable and ensure our independence.

Carl Zeiss plays a key role in making microchips increasingly smaller and more powerful: high-resolution optical systems are used in the fabrication of chips. With innovative enhancements, we make it possible to image ever finer structures on microchips – for more performance for you to enjoy.

Semiconductor Technology





Semiconductor Technology Group



The Semiconductor Technology Group, which operates as Carl Zeiss SMT AG, generated revenues of EUR 864 million (last year: EUR 658 million). This represents the strongest growth recorded within the Carl Zeiss Group. The new Carl Zeiss SMT factory was completed at the end of the 2005/06 fiscal year. It is the world's most advanced lithography optics development and production center.

Strong Revenue Growth – More Employees

Revenues at Carl Zeiss SMT AG rose by 31 percent over the year before. Incoming orders also showed a very positive trend and are almost 40 percent above the previous year's figure.

All four divisions at Carl Zeiss SMT contributed to this growth. The lithography optics business posted a particularly strong increase. Carl Zeiss successfully increased its technology leadership in this area. Together with its strategic partner and customer ASML in Veldhoven, the Netherlands, the company expanded its global market leadership in wafer scanners.

During fiscal year 2005/06, Carl Zeiss SMT created more than 220 new jobs in Germany which were primarily filled by highly skilled employees. With this move, Carl Zeiss SMT is underlining its confidence in Germany as a high-tech industrial location.

Immersion Optics – Technological Lead

During the reporting year, the Lithography Optics Division achieved additional advancements in the innovative field of immersion lithography with its *Starlith® 1700i* immersion lens, moving Carl Zeiss SMT further ahead of the competition.

This technology, in which a liquid is placed between the last lens element and the wafer, enables imaging of tiny structures as small as

► *Precision down to the last detail: the mechanical parts of the Starlith® lithography optics also demand high design efforts.*





45 nanometers. This corresponds to a performance increase of approximately 30 percent over preceding systems.

Furthermore, the immersion liquid alters the light flow, thus creating greater depth of field. This facilitates sub-processes and increases yield during chip fabrication.

Outstanding Cooperation

The good cooperation with our partner ASML was emphasized by the European SEMI Award. Two executives from Carl Zeiss SMT and ASML jointly received this renowned award in April 2006. The award jury honored their outstanding performance in semiconductor technology, microsystems and display technology. The award is presented by SEMI Europe, the international association of equipment manufacturers for the semiconductor industry.

Technology of Tomorrow

The microchip business is driven by the continuous trend in consumer electronics, resulting in increased demand for ever more powerful microchips featuring ever smaller structures.

Carl Zeiss SMT and its strategic partner, ASML, are prepared for this development: during the reporting year, Carl Zeiss SMT delivered the first two lenses for extreme ultraviolet lithography (EUVL) to ASML. This technology is the next-but-one lithography generation and will enable microchips with structures smaller than 32 nanometers. With EUV lithography, Carl Zeiss SMT and ASML are implementing the technology generation for microchip fabrication of the future.

“Carl Zeiss SMT has assembled a world-class dedicated team that has achieved an incredible engineering accomplishment with the Starlith 1700i 1.2NA lens. This new and revolutionary lens technology will transform the landscape of semiconductor manufacturing at the leading edge in the next few years”.

Dr. Eli Harari, CEO of SanDisk, Milpitas, in California, USA

▲ *The purity principle: all assembly and inspection steps require precisely defined climate conditions and clean room technology.*



◀ *Successful combination: NVision 40 unites electron-beam observation and ion-beam manipulation for inspections in semiconductor technology, materials research and nanotechnology.*

Making Even the Smallest Structures Visible

The Nano Technology Systems Division (NTS), which specializes in the imaging and analysis of even the tiniest structures and specimens, was strengthened during the reporting year through the acquisition of the ALIS Corporation in Peabody, Massachusetts (USA).

ALIS developed helium-ion microscopy which provides even higher resolution and contrast than existing technologies. This further enhances the technology portfolio of the Nano Technology Systems Division.

In order to strengthen its presence in Japan, the division signed an agreement with Tokyo-based SII NanoTechnology Inc., a subsidiary of Seiko Instruments, in March 2006. The goal of the strategic partnership is to provide mutual support in the sales, service and application of electron and ion-beam systems. Additionally, the two companies are jointly developing new solutions for nanotechnology, in particular to inspect the manufacturing process in semiconductor production. Two jointly developed systems, the *NVision 40* and the *XVision 300* were already introduced during the reporting period.

During the fiscal year, Carl Zeiss Nano Technology Systems received the Top 100 Innovators Award presented by the Vienna University of Economics and Business Administration which assesses the innovation management of mid-sized companies in Germany.

Analysis and Repair of Lithography Masks

The *AIMS™* and *MeRIT™* systems of the Semiconductor Metrology Systems Division (SMS) work together hand in hand for the analysis and repair of defects on lithography masks. Customers receive a self-contained system solution for this key means of production in chip fabrication.

AIMS systems check mask defects for their effects on the lithography process. *MeRIT* is the first electron beam-based repair system for lithography masks. It was jointly developed with the partner company NaWoTec, Rossdorf (Germany), which was acquired by Carl Zeiss SMT in July 2005.

The introduction of the latest addition to the *AIMS* family, the *AIMS 45-193i*, was very successful. This system reflects the development of optical lithography and allows the



◀ *The first: AIMS 45-193i is the world's first inspection system for checking masks in immersion lithography.*

review of mask defects under production conditions present until the next technology step in the so-called 45 nanometer node is reached.

With *MeRIT* and the AIMS analysis system for mask defects, Carl Zeiss Semiconductor Metrology Systems offers a unique system solution for mask repair.

Precision and Durability

The Laser Optics Division also had a successful fiscal year 2005/06. The division delivers components for lasers used as a light source in lithography. These products from Carl Zeiss SMT stand for maximum precision and durability.

Carl Zeiss SMT defended its market position in the field of laser optics during the reporting year. A healthy volume of business was also reported for the optics used in automated wafer inspection.

Innovation – the Key to Success

The innovative power of Carl Zeiss SMT is the key to success: the company is known, above all, for its ability to turn innovations very quickly into marketable products. Just as important is its flexibility in adapting to new market conditions and customer demands, as well as the high quality of its products.

During the reporting year, the Semiconductor Metrology Systems Group won three of the six Carl Zeiss Innovation Awards which are presented annually. In fiscal year 2005/06, Carl Zeiss SMT took home prizes for its projects in the Leading Edge Technology, Innovative Business Design and High-risk Project categories.

World's Most Advanced Factory

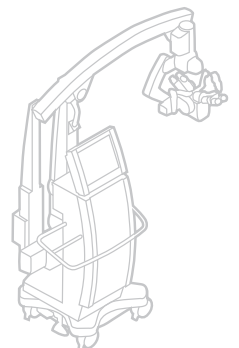
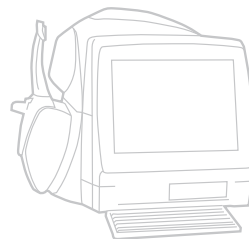
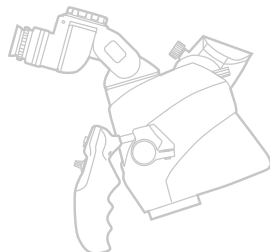
The new Carl Zeiss SMT factory was completed and officially opened at the end of the 2005/06 fiscal year. The new facility sets new standards: it is the world's most advanced production and development center for lithography optics. More than 1,400 employees work there on innovative technologies for the future.

Feel Safe

Feeling safe before, during and after a demanding treatment is a good feeling. In order to achieve an optimal outcome, doctors must be able to rely on their teams – and their instruments. Only when everything is in place can they concentrate on what really counts: helping their patients.

The products from the Medical Systems Group are totally reliable aids for neurosurgery, ENT surgery and ophthalmology. The blue ZEISS logo delivers what it promises: innovative technology, high quality and convenience. For more efficiency – and safety.

Medical Systems





Medical System Group



*The Medical Systems Group serves a market with attractive global growth rates. Thanks to an innovative product portfolio, the company once again increased revenues and earnings in this environment during fiscal year 2005/06. Sales revenues reached EUR 631 million**, corresponding to a 14 percent increase over last year (EUR 552 million). Earnings once again clearly surpassed the good figure of the year before. The most important milestone during the reporting period was the bundling of the group's activities under the roof of Carl Zeiss Meditec AG.*

Activities Merged

The merger of Carl Zeiss Surgical* with Carl Zeiss Meditec AG in Jena was a decisive strategic step. This resulted in an integrated MedTech company that is ideally poised to further expand its already outstanding market position, particularly in its core areas of ophthalmology, neurosurgery and ENT surgery.

Growth outside Germany

The business outside Germany once again provided growth momentum for the Medical Systems Group during the reporting year. Revenue growth reflects the economic development of the markets: the USA, followed by Asian countries, was once again the motor of growth for the global economy during the reporting year. The economic trend in the USA was a major contributor to revenue growth in ophthalmology. An extremely positive development was also evident in the group's business in most Asian markets.

Attractive Market

The market for medical devices is marked by attractive growth. The global population is continuing to increase, and with it, the percentage of elderly people. As the frequency of diseases rises with increasing age, the need for diagnostic and treatment products in ophthalmology, as well as neuro/ENT surgery will continue to climb. An additional driver of growth on the MedTech market is the growing economic power of newly industrializing countries.

In developed markets, budget restrictions in healthcare are leading to the need for more efficiency in medical treatments, thus increasing the demand for medical devices and systems that enable more efficient diagnosis and more effective treatment. With its products, the Medical Systems Group is very well positioned to meet this requirement.

*Comprising Carl Zeiss Surgical GmbH in Oberkochen, Germany, and Carl Zeiss Surgical Inc. in Dublin (USA)

**The figures deviate from the published figures of Carl Zeiss Meditec AG as a result of different consolidation models.



◀ *Everything in view: the new XL Stabi ZO and Invent ZO aspheric intraocular lenses enable patients to see more clearly with better imaging quality and improved contrast following a cataract operation.*

Innovations for Ophthalmology

The group continued its profitable course of growth with instruments and systems, as well as implants and consumables for ophthalmology. The global presence and innovative product portfolio provided the foundation for the outstanding development in revenues and earnings.

The established *IOL Master*[®], *STRATUS OCT*[™], the *Humphrey*[®] *Field Analyzer* systems and the *VISUCAM*[™] *Pro*^{MM} fundus imaging camera, which was introduced at the beginning of the fiscal year, contributed to the positive development in revenues. *Visante*[™] *OCT* for imaging diagnostics of the anterior segment of the eye, which was launched at the end of 2005, was also a contributor to revenue growth.

▲ *Success after success: the IOLMaster[®] examination instruments are among the most important sources of revenues in ophthalmology.*

Success in Lasers and Surgery

Business with medical lasers was once again positive; demand was particularly high for the *MEL 80*[™] refractive laser for the treatment of impaired vision in Asia, and the *VISULAS*[™] *532s* for diseases of the retina in the USA. The *OPMI*[®] *VISU 210* surgical microscope, which is used for ophthalmic procedures, was also a mainstay of business. It meets surgeons' requirements for flexibility of use and offers new functions to improve depth of field, resolution and contrast.

“We’ve been using the Visante OCT in our refractive practice for a year now – it very quickly became an indispensable part of our routine pre and post-operative tests. It provides clinically relevant data which we never had access to before.”

Jon G. Dishler, MD. Greenwood Village, Colorado, USA



◀ Practice for professionals: top specialists share their knowledge in workshops – for spinal surgery, for example, with Dr. Andreas Korge, for example, with Dr. Andreas Korge and Prof. Dr. H. Michael Mayer (photo left, from left) from the Orthozentrum in Munich.

The business group is further expanding its presence in the field of ophthalmology, particularly the surgical treatment of cataract. Two new intraocular lenses were launched during the fiscal year. The two implants, *XL Stabi*® and *Invent ZO*®, feature high image quality, improved visual contrast in poor light and a reduction of aberrations.

Neuro/ENT Surgery

Business with surgical systems has also continued its positive trend. The main source of revenues during the reporting year was the *OPMI*® *Pentero* visualization system. *OPMI Pentero* is a unique surgical microscope system for neurosurgery and spine surgery for the precise visualization of diseased tissue structures such as brain tumors and vascular diseases. Its range of functions and applications has been enhanced through a series of unique technologies, including *BLUE 400* for fluorescence diagnostics and *INFRARED 800* which was launched during fiscal year 2005/06. Through the display of blood

▶ Customized: each *OPMI*® *Pico* surgical microscope is tailored to customer specifications.



- *Adjustable: thanks to easily exchangeable modules, surgical instruments from Carl Zeiss can be configured to the area of application and requirements of the surgeon.*



circulation in tissue using a fluorescent agent, the system can clearly improve the treatment outcome.

An additional innovation is the integration of *OPMI Pentero* into existing hospital networks, making it possible to seamlessly transfer diagnostic data to these networks in the future.

Developments for More Efficiency

In the future, the research and development activities of the Medical Systems Group will continue to focus on product innovations that enable our customers, the service providers in the healthcare sector, to increase their efficiency and enable constant improvements in treatment outcomes.

Building on a joint technology platform, the merging of Carl Zeiss Meditec and Carl Zeiss Surgical permits the realization of additional competitive advantages, e.g. in digital visualization, intraoperative diagnostics, networking and certain measurement and archiving functions.

Focused on Growth

The group also aims to continue its current course of profitable growth in the future, to strengthen its market position in comparison to its competitors and to increase its attractiveness as a partner for its customers and possible alliances. The key elements of this strategy are the ongoing expansion of the product portfolio, growth through expansion in the market segments in which the group is already successful and entry into related areas.

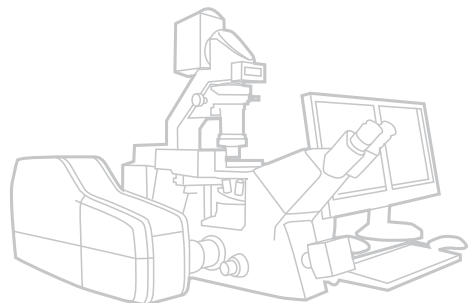
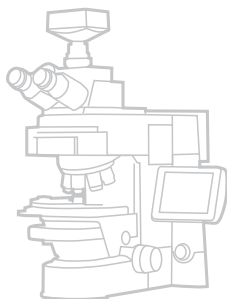
Additionally, an important goal is to increase efficiency – primarily in research and development, sales and service – through the integration of Carl Zeiss Surgical into Carl Zeiss Meditec.

Stay Healthy

Modern medicines help many people stay healthy. Scientists around the globe are conducting research to develop new agents and new areas of application for drugs. For example, biomedical and pharmaceutical research is examining reactions in living cells and the influence of genetic makeup on

the preservation of health. This is supported by powerful microscope systems and software solutions from Carl Zeiss. ZEISS light microscopes provide researchers with new insights and therefore play an important role in helping to maintain health.

Microscopy





Microscopy Group



The Microscopy Business Group completed fiscal year 2005/06 with high growth rates in both revenues and incoming orders. Sales revenues rose to EUR 340 million (last year: EUR 299 million). Incoming orders also increased over last year.

Acting Flexibly

Headquartered in Jena, the group has operated as Carl Zeiss MicroImaging GmbH since March 1, 2006. The wholly owned subsidiary of Carl Zeiss AG also includes the Göttingen plant and two consolidated companies – Carl Zeiss Imaging Solutions GmbH in Hallbergmoos and P.A.L.M. Microlaser Technologies GmbH in Bernried.

The new organization enables the Microscopy Group to better react to the demands of its three dynamic market segments of research, industry and healthcare.

During fiscal year 2005/06, the group also expanded its distribution network. Carl Zeiss MicroImaging now also has sales organizations in Spain and Norway in order to provide better customer care and support.

Double-digit Revenue Growth

The Microscopy Group was very successful in FY 2005/06: sales rose by 14 percent and incoming orders increased by eight percent.

Enhancing the Competitive Position

The group operates in a very attractive and dynamic market environment marked by intensive competition. Carl Zeiss MicroImaging successfully maintained and expanded its leading position during the reporting fiscal year.

Carl Zeiss MicroImaging also optimized its global production, procurement and logistics network during fiscal year 2005/06, allowing it to further strengthen its good international competitive position. This enabled the group to once again improve its cost position.

The Right Microscope for Every Application

During the reporting year, Carl Zeiss MicroImaging further expanded its position as the global market and technology leader in microscopes for biomedical research. In doing so, it systematically pursued its strategy and took additional steps towards becoming a one-stop provider: the product range extends from traditional light and stereo microscopes to laser scanning systems and automated systems. With this product spectrum, Carl Zeiss offers the right microscope for every application.

Product Innovations

Innovative analysis and documentation systems enabled the business group to strengthen its position on the materials analysis market, thus enhancing the company's ability to address customer requirements in the industry.

The *Particle Analyzer* permits the precise analysis of large samples with microscopic accuracy in industrial quality assurance, the documentation of damage and also a wide range of biomedical applications. The automotive industry, for example, uses this system to inspect the technical purity of filter membranes.

The business group presented a new generation of training microscopes for universities and schools during the reporting year: *Primo Star*[®]. The instruments are easy to use and feature a very good price-performance ratio.

▼ *Bright and well-organized: state-of-the-art production sites – such as the microscope factory in Göttingen – are vital to competitiveness and outstanding quality.*



▲ *Learning by looking: the Primo Star[®] training and laboratory microscope is an attractive and powerful instrument for educational purposes.*

Users in pharmaceutical research and medical diagnostics increasingly expect integrated total solutions that automate workflows and thus help increase the reliability of results and lab productivity. The *MIRAX*[®] Scan system can automatically capture and save histological sections digitally as virtual slides.

This enables a direct comparison of different specimens next to each other on the computer screen and also makes it easier to obtain an expert second opinion via the Internet. At the same time, this new technology lays the foundation for future developments in computer-supported diagnostics in pathology.

“I have used the MIRAX[®] DESK system almost daily since it has been in our institute. Scanning slides is so easy. I use the virtual slides for my lectures and for communication with colleagues.”

Prof. Dr. Joachim Diebold, Pathological Institute at the Ludwig Maximilians University Munich, Germany



▲ *The test of tests: all systems – different versions of the Axio Observer, in this case – undergo comprehensive mechanical and optical testing before they are configured according to customer specifications.*

Powerful Software

The business with software for the analysis and management of digital image data has become more important. Carl Zeiss MicroImaging has played a pioneering role in this segment for years. For example, the *Axio Observer® HS* makes it possible to track and analyze dynamic processes in real time and thus gain new insights into the function of living organisms. Up to 300 images are generated per second. This application is based on the powerful *AxioVision®* software that very quickly captures and processes microscopic measurements.

Relationships Established

The Spectral Sensors business developed very well during the reporting year, with many strategic relationships being established in the glass, agricultural, food and pharmaceutical industries.

Wireless communications company Vodafone presented the new biozoom diagnostic device at the 2006 CeBit for mobile, health-conscious customers. The centerpiece of the system is a spectrometer developed by Carl Zeiss MicroIm-

aging featuring special optical properties that make it possible to determine a user's physical fitness. Users send their measured data to an analysis server via their cell phone. Specific biometric values are determined there and the evaluation is sent back to the user.

Exchange of Know-how Generates New Momentum

The microscopy area has also once again registered its own property rights and acquired patent licenses during the fiscal year in order to further expand its technology leadership for the benefit of its customers. At the same time, Carl Zeiss MicroImaging transferred its own know-how to third parties in the form of licenses during fiscal 2005/06.

Carl Zeiss MicroImaging works together with strategic partners that supplement the products and developments of the business group with their research projects and technologies. Examples of successful alliances include Cellomics in Pittsburgh, Pennsylvania (USA), and 3DHitech in Budapest (Hungary).

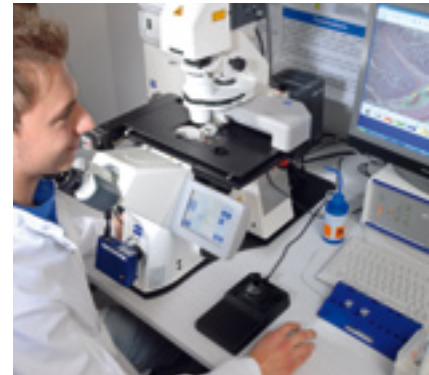
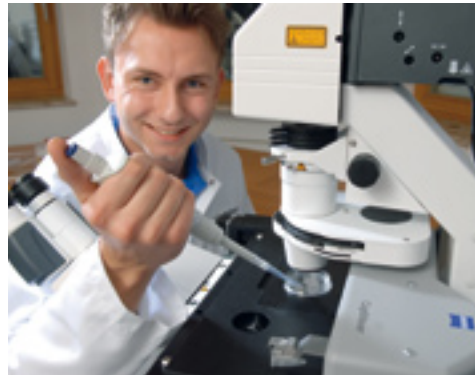
Fifth Consecutive R&D Award

During 2006, the business group once again received the renowned R&D 100 Award. The *LSM 5 Duo* laser scanning microscope for biomedical research was honored, marking the fifth consecutive year that Carl Zeiss Microscopy has received this award. The award for the globe's 100 most innovative products is presented annually by US research magazine, "R&D Magazine".

Innovative Peak Performers

P.A.L.M. Microlaser Technologies GmbH in Bernried (Germany) – a 100 percent subsidiary of Carl Zeiss MicroImaging GmbH – is one of the most innovative peak performers in the Microscopy Group.

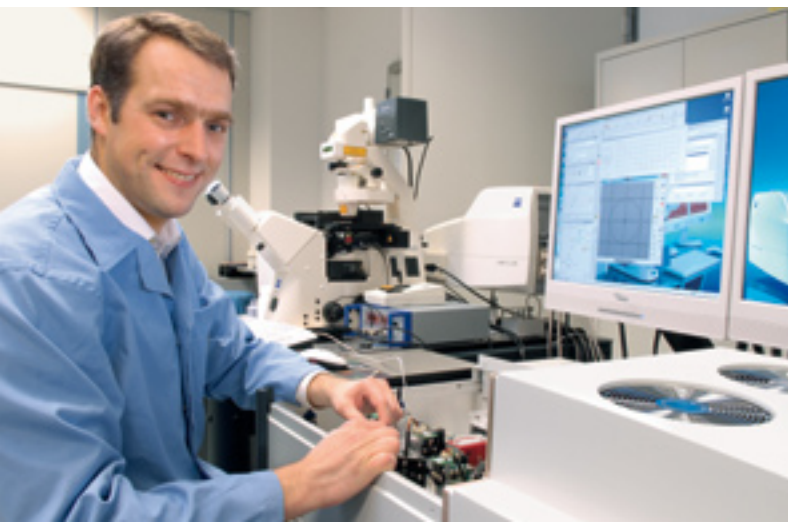
Many biological issues require the contamination-free isolation of single cells or cell components from tissue. One example is the isolation of tumor cells from a biopsy. This can be accomplished without touching the specimen by using Laser Microdissection and Pressure Catapulting (*LMPC*) technology. Specimens obtained in this way can be used for advanced molecular examinations, permitting, for example, a better understand-



▲ *Cell by cell: the MicroBeam micro dissection system from subsidiary P.A.L.M. for the contamination-free extraction of individual cells or cell components from tissue.*

ing of genetic influences on the growth of tumor cells. P.A.L.M. Microlaser Technologies received the 2006 Berthold Leibinger Innovation Award for the development of the Laser Micro-dissection and Pressure Catapulting technique.

Additionally, a team from P.A.L.M. Microlaser Technologies was nominated for the 2006 German Future Award from the German President. This prize, for which a team from Carl Zeiss MicroImaging was also nominated in 2004, is one of the most important technology awards in Germany.



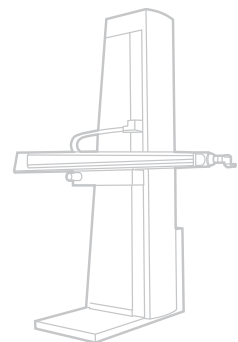
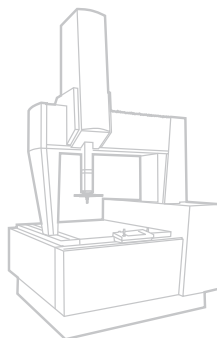
◀ *Perfect interaction: system integration know-how is a key to the success of complex microscope systems such as the LSM 5 Live laser scanning microscope.*

Feel the Precision

A good flight and safe landing, and you're already looking forward to the next trip: everything must work smoothly to ensure that you have a good feeling when you leave the plane – the technology, the workmanship and the maintenance of the aircraft. When everything is in sync, it fosters a feeling of trust and security.

Many companies in the aerospace industry rely on products, services and software solutions from Carl Zeiss: from development and production to quality assurance, industrial metrology from Carl Zeiss makes it possible to meet the maximum standards on quality required in the aerospace industry. Precision you can feel.

Industrial Metrology





Industrial Metrology Group



The Industrial Metrology Group generated revenues of EUR 278 million during fiscal year 2005/06 (last year: EUR 247 million). The services and software solutions, in particular, were main contributors to this success. Earnings rose despite high investments in the development of new products. With Metrotomography®, the business group opened a new chapter in industrial metrology.

Increased Revenues – Improved Result

Overall, Carl Zeiss Industrielle Messtechnik GmbH increased its revenues by 13 percent during fiscal year 2005/06. The operating result was further strengthened despite high investments in research and development.

The order books are filled: the business group registered seven percent more incoming orders compared to the previous year. An upswing was evident in European markets, particularly in the second half of the fiscal year. The business group also performed very successfully outside Europe: the most important Asian and American markets posted clear revenue growth.

Among users of metrology systems, the automotive industry recorded a modest development. Here, there was a stronger shift in business towards the supplier industry. The current trend in the trade is to move production to low-wage countries. Sales of measuring systems for car body measurements therefore declined slightly in accordance with the market conditions. However, a very favorable development was recorded in business with large machines for the mechanical engineering and aerospace industries.

► *A new chapter in metrology: The METROTOM® measuring system unites metrology and computed tomography.*





Product Portfolio Expanded

Carl Zeiss Industrial Metrology expanded its product portfolio during the fiscal year. The service offering was enhanced in addition to the introduction of new products in the field of bridge-type measuring machines: business with customized maintenance strategies increased.

The group also recorded strong demand in application services which include training courses, programming and contract measurements in decentralized measuring centers.

Business with software solutions and maintenance contracts also grew during the reporting year.

New Era in Measuring Technology

Carl Zeiss has opened a new chapter in measuring technology: metrotomography. The fusion of metrology and computed tomography creates a new market segment and ideally supplements traditional coordinate metrology. The *METROTOM*[®] computer tomograph uses

x-rays to show what is hidden to traditional 3D metrology: the instrument can measure the interior and exterior of workpieces.

Metrotomography can be used for assembly checks, damage analyses and material testing. Manufacturers of complex molded plastic or cast parts, in particular, can thus achieve new standards of quality. In the past, computed tomography was used solely to detect defects. *METROTOM*, however, sets new standards and delivers highly accurate measuring results.

This new technology has been very well received in the market: Carl Zeiss has already sold several systems. The business group is also very successfully offering its customers contract measurements using the *METROTOM* system.

“3D metrology has entered a new era. METROTOM is simply the ideal solution when it comes to inspecting complex interior geometries or surfaces.”

Roger Eggenberger, President of Metris AG in Switzerland

▲ *Precision: METROTOM shows what remains hidden to 3D metrology – x-rays measure the interior and exterior of workpieces.*



◀ *Flexibility: the CONTURA® G2 platform is available with different measuring sensors and can be used for a variety of applications.*

▼ *Quality: the CONTURA G2 is manufactured using uniform quality standards at all of the Industrial Metrology Group's major production sites in America, Asia and Europe.*

Industrial Metrology around the World

The Industrial Metrology business group has a global focus with production sites and sales locations in Europe, the USA and Asia. The group is thus positioned near its customers, enabling it to very quickly fulfill their wishes and meet their requirements.

Carl Zeiss Industrial Metrology expanded its global supplier network during the fiscal year. This network supplies all of the group's production sites around the globe with uniform components, thus enabling the group to increase its efficiency and ensure that all its products meet the same international quality standards.

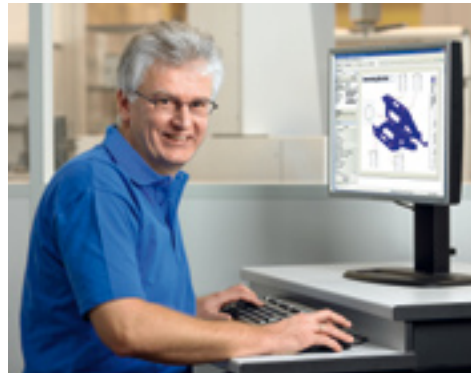
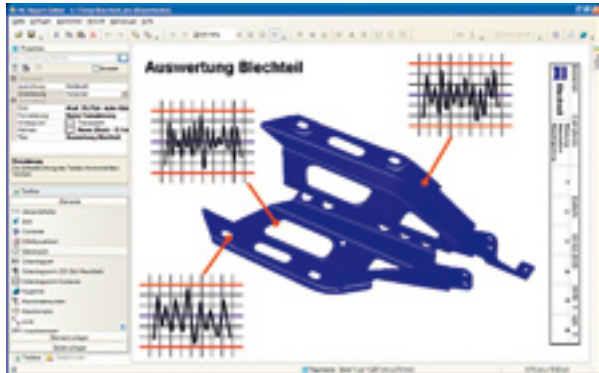
The new *CONTURA® G2* measuring machine was simultaneously launched in the important markets of Asia, Europe and America during the reporting year. This bridge-type measuring machine is the first to be produced at all Industrial Metrology production sites in Asia, Europe and America at the same time using uniform quality standards.

More Flexibility for Our Customers

Customers can optimally match the *CONTURA G2* to their measuring tasks: the machine platform is available with various measuring sensors for a variety of requirements.

Carl Zeiss Industrial Metrology is trading new territory with financing models such as that offered for *CONTURA G2*. For example, customers can select the "Pay per Use" option in which they receive a *CONTURA G2* system for 12 months and must only pay an actual usage fee.





◀ *Quality in real time: πWeb® software continuously compares measured data from ongoing production with specified tolerances.*

The no-risk purchase option is unusual in the industry. Carl Zeiss grants a right of return and refunds the full purchase price. This is ideal for new customers who want to begin using this technology. It gives them a risk-free opportunity to test the benefit and quality of our products.

Real-time Quality Management

Our contract programming and numerous software solutions for our measuring machines help our customers to be successful in their business.

Total software solutions, such as πWeb® (“Pi-Web”), from Carl Zeiss Industrielle Messtechnik GmbH enable real-time quality management of all processes: the software covers the entire quality assurance process. πWeb continuously compares the current measured data with the specified tolerances, thereby monitoring and documenting the whole production process.

F25: Awards for Design and Sensors

The F25 measuring machine for micro-system technology received two awards during the reporting period: we received the globally renowned “2006 iF Product Design Award” for the design of the system and the “2006 Sensor Innovation Award” – an important industry award – for the sensor system.

Outstanding Strategy Process

The Industrial Metrology Group is systematically pursuing its growth strategy, focusing on quality, performance and technology in the process. For our strategic planning, we continuously analyze customer and supplier needs, the technological and social environment of the market, and the competition. We derive key industry trends from this information, which we use to orient our business activities.

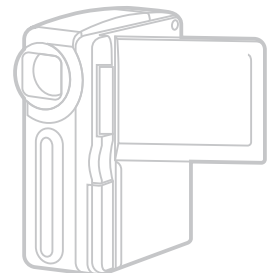
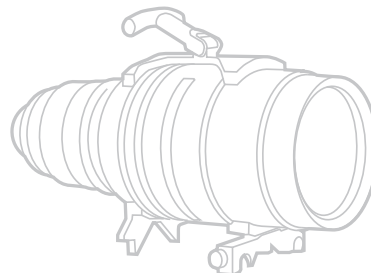
This process was honored with the “Mechanical Engineering Strategy Award” as the best strategy process during the reporting year. The award was presented at the 1st “German Mechanical Engineering Summit” in Berlin.

Seize the Moment

Have fun – enjoy and record the perfect moment: with a camera phone. Ensuring that the result is as perfect as the scenery requires powerful and robust camera optics – from Carl Zeiss. Many customers around the world place their trust in the quality of ZEISS when it

comes to camera lenses. This is not without reason: our brand delivers on its promise – perfect imaging without compromise. This is true not only of digital or analog still and movie cameras, but also of spotting scopes, binoculars and planetarium technology.

Opto-electronic Systems





Opto-electronic Systems Group



The Opto-electronic Systems Group generated a total of EUR 234 million in revenues (last year: EUR 280 million), corresponding to a decline of two percent over a comparable basis, which is attributable primarily to the periodicity of the optronics business. Since May 2006, the display technologies business has been part of a joint venture with St. Petersburg, Florida-based Jabil Circuit Inc., in which Carl Zeiss holds a minority share.

The Sports Optics, Planetarium and Camera Lens Divisions showed a positive trend and posted growth in both revenues and incoming orders.

**“... ZEISS,
the best of
the best.”**

*Extreme mountain climber,
Hans Kammerlander, on a pair
of ZEISS binoculars in his book
“Am seidenen Faden” (A Silk Rope)*

Outstanding Design: Sports Optics

Business with binoculars, spotting scopes and riflescopes developed very successfully during the reporting year. As in previous years, revenues continuously increased. The Sports Optics Division gained market share primarily in Europe, Eastern Europe in particular.

The division clearly demonstrated its innovative power with the *Diarange*® riflescope featuring an integrated laser rangefinder which provides hunters with important information – the exact distance to the target.

We received the 2006 iF product design award for the *Victory 42 FL* line of binoculars. In addition to the outstanding design, this line primarily stands out as a result of its brilliant image rendition with high color fidelity and the compact, lightweight construction.

The Sports Optics product portfolio expanded further during the reporting year, adding the *Victory 8 x 56 T* FL* and the *10 x 56 T* FL* to the premium segment. They are equipped with the water and dirt-repellent *LotuTec*® coating. Moreover, the successful *Victory Varipoint*® line of riflescopes has been improved with new electronic controls and also now comes standard with *LotuTec*.



◀ *Nature at its finest: the brilliant image rendition of top-notch binoculars from the Victory 42 FL line offer an incomparable experience – and the outstanding design is also pleasing to the eye.*

Carl Zeiss also presented the *Conquest*[®] 8 x 50 T* and 10 x 50 T* binoculars for quality and price-conscious customers. In addition to their excellent price-performance ratio, these binoculars also boast outstanding image rendition.

At the beginning of fiscal year 2006/07, the division became Carl Zeiss Sports Optics GmbH, relinquishing the name Hensoldt AG. Its products have already been sold under the ZEISS brand for many years. This name change underscores the systematic orientation to the customer and provides clarity and a uniform public appearance.

Around the Globe: Planetariums from Carl Zeiss

The Planetarium Division began fiscal year 2005/06 by introducing six new products. This emphasizes Carl Zeiss' global leadership on the planetarium market. The product offering comprises opto-mechanical and digital projectors, as well as laser projection systems, for all dome sizes.

The high level of demand for the new systems verifies the strategy: during the reporting year, the division achieved clear growth in incoming orders and also posted a good result.

Carl Zeiss manufactures the most advanced planetariums in the world: during fiscal year 2005/06, we installed new planetariums around the world, including Brazil, Austria and Thailand. Additional orders were received from Kuwait, the United Kingdom and Germany.

The Planetarium Division cooperates with strategic partners such as Sony Germany, the Fraunhofer Institute in Berlin and Sweden-based Sciss in order to offer its customers attractive systems equipped with the latest technology.

Camera Lenses: Fully Responsible for Product Distribution

The Camera Lens Division is an important ambassador of the Carl Zeiss Group. Camera and cine lenses, and the partnerships with Sony and Nokia, bring the ZEISS brand closer to many people around the globe: during the past fiscal year, cameras and camcorders, alone, from our partner Sony have brought our blue company logo and the ZEISS name to more than 20 million users.



◀ *Fantastic worlds: digital projection systems enable the creation of unique images on planetarium domes, which were not possible in the past – here, the new projector for the Kuwait planetarium.*



◀ One of the greats: Director of Photography, Michael Ballhaus (know from films such as *Gangs of New York*) with ZEISS Master-Prime lenses during filming of *The Departed* from Martin Scorsese.

◀ Mobile photo studio: the Nokia N73 multimedia computer with 3.2 megapixel camera and optics from Carl Zeiss is among the latest generation of communication devices.

During the reporting year, the division started to establish its own global distribution for the *Zeiss Ikon*® System and the newly launched camera lenses, including accessories. This makes it possible to more effectively present the benefits of the products to dealers and photographers. Furthermore, this also provides us with feedback directly from the dealers, which is integrated into future product developments. The products in the cine field will continue to be marketed worldwide exclusively by our partners ARRI and Band Pro Film & Digital.

In the recently completed fiscal year, the division launched the *ZF* lenses for 35 mm cameras with F bayonet. The division sees a large market for these new lenses as this bayonet is widely used, particularly by professional photographers and in industrial applications.

Business with Hasselblad was pleasing despite the general decline in analog photography. The Camera Lens Division presented new lenses specially developed for Hasselblad cameras: the *ZV Classic* lenses meet the expectations of demanding photographers.

The second generation of Nokia mobile phones with ZEISS optics was introduced during the reporting year: the N73 and the N93 impress through their outstanding image quality – in this class – with a resolution of 3.2 megapixels. This ideally enables young, technology-oriented users to become more familiar with our brand.

Strong Demand from Hollywood

An increasing number of directors and producers rely on the quality of Carl Zeiss. Many successful movies in recent years, including *King Kong* and *Perfume* were filmed using our *MasterPrime* and *UltraPrime* lenses.

The division doubled its revenues from cine lenses. Incoming orders also rose clearly over the previous year. The division is enlarging its workforce to meet the heavy demand for cine lenses.

Industrial Lenses Improved

The division is expanding a promising business with the further development of the *VISIONMES*® telecentric industrial lenses.

Industrial lenses are used in a variety of technical applications, including the printing industry, for aerial photos and in interferometers.

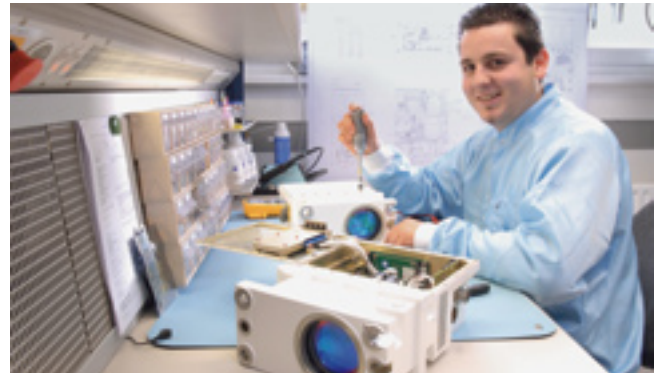
Internationally Successful Optronics

The Optronics Division posted a clear rise in incoming orders over the previous year. The operating result is higher than last year despite a slight decline in revenues.

The division demonstrated its innovative power during fiscal year 2005/06 with international reference orders: Carl Zeiss Optronics GmbH received a blanket order from the US Marine Corps for the delivery of 1,000 eyesafe laser rangefinders. The order is worth a total of US\$ 35 million.

In the future, Carl Zeiss Optronics will deliver the highly complex *ZORO* optical sub-system for the Reco-NG high-power electro-optical reconnaissance system of the French Air Force. Enhanced electro-optical reconnaissance cameras, image processing systems and data storage media have been ordered for tactical reconnaissance of the Dutch Air Force. The Hungarian Air Force ordered five navigation and target illumination pods worth eleven million euros. Furthermore, the European Aeronautics Defence and Space Company (EADS) contracted Carl Zeiss Optronics to modify this system for the new Eurofighter.

Carl Zeiss Optronics also signed additional contracts for a variety of services, including the development of opto-mechanical sub-systems for use in extremely low temperatures for the new James Webb space telescope and the delivery of 220 thermal imagers for Italy.



▲ *At a distance: the ELRF eye-safe laser rangefinder for armored vehicles measures the distance to targets on the battlefield at a range of up to 10 km.*

The optronics area is entering a new field with the development of instruments to gather specimens, and detect and analyze biological weapons such as viruses, bacteria and toxins. Carl Zeiss Optronics developed the *MOTOX*[®] analysis system together with the company Senova in Jena and the Helmut Schmidt University of the German armed forces in Hamburg.

New Joint Venture Founded

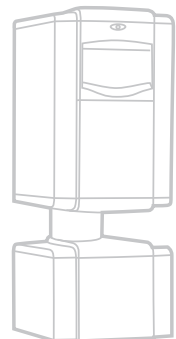
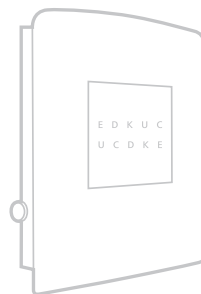
The market for products from the Display Technologies Division is marked by strong competition. On May 1, 2006, the business entered into a joint venture with St. Petersburg, Florida-based electronics specialist Jabil Circuit Inc. to ensure the long-term success of the division. Carl Zeiss holds a minority share of 19.8 percent in the resulting Sypro Optics GmbH which absorbed the employees from the Display Technologies Division and is headquartered in Jena. The business of the Display Technologies Division has not been included in the consolidated financial statements of the Carl Zeiss Group since the joint venture was founded.

Discover Something New

Sight provides us with more information than any of our other senses. Anything we recognize with our eyes is immediately captured, determines our moods and inspires us. Good sight is of key importance in the quality of our lives. The right eyeglasses open up all facets of visual perception. Carefully fitted

using state-of-the-art instruments from Carl Zeiss Vision, they enable maximum visual comfort: Relaxed Vision. As the second largest manufacturer of eyeglasses in the world, Carl Zeiss Vision provides millions of people with customized vision with strong product brands.

Carl Zeiss Vision





Carl Zeiss Vision



▲ *Performance on the surface: high-quality coatings are decisive for imaging performance and comfortable use. LotuTec® is one of the best.*

Carl Zeiss Vision is the world number two in the eyeglass market. The company completed its first full fiscal year on September 30, 2006. Carl Zeiss Vision was created by the merger of the Carl Zeiss Eyeglass Division with SOLA International Inc. in San Diego (USA). The new enterprise is equally owned by Carl Zeiss AG and the EQT III private equity fund. The business of the Carl Zeiss Group is valued at equity in the financial statements of the Carl Zeiss Group.

Growth Targets Achieved

In its first full year of business, Carl Zeiss Vision generated revenues of EUR 845 million (pro forma revenue in 2004/05: EUR 789 million). The company reached its ambitious growth targets during the reporting period through organic growth and strategic acquisitions.

On the balance sheet date, the global workforce of the Carl Zeiss Vision Group totaled 10,626 full time equivalents (FTEs) in over 30 countries. The company has 1,263 FTEs in Germany.

Global Presence

The integration process of the ophthalmic activities of Carl Zeiss and SOLA International Inc. is making good headway: global brand and sales positioning was completed during fiscal year 2005/06.

Carl Zeiss is well situated in the most important economic regions of the USA, Europe and Asia. In June 2006, the company acquired the prescription and frame divisions of GENERAL OPTICAL (GENOP) in Johannesburg, South Africa – a network of labs and service centers with 340 employees. The South African subsidiary now operates as Carl Zeiss Vision South Africa.

The company also strengthened its position in Northern Europe. On 1 July 2006, Carl Zeiss Vision acquired ophthalmic company Opto-team in Trelleborg, Sweden. The company's customer base includes eye care professionals in Sweden, Norway, Finland and Denmark.

During the reporting year, the company also acquired additional independent Rx labs in the USA in order to expand its market position this region.

► *Perfectly adjusted: the centering systems from the RV Terminal line from Carl Zeiss Vision support eye care professionals during the consultation and fitting.*



Aalen: Fit for the Future

Carl Zeiss Vision gained market share in many regions during the reporting year, including the German market. However, as a result of high labor costs and stronger international competition, certain production steps and products in Germany are no longer competitive.

The company's headquarters are located in Aalen. This location is being expanded into a competency center for the development and production of high-quality products. Additionally, central functions such as research, product and technology development, financial accounting and product marketing are being established at this site. The company invested EUR 7 million in these measures during the reporting year.

New Customers

Carl Zeiss Vision expanded its list of important customers during the reporting year: in addition to the very good relationships with opticians, the company strengthened its business with international ophthalmic chains, thus reaching more end users than ever before.

Eyeglasses continue to be the most important tool for the correction of defective vision. Around the globe, two people per second decide to purchase eyeglass lenses from Carl Zeiss Vision.

Innovative Products Presented

Carl Zeiss Vision is asserting its market position with innovative products. The company presented a world innovation during the reporting year: *Gradal Individual® FrameFit™* eyeglass lenses. These progressive lenses have a smooth, variable progression zone length, enabling them to be tailored to each eyeglass frame.

Carl Zeiss Vision also enhanced its successful *RV Terminal®* centering system with new versions tailored to specific customer groups. This enables eye care professionals to better orient their sales consultations to their patients. For example, the system makes it possible to show a comparison of the effect of different eyeglass frames. This interactive lens and frame consultation allows opticians to easily explain the benefits of the different models to their patients.

Research and Technology – Securing Our Lead

Innovative power is the key to the success of the Carl Zeiss Group. We have established a culture of innovation in the company that encourages employees to compete for the best ideas. Carl Zeiss is one of the leading technology groups regarding investments in research and development. During fiscal year 2005/06 the Carl Zeiss Group invested a good 10 percent of its revenues, a total of EUR 254 million, in the expansion of its innovative power. This underscores the strategic importance that Carl Zeiss attributes to activities in research and technology as a pillar of corporate growth.

Creative Solutions for the Future

There were approximately 1,750 employees, or 16 percent of the corporate workforce, in research and development on the balance sheet date. They develop creative solutions for the customer requirements of today and promising ideas for the markets of tomorrow.

From Research to the Market

One promising innovation is head mounted displays which project digitally generated images directly in front of the user's eyes. The research division has conducted studies for various application purposes of such products and has advanced them to the pre-development stage. The start-up company Carl Zeiss Mobile Optics GmbH was founded in order to enhance and commercially utilize this innovation. Two different basic versions of these displays have been developed for various applications.

The first model displays information on a monitor placed directly in front of the eye of the user. It is the first marketable product from Carl Zeiss Mobile Optics to be distributed by Carl Zeiss Vision. Carl Zeiss presented a prototype of the Electronic Vision Assistant at the OPTI trade fair in Munich in January 2006. With the Electronic Vision Assistant, electronically processed image data tailored to the vision of the wearer can be displayed directly in

front of the eye. This makes it possible for people with defective vision to recognize things that would be otherwise invisible with traditional optics.

The second model contains a transparent projection surface. It allows wearers to see their real surroundings with an additional superimposed image at the same time.

Capturing More than the Visible

The ARTESAS project which was completed in June 2006 investigated a further application for display glasses. During this project, Carl Zeiss worked together with companies such as BMW, EADS, Siemens and additional specialists and research institutes. The project was sponsored by the German Federal Ministry of Education and Research (BMBF). The objective of ARTESAS was to explore and evaluate the use of augmented reality base technologies in industrial service environments. Additional

► *Research to reality: Carl Zeiss Mobile Optics, where the research was conducted, has now established its own production center for head mounted displays.*



information on complex technical instruments is projected into the visual field of service personnel via display glasses. For example, with the real image and the additional information, wearers can receive operating instructions at a glance. Manufacturers of technically complex systems in particular see decisive benefits here through, for example, lower training costs in the global launch of new products.

The technical challenges of such systems include the automatic recognition of the objects seen by the user – regardless of distance and position. A demo model has already illustrated the functional capability of this technology. The project participants have stated that they will continue to conduct research in this field.

Research Award for Optical Materials

The Carl Zeiss Research Award is a key element of our dedication to advancing top-level scientific research. With this award, we support young international scientists who distinguish themselves with outstanding performance in basic research and applications in optics. Two professors from the University of Karlsruhe, Dr. Kurt Busch and Dr. Martin Wagener, received this award in June 2006.

They published theoretical and practical work on new optical materials, thus significantly advancing the possibilities for the manufacture of 3D photonic crystals. With such artificial materials, optical metamaterials, it is possible to efficiently implement optical processors.

Unlike traditional optical materials, optical metamaterials possess extraordinary properties such as a negative refractive index. This has wide-reaching effects for the utilization of these materials: they enable the manufacture of “perfect” lenses whose diffraction does not limit resolution. A feasible benefit lies in new lithography processes for the manufacture of computer chips, for example.

Innovation Days Promote Communication and Competition

The annual Innovation Days are used for the corporate-wide exchange of experiences and ideas between employees from research, development and marketing, as well as external experts. The event covers the discussion of internal subjects as well as visits to external research and technology locations. The motto of the event held during the reporting year was “Generating Return on Innovation”. The highlight of the event is the presentation of the internal Innovation Awards that honor outstanding performances in the categories of Best Knowledge Sharing, Leading-edge Technology, Innovative Business Design, High-risk Project, Short Time to Market and Successful Failure. The Innovation Days are a key tool in the promotion of the culture of innovation in the company.

“We encourage and reward scientists all over the world, and our research fosters scientific progress.”

From the Carl Zeiss corporate Vision

Human Resources at Carl Zeiss: Supporting Employees

The Carl Zeiss Group requires highly skilled and motivated employees around the globe in order to continue on its successful course. Human Resources has therefore established different programs for the targeted development and advancement of employees. We increase our attractiveness as an employer with excellent career opportunities, particularly for scientists and engineers.

Increased Manpower

The Carl Zeiss Group recruited more employees during fiscal year 2005/06, particularly in Germany. On 30 September 2006, the Group had 11,249 employees around the world (last year: 11,049). There are 7,843 workers at locations in Germany; 3,406 outside Germany. 16 percent of manpower works in research and development (last year: 14 percent).

Advancement of Junior Personnel

Carl Zeiss places great value on the advancement of junior personnel. The company annually trains hundreds of young people in a variety of fields. Carl Zeiss had 447 trainees in Germany on the balance sheet date. A total of 126 new trainees joined the firm during the reporting year.

Carl Zeiss relies on an intensive training program to optimally fill management positions. It consists of a Junior Leadership Assessment, in which participants are selected for the subsequent Junior Leadership Program which prepares junior personnel for future management tasks. The project will be expanded to all subsidiaries around the world at the beginning of fiscal year 2006/07.

Develop Employees

We systematically define the development opportunities for our employees. The entire personnel development cycle is comprised of different tools, operated under the name "next STEPS" – Steps for Turning Employees' Potential into Success. This is used to determine the need for management personnel, to discuss the potential of employees and to plan successor solutions, enabling the targeted training and development of employees.

Career Opportunities for Experts

Well-trained specialists and experts are necessary for the success of the company.



“The Junior Leadership Program extensively provides in-depth training for a wide range of tasks faced by management personnel. I learned a lot of new things.”

Dr. Rainer Knippelmeyer, Carl Zeiss SMT AG, participant in the Junior Leadership Program



“With the technical ladder, Carl Zeiss offers experts new possibilities in the company. I am very proud to be appointed as the first Senior Principal in the company.”

Dr. Reiner Garreis from Carl Zeiss SMT AG was appointed Senior Principal, the second-highest level of the technical ladder, in February 2006.

The know-how and initiative of our top specialists are essential to the further technological development of the Carl Zeiss Group. With the technical ladder, we offer these specialists a career model tailored to the needs of scientists, engineers and other specialists. A total of 260 employees were accepted into the technical ladder during fiscal year 2005/06.

Employees in the technical ladder program receive time budgets for their personal scientific work. Carl Zeiss thus offers the company’s scientific peak performers an alternative to the traditional management ladder.

After the successful introduction of the technical ladder for employees in Germany, the program will be expanded to the entire Carl Zeiss Group in fiscal year 2006/07.

Global Mobility

Carl Zeiss’ global activities raise the value of international assignments. These promote the cultural understanding of our employees and intensify the active exchange of knowledge within the company at the same time.

We will increase the number of international assignments in the future in order to utilize the opportunities and challenges of the growing internationalization of business life. For this reason, Carl Zeiss developed the Global Mobility program during fiscal year 2005/06 to make employee assignments more attractive.

Top Employer

We are constantly working to improve the presence of Carl Zeiss as an employer. The “Top Employer” award presented to the company during the reporting year verifies that Carl Zeiss is on the right track with its personnel development programs. This award is presented by the German magazine “karriere”.

Carl Zeiss received very good scores in the assessment criteria which include development opportunities, salary, and employer image and market position. We took home first place in the job security category.

Quality and Processes – Performance with Reliability

Quality is a key element of customer orientation at Carl Zeiss. The high standard of quality provides customers with the certainty that they can depend on the precision, performance and reliability of ZEISS solutions. We place great emphasis on efficient processes in all areas – from development and production to service and management – in order to constantly meet these demands at competitive prices. All these processes are part of the integrated management system of the Carl Zeiss Group.

The Goal of Excellence

The corporate-wide management system is based on the Business Excellence strategy described in the European Foundation for Quality Management (EFQM) model. The objectives defined in this model are an element of the corporate Vision Excellence initiative that is divided into six corporate projects.

The basis for the orientation on the EFQM model is specified in our corporate Vision. We use the Vision Excellence initiative to determine and evaluate the progress we are making on the way to achieving our process quality targets.

Using regular assessments, the integrated business groups and business units regularly review their current status on the Business Excellence scale. The results and experience gained with the EFQM model are exchanged at a Group level on an annual basis.

Enthusiasm in Asia

Non-German production and sales locations are now implementing the Business Excellence initiative following the experience gained with the EFQM model in Germany. This is a decisive step towards achieving the benchmarks of quality and process excellence throughout the company.

The EFQM model has been particularly well received in Asia. The international organizations primarily value the additional competency and responsibility that they receive in conjunction with this project. The sales organization in India conducted the first Excellence Assessment at the end of 2005.

*“Our process excellence
is the benchmark
in our industry”*

From the Carl Zeiss corporate Vision

We work in single markets with international partner enterprises and our subsidiaries abroad on a cross-border basis in order to offer a global presence for excellence training courses and audits as a globally operating group.

Projects in China and Singapore

Carl Zeiss Vision conducted the first self assessment in accordance with EFQM at its factory in Guangzhou (China). The largest factory for the mass production of eyeglass lenses within the Carl Zeiss Vision Group is located here. The next step involves the initial assessment of the regional organizations of Carl Zeiss AG in Japan and Singapore.

Uniform Standards

We have defined a series of key performance indicators to monitor our processes. These indicators offer comparable standards that extend beyond the boundaries of business groups and countries, thus providing the possibility of global coordination, progress monitoring and the exchange of best practice examples.

Six Sigma as a Mutual Principle

Six sigma projects for the analysis and improvement of business processes have also proven to be useful in combination with the EFQM excellence initiatives. Six sigma is utilized in the Semiconductor Technology Group (Carl Zeiss SMT AG), for example, where maximum precision and performance are an absolute must in this highly innovative sector. In this way, it focuses its processes on the extremely critical requirements of a manufacturer of production equipment for the semiconductor industry. The experience gained with operational key indicators has shown that an improvement of these values leads to a measurable enhancement of financial indicators. The SMT example has shown that Six Sigma and the EFQM excellence benchmarks form a tool that can demonstrably improve the important parameters for success of the company.



◀ *Intelligently presented: executives become familiar with the excellence model from the European Foundation for Quality Management during international training courses.*

Viewing Environmental Protection as an Opportunity

Environmental protection and the responsible use of natural resources are firmly anchored in the corporate Vision of the Carl Zeiss Group. Systematic and sustained environmental management is part of the quality aspiration at Carl Zeiss. We do not view environmental protection and profitability as contradictions. Ecology is an important element of our economic orientation. It allows us to create opportunities to advance the company and generate new business possibilities.

For the Benefit of the Environment and the Customer

With its production techniques and the materials processed, the Carl Zeiss Group operates in technological fields which involve little environmental pollution. Possible impairments are controllable and can be greatly reduced through the targeted selection of materials processed.

Incorporating environmentally relevant aspects in development, design and production is also part of our customer orientation. By systematically considering these factors, we increase the value of our products beyond their functional use.

Database Provides Transparency

Users of consumer goods, industrial users of capital goods, users of instruments for research and medicine and the recipients of components for integration into their own systems have common interests: they expect products that meet all legal stipulations and can be either recycled or disposed of without harming the environment at the end of their lifecycle. We see these product features as important added value for our customers.

Environmental soundness determines what materials are selected during the product design phase. As part of this process, developers have access to comprehensive documentation on the various materials as well as all critical materials and substances. It is based on a database system for product-integrated environmental protection that was jointly developed with the Fraunhofer Institute for Production Technology and Automation, and TechniData AG. This database is a vital aid for developers and contains complete documentation on all ZEISS products at the same time. The installation of this information system began in fiscal year 2004/05.

Verification in Accordance with RoHS

Documentation of the materials and components used is stored in the database for each of our products. After complete acquisition of all the relevant data, this means that reliable information is always available for checking the compliance of any product with the European Restriction of the Use of Hazardous Substances directives (RoHS) and other criteria or approval regulations.

Additional important information was added to the database during fiscal year 2005/06. The volume of data is already at a high level and is continually updated.

Implemented throughout the Company

The PRODIUS project for product-integrated environmental protection that was initiated in Oberkochen was implemented throughout the company during the reporting year. With training courses, audits and guidelines for the implementation, we have established a tool that ensures uniform high standards at the company's different locations.

This makes it possible to better focus the development and design processes of all business groups on environmental soundness. We introduced the Design for Environment manual for this purpose during the reporting year.

Durability Supports the Protection of Resources

The protection of resources, which is achieved through the long-term use and by conserving the value of products, is an additional essential contribution towards the preservation of the environment.

▼ *Better without: environmentally-friendly processes offer new possibilities of surface enhancement – through a chrome [Cr(VI)]-free conversion coating (right), for example.*



Products from Carl Zeiss are designed for long life even under heavy use. This is made possible by the mechanical sturdiness of the products, as well as the upgradeability and retrofitability of the systems. For many of our instruments, we offer components to expand or improve performance and software updates. A global maintenance service rounds off the measures for conserving product value.

Consume Energy Efficiently

A series of measures that has been implemented with the structural modernization of the Oberkochen location is aimed at increasing energy efficiency. This includes the replacement of furnaces in the heating system and the thermal insulation of several buildings. The measures started at the end of the fiscal year and will be completed in the first quarter of 2006/07.

Certification Making Headway

Carl Zeiss has also taken a major step forward regarding environmental certification during fiscal year 2005/06. Subsidiary Carl Zeiss Optronics GmbH in Oberkochen received initial certification in accordance with the ISO 14001 environmental management standard. Another subsidiary, Prontor GmbH in Calmbach, also received this certificate. Re-auditing confirmed the certification of the Oberkochen Service Center.

“Environmental preservation is a core consideration in all our activities.”

From the Carl Zeiss corporate Vision

Accepting Responsibility

Carl Zeiss plays an active role in society: in accordance with the statutes of the Carl Zeiss foundation, the company supports science and education, social and cultural facilities at its locations and selected humanitarian projects and organizations.

Sparkling Interest

Carl Zeiss focuses on education. The company supports initiatives that encourage students to become involved in technology and science and is therefore a sponsor of the annual "Jugend forscht" (Young Researchers) competition in the eastern Württemberg region of Germany. The three best schools in the competition receive the Carl Zeiss School Award with a total value of EUR 5,000, enabling them to buy instruments for science and technological experiments.

Injecting Momentum

Carl Zeiss also sponsors professorships at universities. The company has financed an endowed professorship for optical production technologies with a focus on aspheric optics at the Aalen University of Applied Sciences since 2004. The company is thus considerably contributing to the expansion of the eastern Württemberg region as a competency center for photonics.

Carl Zeiss sponsored four visiting professorships for optics at the Friedrich Schiller University in Jena during fiscal year 2005/06. The company will support the university in this manner for a total of three years. Our intention is to give students the opportunity to discover new things and gain formative experience through their encounters with outstanding international scientists. Carl Zeiss is therefore adding important momentum to research and education, leading to an expansion and strengthening of training in the natural sciences.

"In the tradition of Ernst Abbe, we are strongly committed to our social responsibilities for the benefit of our employees and our communities."

From the Carl Zeiss corporate Vision





◀ *Onsite support: Children from the Oberkochen Children's Center have been able to play in new rooms since April 2006. During fiscal year 2004/05, Carl Zeiss donated one million euros for the renovation and expansion of the facility which cares for around 100 children per day.*

Meeting Role Models

Carl Zeiss supports the annual meeting of Nobel Prize winners in Lindau, Germany, to promote contact between students and young researchers with the great names in science. 20 to 30 Nobel Laureates from specific fields gather there for several days with approximately 500 young scientists who are given the opportunity to become better acquainted with their role models through lectures and discussions.

Expanding Horizons

For the second time, Carl Zeiss has enabled a group of employees' children to experience something new and expand their horizons during the reporting year. They received a scholarship to study abroad for one year. Financed by the company, their stays around the world are organized together with the non-profit organization AFS Intercultural Programs.

Promoting Health

Carl Zeiss sponsors the global Vision 2020 initiative for the prevention of blindness. In addition to financial support, the company also provides medical devices and instruments.

Shaping our Surroundings

Carl Zeiss attaches major importance to the needs of the citizens in the regions where it operates. The company is actively involved in societal matters and tries to shape its surroundings for the benefit of everyone. This includes supporting schools and social facilities such as daycare centers. This year, we supported the International School in Ulm with a substantial donation. The school makes the educational offering in the region around corporate headquarters in Oberkochen even more attractive to international families.

Carl Zeiss Jena is a sponsor of the Carl Zeiss High School in Jena, enabling an upgrade to technical equipment for natural science subjects and improvements to the program for talented students.

◀ *Providing opportunities: for the second time, employees' children received a scholarship from Carl Zeiss to study abroad for a year.*



▲
*Learning English at an early age:
Carl Zeiss sponsors English lessons
using a new method for pre-
schoolers.*

Promoting Education

Carl Zeiss sponsored a day care center in Aalen. It enables preschool-age children to learn English using a new method based on the acquisition of a native language. This provides the children with a solid background when they enter elementary school at the age of six.

Subsidiaries around the world also influence their respective locations or their areas of expertise with targeted donations.

Organizing Assistance

The employees of Carl Zeiss also accept responsibility. During the reporting year, the company encouraged employees in Germany to register with the German Bone Marrow Donor Center (DKMS). More than 500 employees heeded the call to become possible bone marrow donors. Carl Zeiss assumed the registration costs.

Employees in the Medical Systems Group raised EUR 18,000. All locations in the group around the world were involved in the fundraiser. The funds were given to the Tarabai Eye Clinic in northern India and the Indian Sankara Foundation. The dedication shown by employees is another example of Carl Zeiss' support for promoting VISION 2020.



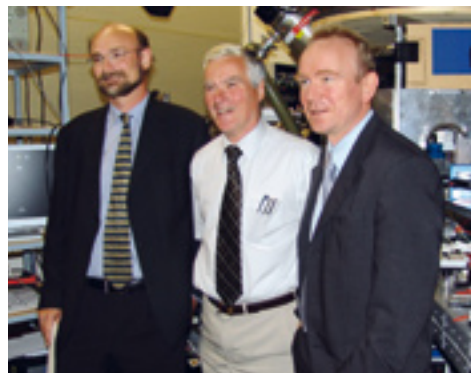
▲
*Dedicated employees: Eugen
Fixel from Carl Zeiss Surgical and
Member of the Executive Board
Dr. Michael Kaschke (from right)
present a donation to doctors from
an Indian eye clinic. The money
was donated by employees of the
Medical Systems Group.*

Highlights from Fiscal Year 2005/06



▲ Outstanding Strategy Process

The first "Strategy Award in Mechanical Engineering" was presented at the "1st German Mechanical Engineering Summit" in Berlin in October 2005. Carl Zeiss Industrielle Messtechnik GmbH was honored for the best strategy process. The company received the award for its ongoing analysis of the competition, customer needs, supplier requirements and the technological and social environment of the market. Key trends are derived from this information, which can be incorporated into strategy development. Dr. Rainer Ohnheiser, Executive Vice President and General Manager of Carl Zeiss Industrial Metrology, accepted the award.



▲ First Carl Zeiss Visiting Professor in Jena

Renowned laser physicist, Professor Kenneth William David Ledingham became the first Carl Zeiss Visiting Professor for Optics at the Friedrich Schiller University in Jena. During his stay in Jena in October 2005, the professor from Strathclyde University in Glasgow conducted research at the Institute for Optics and Quantum Electronics. Carl Zeiss AG has sponsored a visiting professorship at the university in Jena for three years. The professors are selected by a body consisting of representatives from the university and from Carl Zeiss. A total of four professors from around the globe were in Jena during the reporting year.

◀ The Vision Lives

The company's long-term objectives are stated in the Carl Zeiss corporate Vision. The most important projects on the implementation of the Vision are judged by executives during the annual Vision Contest. The awards are presented in six categories such as innovations, customer orientation and process quality. A total of 135 teams from all over the world entered their projects in 2005. The winners were honored by executives at the International Executive Vision Forum in November 2005.





▲
Regional Garden Show

During the reporting year, the company sponsored the 2006 regional horticultural show in Heidenheim. Carl Zeiss provided a classroom, microscopes, magnifiers, binoculars and spotting scopes for the "green classroom." Together with the Institute for Environmental and Future Research and the Baden-Württemberg Department of the Environment. Carl Zeiss organized the "Our Planet – Images from Space" exhibit. More than one million guests visited the garden show. Garden show manager Michael Martin, Heidenheim Mayor Bernhard Ilg, President and CEO of Carl Zeiss AG Dr. Dieter Kurz and Vice President of Corporate Communications at Carl Zeiss Marc Cyrus Vogel (from left) signed the sponsoring agreement in November 2005.

▶ **Year Abroad for Children of Employees**

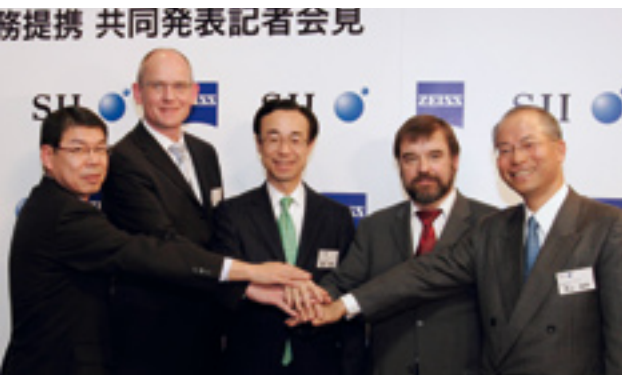
A total of 15 children of Carl Zeiss employees had the opportunity to see what the great wide world has to offer during fiscal year 2005/06. Ranging in age from 15 to 18, the students received the Carl Zeiss Scholarship to study abroad for a year. The first six students to say goodbye to their families in December 2005 headed off to Honduras, Brazil, Australia, Bolivia, Malaysia and Finland. An additional nine students began their year abroad in July 2006.



▼ **Career Models for Scientists**

Dr. Reiner Garreis from Carl Zeiss SMT AG (left) became the first Carl Zeiss employee to reach the second-highest level of the new technical ladder. In February 2006, he was honored as a Senior Principle by the President and CEO of Carl Zeiss AG, Dr. Dieter Kurz (center) and President and CEO of Carl Zeiss SMT, Dr. Hermann Gerlinger. This recognized Garreis' technical expertise, in particular. As a Senior Principle, he receives the status of an executive. This marked the start of the technical ladder at Carl Zeiss – a career model developed for scientists and engineers. A total of 260 employees were nominated to the technical ladder during the reporting year.





Cooperation Agreed

The Nano Technology Systems Division (NTS) at Carl Zeiss SMT AG and Japanese company SII NanoTechnology (SIINT), a subsidiary of Seiko Instruments, agreed to a strategic alliance in March 2006. The two companies jointly develop new products and will distribute the mutual product range in specific markets together. (From left) Dr. Hiroyuki Funamoto, President and CEO of SIINT, Dr. Dirk Stenkamp, President of Carl Zeiss NTS, Junichi Hattori, Chairman of the Board at Seiko Instruments, Dr. Hermann Gerlinger, President and CEO at Carl Zeiss SMT AG and Yukihiro Chayama, President and CEO of Seiko Instruments, announce the cooperation agreement at a press conference. The first joint developments, *XVision 300* and *NVision 40*, were already presented in the summer of 2006.

Awards: Executives of Carl Zeiss SMT and ASML

Winfried Kaiser, head of Product Strategy at Carl Zeiss SMT AG (right), and Martin van den Brink, Executive Vice President of Marketing and Technology at ASML, received the 2006 European SEMI Award in April. This renowned award honors their outstanding service in the development and global market penetration of lithography technology. The award is presented by SEMI Europe, the international association of equipment manufacturers for the semiconductor industry.



First Carl Zeiss Bird Station Opened

The German NABU nature conservation association opened the Carl Zeiss Bird Station in the Wedel Marsh near Hamburg in April 2006. Carl Zeiss Sports Optics provides visitors with binoculars and spotting scopes, thus giving them the opportunity to experience the splendor of nature at its finest. Dr. Manfred Klingel, President of Carl Zeiss Sports Optics (left), opened the nature preserve together with representatives from NABU and the city of Hamburg. Carl Zeiss has supported the bird station since 1997 and, this year, has also enabled year-round professional service: ecologist Marco Sommerfeld tells visitors all about the world of birds. As thanks for this dedication, the center has been renamed the Carl Zeiss Bird Station.





▲ **Carl Zeiss Honors Innovators**

In May 2006, Carl Zeiss presented its Innovation Awards which honor employees and their teams for innovative peak performances in six categories. A jury of internal and external experts assessed the 41 projects entered. The winners were announced at the Innovation Days in Dresden, Germany. Dr. Augustin Siegel, head of Corporate Research and Development (left); Dr. Michael Kaschke, Member of the Executive Board (second from right) and Dr. Dieter Kurz, President and CEO of Carl Zeiss AG, congratulate the winners.

► **Hope for Leukemia Sufferers**

More than 500 Carl Zeiss employees participated in a donation campaign for the German Bone Marrow Donor Center (DKMS). They had their blood typed and thus declared their readiness to donate bone marrow for people suffering from leukemia.

Dr. Dieter Kurz, President and CEO of Carl Zeiss AG (left), and Dr. Roland Hoydem, head of the Company Medical Center at Carl Zeiss in Oberkochen (right), presented a check for EUR 26,400 to Alessandro Hämmerle from the DKMS in May 2006. The company called upon its employees in Germany to take part in the campaign. Carl Zeiss covered the lab costs of 50 euros per person for registration and typing for its employees.



► **Minister President Visits Carl Zeiss Booth**

Minister President of the German state of Baden-Württemberg Günther H. Oettinger (center) visited the Carl Zeiss Industrielle Messtechnik GmbH booth at the trade fair in Hanover in May 2006. He gathered information on the technologies and applications of measuring machines in various industries. Justus Wehmer, Member of the Board at Carl Zeiss Industrial Metrology (right), and Regional Sales Manager, Jörg Köhler, presented Oettinger with information on the company and its products.



► Cars Help Children

Carl Zeiss Vision auctioned two Smart cars on Internet auction house eBay in June 2006. The two small cars with the eye-catching “Face” and “Eye” designs were part of the Carl Zeiss Vision fleet. The company donated a total of EUR 5,000 – or 50 percent of the proceeds from the online auction – to the day care center of the Workers’ Welfare Association in Aalen. Carl Zeiss Vision thus helps unite families, jobs and child rearing.



► Carl Zeiss Research Award Presented

Prof. Dr. Martin Wegener (second from right) and Prof. Dr. Kurt Busch (second from left) were honored with the 2006 Carl Zeiss Research Award in June 2006. The two scientists from the University of Karlsruhe (TH) and have injected decisive momentum into the fields of 3D photonic crystals and optical metamaterials with their work. Dr. Michael Kaschke, Member of the Executive Board (left), and Dr. Augustin Siegel, head of Central Research and Technology (right), handed over the trophy. The Carl Zeiss Research Award is one of the most prestigious commendations in optics and has a value of EUR 25,000. It was presented for the ninth time in 2006.



► Nokia Presents New Products in Oberkochen

In June 2006, Finland-based Nokia presented its new mobile phone models, the N93 and N73, at Carl Zeiss in Oberkochen. The company invited around 30 international journalists from renowned photographic and consumer electronics magazines to Germany’s eastern Württemberg region for the market launch of the new multimedia phones. Representatives from Nokia’s Multimedia Division and representatives from the Carl Zeiss Camera Lens Division highlighted the technical details and the special picture-taking capabilities of the new models.



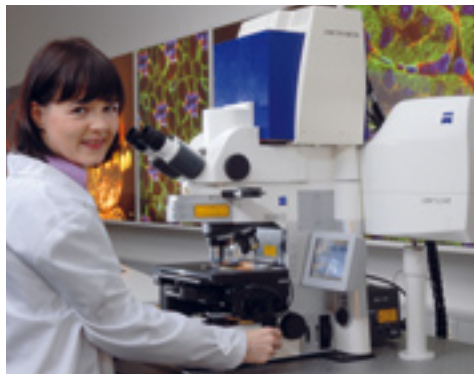


▲ **Berthold Leibinger Innovation Prize for Microscope Technology from Carl Zeiss**
Prof. Dr. med. Hans-Peter Berlien (right), Chief Physician at the Department for Laser Medicine at the Elisabeth Clinic in Berlin, presented the 2006 Berthold Leibinger Innovation Award to Dr. Karin and Raimund Schütze in July 2006. The founders of P.A.L.M. Microlaser Technologies GmbH, a 100 percent subsidiary of Carl Zeiss Microlmaging GmbH, were honored for the development of new laser technology for biomedical research.



▲ **Carl Zeiss SMT AG Acquires ALIS Corporation**
Carl Zeiss SMT AG acquired Peabody, Massachusetts-based ALIS Corporation in July 2006. The young start-up company develops helium-ion microscopes that open up new possibilities for applications in semiconductor technology, materials sciences and life sciences. It thus adds another pioneering component to the technology portfolio of the Nano Technology Systems Division (NTS) at Carl Zeiss SMT AG.

▶ **Carl Zeiss Microscopy Receives Fifth Consecutive R&D 100 Award**
Carl Zeiss Microlmaging received its fifth consecutive R&D Award in July 2006. The *LSM 5 DUO* Laser Scanning Microscope was honored with the "Oscar of Inventions." The renowned award is presented by R&D Magazine, the leading US magazine for research and development with more than 90,000 readers monthly. R&D magazine honors the world's 100 most outstanding new technical innovations every year. Carl Zeiss has won the R&D 100 Award 14 times.





▲
The World's Largest Civilian Tele Lens

Carl Zeiss introduced the world's largest civilian tele lens at the photokina in September 2006 – the ZEISS *Apo Sonnar T* 4/1700*. The lens was specially developed for a customer who intends to use them to photograph animals in the wild from great distances. New assembly and quality assurance methods were developed for the ZEISS *Apo Sonnar T* 4/1700*. The lens consists of 15 lens elements arranged in 13 groups and weighs a total of 256 kg. Carl Zeiss also developed new operating and photography techniques to ensure that it is easy and comfortable to use.

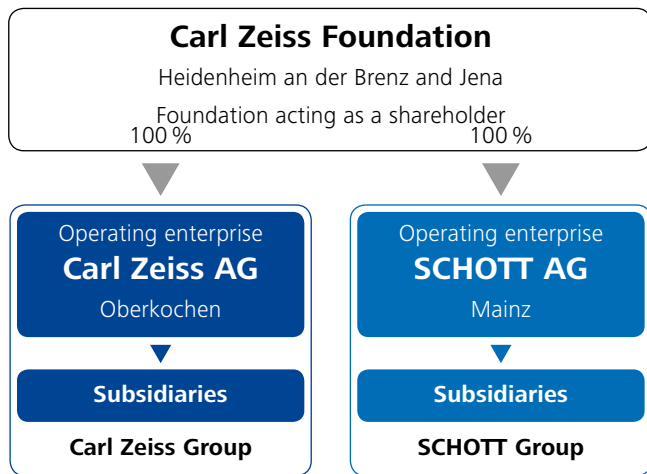


▲
New Carl Zeiss SMT AG Factory Opened

Production technology for 21st-century microchips will be developed and produced by approximately 1,400 employees in the new Carl Zeiss SMT AG factory – the most advanced development and production center for lithography optics in the world. Dr. Hermann Gerlinger, President and CEO of Carl Zeiss SMT AG and Member of the Executive Board at Carl Zeiss AG, Eric Meurice, CEO of ASML, Minister President of Baden-Württemberg Günther H. Oettinger and Dr. Dieter Kurz, President and CEO of Carl Zeiss AG, (from left) unveil a lithography lens at the official opening.

Long-term Perspective

Carl Zeiss AG is wholly-owned by the Carl Zeiss Stiftung (Carl Zeiss Foundation). The foundation was set up in 1889 by the successor to the company founder in the management of the firm, Professor Ernst Abbe. Abbe transferred to the foundation all shares in the company Carl Zeiss and his shares in the company Jenaer Glaswerk Schott & Genossen. The foundation also assumed full ownership of the enterprise Schott at a later date.



As their sole owner, the Carl Zeiss Foundation gives both independence and a long-term perspective to the enterprises Carl Zeiss and SCHOTT. The conditions of ownership cannot be changed: the statutes of the foundation prohibit the sale of the company or shares. This enables Management to look beyond the goal of rapid profit-making and gear the enterprises toward sustained, strategic development.

The main objectives of the Carl Zeiss Foundation are the responsible management of the operating enterprises Carl Zeiss AG und SCHOTT AG, safeguarding their economic base and promoting commercial and scientific institutions.

The foundation is financed by funds which – as stipulated in the foundation statutes – are placed at its disposal by the enterprises according to their respective earning power on the basis of a defined ratio of distribution. The Executive and Supervisory Boards of Carl Zeiss AG have recommended to the shareholders’ meeting that a dividend to the value of EUR 6,251,000.23 be paid to the Carl Zeiss Foundation for fiscal year 2005/06. The dividend of SCHOTT AG is determined separately by the shareholders’ meeting of the sister company.

The foundation operates through its three main bodies: the Foundation Administration, Shareholder Council and Management Advisory Board. The Foundation Administration consists of the Ministers of Science of the German federal states of Baden-Württemberg and Thuringia. The responsibilities of the Foundation Administration include the allocation of subsidies and the appointment of members to the Shareholder Council. The three-member Shareholder Council is headed by its Chairman who is simultaneously Chairman of the Supervisory Board of the two enterprises Carl Zeiss and SCHOTT. This council is also composed of two other leading persons from industry. The German Chamber of Industry and Commerce or the Donors’ Association for the Promotion of Science in Germany has the right of nomination for these representatives. The Shareholder Council attends to the economic interests of the foundation as the sole shareholder of the operating enterprises and is therefore the link between the foundation and the operating enterprises. The third body is the Management Advisory Board, through which the Executive Boards of the two enterprises advise and support the Foundation Administration and the Shareholder Council in the execution of their duties.

Carl Zeiss AG

Executive Board

Supervisory Board

Executive and Supervisory Boards of Carl Zeiss AG

Executive Board

Dieter Kurz, Dr. rer. nat.

Aalen

President and CEO, Labor Director

Member of the Executive Board responsible for Semiconductor Technology, Industrial Measuring Technology, Strategic Corporate Development, Corporate Communications, Corporate Human Resources, Corporate Auditing, Risk Management and Legal Affairs and Patents (up to September 30, 2006)

Member of the Executive Board responsible for Industrial Measuring Technology, Consumer Optics, Optronics, Strategic Corporate Development, Corporate Research and Technology, Corporate Communications, Corporate Human Resources, Corporate Auditing, Risk Management and Legal Affairs and Patents (from October 1, 2006 onwards)

Norbert Gorny, Dr. rer. nat.

(up to September 30, 2006)

Westhausen

Member of the Executive Board responsible for Microscopy, Opto-Electronic Systems, the Service Centers, Corporate Information Technology, Corporate Purchasing, Quality and Processes

Michael Kaschke, Dr. sc. nat.

Oberkochen

Member of the Executive Board responsible for Medical Systems, Consumer Optics, Corporate Finance, Controlling and Taxes, Corporate Research and Technology (up to September 30, 2006)

Member of the Executive Board responsible for Medical Systems, Microscopy, Corporate Finance, Controlling and Taxes, Corporate Information Technology (from October 1, 2006 onwards)

Hermann Gerlinger, Dr. rer. nat.

(from October 1, 2006 onwards)

Aalen

Member of the Executive Board responsible for Semiconductor Technology, Quality and Processes, the Service Centers and Corporate Purchasing

Supervisory Board

Tilman Todenhöfer

Stuttgart

Chairman

Chairman of the Foundation Council of the Carl-Zeiss-Stiftung, Heidenheim an der Brenz and Jena; personally Liable Shareholder of Robert Bosch Industrietreuhand KG, Stuttgart

Jürgen Dömel *

Jena

Deputy Chairman

Chairman of the Group Employee Representative Council of Carl Zeiss AG, Oberkochen

PD Dr. Martin Allespach *

Kelkheim-Fischbach

Divisional Manager of Trade Union Training Operations and Policy on the Board of IG Metall union, Frankfurt am Main

Dr. Michael Claus *

Aalen

First Deputy Chairman of the Group Employee Representative Council of Carl Zeiss AG, Oberkochen

Prof. Dr. Dres. h.c. Adolf G. Coenenberg

Stadtbergen

Chair of Business Administration, Auditing and Controlling at the University of Augsburg

Wolfgang Grothe *

Aalen

Corporate Finance/Controlling, Carl Zeiss AG, Oberkochen

Roland Hamm *

Aalen

First Authorized Representative of IG Metall union, Administration Office Aalen, Aalen

Hans-Jürgen Heinicke *

Aalen

Technical Services Management, Carl Zeiss Optronics GmbH, Oberkochen

Hermann-Josef Lamberti

Königstein/Taunus

Member of the Board of Managing Directors, Deutsche Bank AG, Frankfurt am Main

Dr. Hansjörg Manger

Uhltingen-Mühlhofen

Former Managing Director, Robert Bosch GmbH, Stuttgart

Dr. Michael Rogowski

Heidenheim an der Brenz

Chairman of the Shareholders' Committee of Voith and of the Supervisory Board of Voith AG, Heidenheim an der Brenz

Prof. Dr. Klaus-Dieter Vöhringer

Baden-Baden

Former Member of the Board of Managing Directors, DaimlerChrysler AG, Stuttgart

Committees of the Supervisory Board

Chairman's Committee Tilman Todenhöfer (Chairman), Jürgen Dömel, Roland Hamm, Dr. Michael Rogowski

Auditing Committee Prof. Dr. Dres. h.c. Adolf G. Coenenberg (Chairman), Dr. Michael Claus, Wolfgang Grothe, Tilman Todenhöfer

Mediation Committee Tilman Todenhöfer (Chairman), Jürgen Dömel, Hans-Jürgen Heinicke, Hermann-Josef Lamberti

* *Employee Representatives*

Business Structure of the Carl Zeiss Group by strategic business units

Europe

- 8 production sites in 5 countries
- 21 sales locations in 17 countries



Corporate Management

Corporate functions

Service and infrastructure divisions

• Carl Zeiss AG, Oberkochen

- Carl Zeiss Jena GmbH, Jena
- Prontor GmbH, Calmbach
- Carl Zeiss Financial Services GmbH, Oberkochen
- Carl Zeiss Mobile Optics GmbH¹⁾, Oberkochen

Medical and Research Solutions

Medical Systems

Ophthalmology

Neuro /
 Ear, Nose and
 Throat surgery

**Carl Zeiss
 Meditec AG,
 Jena**

Microscopy

Microscopy

**Carl Zeiss
 Microimaging GmbH,
 Jena**

**Carl Zeiss
 Surgical GmbH,
 Oberkochen**

Industrial Solutions

Semiconductor Technology

Lithography
 Systems

Laser Optics

Process Control
 Systems

**Carl Zeiss SMT AG,
 Oberkochen**

Carl Zeiss
 Laser Optics
 GmbH,
 Oberkochen

Carl Zeiss
 SMS GmbH,
 Jena

Carl Zeiss
 NTS GmbH,
 Oberkochen

¹⁾ Not consolidated

²⁾ Carl Zeiss Sports Optics GmbH, Wetzlar from October 1, 2006, see page 57 for more details

Americas

- 3 production sites in 2 countries
- 5 sales locations in 4 countries



Asia / Australia

- 2 production sites in one country
- 10 sales locations in 10 countries



Africa

- 1 sales location



Lifestyle Products

Industrial Metrology	Opto-Electronic Systems				50% participation Carl Zeiss Vision
Industrial Metrology	Optonics	Photo	Sports Optics	Planetariums <i>(Division)</i>	Carl Zeiss Vision
Carl Zeiss Industrielle Messtechnik GmbH, Oberkochen	Carl Zeiss Optronics GmbH, Oberkochen	Carl Zeiss AG, Oberkochen Camera Lens Division	Hensoldt AG²⁾, Wetzlar	Carl Zeiss Jena GmbH, Jena Planetarium Division	Carl Zeiss Vision Holding GmbH ¹⁾ , Aalen

- ▶ Markets
- ▶ Business Groups
- ▶ Strategic business units

Major Affiliated and Associated companies (1)

(Share percentage relative to entire Group)

Medical and Research Solutions

Medical Systems

Carl Zeiss Meditec AG³⁾ Jena (listed) 65.1 % Germany	Carl Zeiss Surgical GmbH³⁾ Oberkochen 100 % Germany	IOLTECH S.A.³⁾ La Rochelle 62.8 % France	Carl Zeiss Meditec Inc.³⁾ Dublin 65.1 % USA
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Sales organizations

Carl Zeiss Meditec France S.A.S. Le Pecq 62.8 % France	Carl Zeiss Meditec S.A. Tres Cantos (Madrid) 100 % Spain	Carl Zeiss Surgical Inc. Dublin 100 % USA	Carl Zeiss Meditec Co. Ltd. Tokyo 82.2 % Japan
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Microscopy

Carl Zeiss MicroImaging GmbH³⁾ Jena 100 % Germany	Carl Zeiss Imaging Solutions GmbH Hallbergmoos 100 % Germany	P.A.L.M. Microlaser Technologies GmbH³⁾ Bernried 100 % Germany	Carl Zeiss MicroImaging (Suzhou) Co. Ltd.^{1) 3)} Suzhou 100 % People's Republic of China
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Sales organizations

Carl Zeiss MicroImaging S.L.¹⁾ Sant Just Desvern (Barcelona) 100 % Spain	Carl Zeiss MicroImaging Inc. Thornwood 100 % USA	Carl Zeiss MicroImaging Co., Ltd.¹⁾ Tokyo 100 % Japan
--	--	--

¹⁾ Not consolidated

³⁾ Production unit (generally has own sales area)

Industrial Solutions

Semiconductor Technology

Carl Zeiss SMT AG³⁾ Oberkochen 100 % Germany	Carl Zeiss Laser Optics GmbH³⁾ Oberkochen 100 % Germany	Carl Zeiss SMS GmbH³⁾ Jena 100 % Germany	Carl Zeiss NTS GmbH³⁾ Oberkochen 100 % Germany	NaWoTec GmbH Jena 100 % Germany
Carl Zeiss SMT Ltd.³⁾ Cambridge 100 % United Kingdom	ALIS Corporation Peabody (MA) 100 % USA			

Sales organizations

Carl Zeiss SMT S.A.S. Nanterre 100 % France	Carl Zeiss SMT Inc. Thornwood 100 % USA
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Industrial Metrology

Carl Zeiss Industrielle Messtechnik GmbH³⁾ Oberkochen 100 % Germany	Carl Zeiss IMT Corporation³⁾ Minneapolis 100 % USA	Carl Zeiss IMT (Shanghai) Co. Ltd.³⁾ Shanghai 100 % People's Republic of China	Carl Zeiss Systems Engineering Co. Ltd. Tokyo 100 % Japan
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Sales organizations

Carl Zeiss 3D Metrology Services GmbH Aalen Aalen 100 % Germany	Carl Zeiss Innovationszentrum für Messtechnik GmbH¹⁾ Dresden 51 % Germany	Carl Zeiss Industrielle Messtechnik Austria GmbH Graz 100 % Austria	Carl Zeiss IMT IBERIA S.L.¹⁾ Tres Cantos (Madrid) 100 % Spain
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Opto-Electronic Systems

Carl Zeiss Optronics GmbH³⁾ Oberkochen 100 % Germany	Carl Zeiss Optronics Wetzlar GmbH³⁾ Wetzlar 100 % Germany
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Major Affiliated and Associated companies (2)

(Share percentage relative to entire Group)

Lifestyle Products

Additional product areas

Hensoldt AG^{2) 3)},

Wetzlar
100 %
Germany

Carl Zeiss Sport Optikai

Hungaria Kft.³⁾,
Mátészalka
100 %
Hungary

Carl Zeiss**Vision Holding GmbH¹⁾,**

Aalen
50 %⁴⁾
Germany

Sales organization

Carl Zeiss Optical Inc.,

Chester
100 %
USA

¹⁾ Not consolidated

²⁾ Carl Zeiss Sports Optics GmbH, Wetzlar from October 1, 2006

³⁾ Production unit (generally has own sales area)

⁴⁾ Proportion of voting rights

Other affiliated companies

Carl Zeiss Jena GmbH³⁾ Jena 100 % Germany	Carl Zeiss Financial Services GmbH, Oberkochen 100 % Germany	Carl Zeiss Mobile Optics GmbH^{1) 3)} Oberkochen 100 % Germany	Zeiss-BelOMO OOO^{1) 3)} Minsk 60 % Belarus	Carl Zeiss Inc., Thornwood 100 % USA
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Carl Zeiss de México S.A. de C.V.³⁾ Mexico City 100 % Mexico

Cross-Group sales organizations

Carl Zeiss N.V.-S.A., Zaventem 100 % Belgium	Carl Zeiss S.A.S., Le Pecq 100 % France	Carl Zeiss Ltd., Welwyn Garden City 100 % United Kingdom	Carl Zeiss S.p.A., Arese 100 % Italy	Carl Zeiss Kroatien d.o.o.¹⁾ Zagreb 100 % Croatia
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Carl Zeiss B.V., Sliedrecht 100 % Netherlands	Carl Zeiss GmbH, Vienna 100 % Austria	Carl Zeiss Sp. z o.o.¹⁾ Posen 100 % Poland	Carl Zeiss Instruments s.r.l.¹⁾ Bucharest 100 % Romania	Carl Zeiss OOO¹⁾ Moscow 100 % Russia
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Carl Zeiss AB, Stockholm 100 % Sweden	Carl Zeiss AG, Feldbach 100 % Switzerland	Carl Zeiss s.r.o.¹⁾ Prague 100 % Czech Republic	Carl Zeiss TOV¹⁾ Kiev 100 % Ukraine	Carl Zeiss Technika Kft.¹⁾ Budapest 100 % Hungary
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Carl Zeiss Argentina S.A.¹⁾ Buenos Aires 100 % Argentina	Carl Zeiss do Brasil Ltda., Sao Paulo 100 % Brazil	Carl Zeiss Canada Ltd., Toronto 100 % Canada	Carl Zeiss Shanghai Co. Ltd., Shanghai 100 % People's Republic of China	Carl Zeiss Far East Co. Ltd., Kowloon 100 % Hong Kong
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Carl Zeiss Co. Ltd., Tokyo 100 % Japan	Carl Zeiss Sdn. Bhd., Kuala Lumpur 100 % Malaysia	Carl Zeiss Pte. Ltd., Singapore 100 % Singapore	Carl Zeiss India Pte. Ltd.¹⁾ Singapore 100 % Singapore (Branch in India)	Carl Zeiss Co. Ltd.¹⁾ Seoul 100 % South Korea
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Carl Zeiss Co. Ltd., Bangkok 49 % Thailand	Carl Zeiss Pty. Ltd., North Ryde 100 % Australia	Carl Zeiss (N.Z.) Ltd., Auckland 100 % New Zealand	Carl Zeiss (Pty.) Ltd., Randburg 100 % South Africa
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Carl Zeiss Group
Consolidated Financial Statements

Consolidated Statement of Income

October 1, 2005 to September 30, 2006

	Notes	2005/06	2004/05
		EUR thou	EUR thou
Sales revenues	8	2,432,944	2,216,677
Increase in finished goods and work in progress		25,983	18,019
Own work capitalized		52,662	61,396
Total operating performance		2,511,589	2,296,092
Other operating income	9	153,155	133,685
Cost of materials	10	930,739	808,431
Personnel expenses	11	794,458	785,328
Depreciation of property, plant and equipment and amortization of intangible assets	12	124,482	119,435
Other operating expenses	13	497,373	462,280
Other taxes	14	4,700	4,424
Earnings Before Interest and Taxes (EBIT)		312,992	249,879
Result from investments accounted for using the equity method	15	-17,784	-22,022
Income from transition consolidation of CZ Vision	15	-	24,175
Interest income	15	31,719	26,783
Interest expenses	15	81,912	78,947
Other financial result	15	11,261	9,980
Earnings before Taxes		256,276	209,848
Income taxes	16	89,474	82,416
Consolidated net income		166,802	127,432
<i>Minority interests in income</i>		<i>10,527</i>	<i>6,239</i>
<i>Interests of the parent company's shareholder in income</i>		<i>156,275</i>	<i>121,193</i>

Consolidated Balance Sheet as of September 30, 2006

Assets	Notes	Sept. 30, 2006	Sept. 30, 2005
		EUR thou	EUR thou
Noncurrent assets			
Intangible assets	17	265,718	208,081
Property, plant and equipment	18	551,466	542,214
At-equity investments	19	67,597	87,854
Other noncurrent financial assets	20	105,857	110,815
		990,638	948,964
Deferred taxes	16	162,911	164,045
Other noncurrent non-financial assets		13,207	11,186
		1,166,756	1,124,195
Current assets			
Inventories	21	634,936	590,582
Trade receivables	22	473,352	386,111
Tax refund claims		3,422	4,350
Other current assets	23	100,867	79,887
Securities	24	153,214	286,348
Cash/cash equivalents	25	483,999	588,962
		1,849,790	1,936,240
		3,016,546	3,060,435

Liabilities	Notes	Sept. 30, 2006	Sept. 30, 2005
		EUR thou	EUR thou
Equity	26		
Common stock		120,000	120,000
Additional paid-in capital		52,770	52,770
Consolidated retained earnings		446,708	291,759
Cumulative other reserves		-9,174	10,961
Minority interests		49,771	50,207
		660,075	525,697
Noncurrent liabilities			
Provisions for pensions and similar obligations	27	984,190	1,212,794
Other noncurrent provisions	28	72,836	70,190
Noncurrent financial liabilities	29	383,592	380,571
Noncurrent liabilities from income taxes		104	165
Other noncurrent non-financial liabilities	31	19,154	35,849
		1,459,876	1,699,569
Deferred taxes	16	51,944	37,887
		1,511,820	1,737,456
Current liabilities			
Current provisions	28	255,857	257,860
Current financial liabilities	29	26,099	82,852
Trade payables	30	115,200	101,840
Current liabilities from income tax		11,262	10,068
Other current liabilities	31	436,233	344,662
		844,651	797,282
		3,016,546	3,060,435

Statement of Changes in Consolidated Equity during the 2005/06 Fiscal Year

	Common stock	Additional paid-in capital	Consolidated retained earnings
	EUR thou	EUR thou	EUR thou
October 1, 2004	120,000	52,770	146,721
Dividends	–	–	–
Other changes	–	–	23,845
Consolidated net income	–	–	121,193
Other reserves	–	–	–
Consolidated comprehensive income	–	–	121,193
September 30, 2005	120,000	52,770	291,759
Dividends	–	–	–2,848
Other changes	–	–	1,522
Consolidated net income	–	–	156,275
Other reserves	–	–	–
Consolidated comprehensive income	–	–	156,275
September 30, 2006	120,000	52,770	446,708

¹⁾ Market valuation of available-for-sale securities in accordance with IAS 39

	Currency conversion	Cumulative other reserves Results of measurement of financial instruments IAS 39 ¹⁾	Equity	Minority interests	Consolidated equity
	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou
	–	–1,682	317,809	37,493	355,302
	–	–	–	–374	–374
	–	–	23,845	6,400	30,245
	–	–	121,193	6,239	127,432
	3,219	9,424	12,643	449	13,092
	3,219	9,424	133,836	6,688	140,524
	3,219	7,742	475,490	50,207	525,697
	–	–	–2,848	–1,914	–4,762
	–	–	1,522	–7,941	–6,419
	–	–	156,275	10,527	166,802
	–12,252	–7,883	–20,135	–1,108	–21,243
	–12,252	–7,883	136,140	9,419	145,559
	–9,033	–141	610,304	49,771	660,075

Consolidated Cash Flow Statement October 1, 2005 to September 30, 2006

	2005/06	2004/05
	EUR thou	EUR thou
Consolidated net income	166,802	127,432
Depreciation/amortization of fixed assets net of write-ups	120,438	118,848
Increase (last year: decrease) of provisions for pensions and similar obligations	15,104	-634
Increase in other provisions	469	19,775
Other non-cash expenses (last year: income)	17,784	-2,153
Income (last year: loss) from the disposal of fixed assets (net)	1,015	906
Income from the disposal of current securities (net)	-10,624	-398
Increase in inventories	-47,712	-22,419
Increase (last year: decrease) in receivables	-93,723	18,349
Change in deferred taxes	-3,023	1,083
Decrease (last year: increase) in other assets	14,275	-65,721
Increase (last year: decrease) in payables	14,518	-21,011
Increase in other liabilities	69,461	1,396
Cash flows from operating activities	264,784	175,453
Proceeds from the disposal of property, plant and equipment and intangible assets	17,549	11,314
Purchase of property, plant and equipment and intangible assets	-119,074	-100,535
Proceeds from the disposal of financial assets	10,497	14,025
Acquisition of financial assets	-4,221	-105,309
Acquisition of consolidated companies (net of cash acquired amounting to EUR 0; last year: EUR 7,958,000)	-63,098	-159,818
Investment in Contractual Trust Arrangement	-145,345	-
Cash flows from investing activities	-303,692	-340,323
Cash payments to minority interests	-4,762	-374
Cash proceeds from issuing promissory note loans (last year) and current or noncurrent borrowings	6,122	260,667
Cash repayments of current or noncurrent borrowings	-63,017	-788
Cash flows from financing activities	-61,657	259,505
Cash and cash equivalents provided by operating, investing and financing activities	-100,565	94,635
Changes in cash and cash equivalents from exchange rate movements and changes in the scope of consolidation	-4,398	2,314
Cash and cash equivalents as of October 1	588,962	492,013
Cash and cash equivalents as of September 30	483,999	588,962

	2005/06	2004/05
	EUR thou	EUR thou
Additional information on the Consolidated Cash Flow Statement		
Payments of		
Income taxes ¹⁾	92,750	35,799
Interests ²⁾	26,901	18,794
Dividends ²⁾	4,762	374
Proceeds from		
Income taxes ¹⁾	4,245	–
Interests ²⁾	25,882	28,185
Dividends ²⁾	1,330	7,470

¹⁾ considered in cash flows from operating activities

²⁾ considered in cash flows from financing activities

Notes to the Consolidated Financial Statements for the 2005/06 Fiscal Year

Principles and Methods

1 General Accounting Principles

Carl Zeiss AG is a non-listed stock company incorporated under German law and operating globally in the segments Medical and Research Solutions, Industrial Solutions and Lifestyle Products. Carl Zeiss AG's sole stockholder is the Carl-Zeiss-Stiftung (Carl Zeiss Foundation), Heidenheim an der Brenz and Jena.

Carl Zeiss AG is exercising the option under § 315a Para. 3 German Commercial Code (HGB) which allows non-capital market-oriented companies to prepare their consolidated financial statements in accordance with International Financial Reporting Standards only, on the basis of the option for Member States enabled by the EU directive of July 19, 2002.

The consolidated financial statements of Carl Zeiss AG, Oberkochen, comprising the Consolidated Statement of Income, the Consolidated Balance Sheet, the Statement of Changes in Consolidated Equity, the Consolidated Cash Flow Statement and the Notes to the Consolidated Financial Statements are therefore being prepared this year for the first time in accordance with the International Financial Reporting Standards (IFRS) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), as applicable in the EU, and the supplementary rules applicable under § 315a Para. 1 HGB. The figures for the comparative period were calculated in accordance with the same principles. All mandatory pronouncements of the International Accounting Standards Board (IASB) have been observed.

The principal effects of the transition from HGB accounting to IFRS and the notes on these are given in Section 36, "First-time Adoption of IFRS". In a number of projects, the IASB and the IFRIC have adopted a number of standards and interpretations and issued new standards and interpretations which must always be used for fiscal years commencing on or after January 1, 2006. Carl Zeiss AG has opted not to voluntarily adopt these early in its consolidated financial statements.

In August 2005, the IASB published an amendment to IAS 1 which applies to fiscal years commencing on or after January 1, 2007 and provides for the disclosure requirements relating to the objectives, policies and processes for managing capital. Since the amendment to IAS 1 only relates to disclosures, it will not have any significant effects on the Carl Zeiss Group's net assets, financial position, results of operations or cash flows.

In December 2004, the IASB published amendments to IAS 19 which apply to fiscal years commencing on or after January 1, 2006 and will allow the recognition of actuarial gains and losses outside profit and loss in the future. Furthermore, additional disclosures on pension commitments will be required in the notes. This new option will not be applied by the Carl Zeiss Group, so that the amendment will only affect the disclosures in the notes.

In December 2005, the IASB published an amendment to IAS 21 *The Effects of Changes in Foreign Exchange Rates*. The amendment states that translation differences arising from a monetary item that forms part of a net investment by a reporting entity in a foreign operation should be reclassified as a separate component of equity in the financial statements in which the foreign operation is consolidated, proportionately consolidated or included according to the equity method. This rule applies irrespective of the currency in which the monetary item is denominated and irrespective of the corporate entity with which the foreign operation is conducting transactions. The terms of this amendment are applicable to reporting periods commencing on or after January 1, 2006. Its application is unlikely to have any material impact on the net assets, financial position, results of operations or cash flows of the Carl Zeiss Group.

In April 2005, the IASB adopted amendments to IAS 39 which apply to fiscal years commencing on or after January 1, 2006 and relate to the recognition of intra-group hedging relationships. Further amendments to IAS 39 (and correspondingly IFRS 4) relate to financial guarantees and apply to fiscal years commencing on or after January 1, 2006.

Carl Zeiss AG does not use hedge accounting in its IFRS consolidated financial statements. The amendment is therefore not relevant.

In June 2005, the IASB published an amendment to IAS 39 *Financial Instruments: Recognition and Measurement – the Fair Value Option*. This amendment limits the use of the option to value every financial asset or every financial liability through the income statement at the fair value attributed to them (*the fair value option*). The provisions of this amendment apply to accounting periods commencing on or after January 1, 2006. Carl Zeiss AG has decided not to apply the fair value option. The amendment is therefore not relevant.

In December 2004, the IASB also adopted IFRS 6 *Exploration for and Evaluation of Mineral Resources*, which applies to fiscal years commencing on or after January 1, 2006. This standard is not relevant to the Carl Zeiss Group.

IFRS 7 *Financial Instruments: Disclosures* was adopted by the IASB in August 2005. It applies to fiscal years commencing on or after January 1, 2007. IFRS 7 relates in particular to the information given in entities' financial statements about financial instruments, which will be supplied by the Carl Zeiss Group when application of the standard becomes mandatory.

In November 2006, the IASB adopted IFRS 8 *Operating Segments*, which replaces the previous IAS 14 *Segment Reporting*. This standard is not relevant to the Carl Zeiss Group, since as a non-capital market-oriented company it is not obliged to prepare segment reporting.

In 2005, the IFRIC published the following new interpretations, which were endorsed by the EU before these consolidated financial statements were prepared:

IFRIC 4: *Determining Whether an Arrangement Contains a Lease* (applicable to fiscal years commencing on or after January 1, 2006). The mandatory application of this interpretation should not result in any changes in the way leases are accounted for within the Carl Zeiss Group.

IFRIC 5: *Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds* (applicable to fiscal years commencing on or after January 1, 2006). This interpretation is of no relevance to the consolidated financial statements of Carl Zeiss AG.

IFRIC 6: *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* (applicable to fiscal years commencing on or after December 1, 2005). Appropriate provisions had already been created in the Carl Zeiss Group's HGB consolidated financial statements. The application of this interpretation is therefore unlikely to have any significant impact on the net assets, financial position, results of operations or cash flows of the Carl Zeiss Group.

IFRIC 7: *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* (applicable to fiscal years commencing on or after March 1, 2006). Carl Zeiss AG's consolidated financial statements do not include any subsidiaries based in hyperinflationary economies. The mandatory application of this interpretation will therefore not affect them.

IFRIC 8 (applicable to fiscal years commencing on or after May 1, 2006): this interpretation makes clear that IFRS 2 applies to arrangements where an entity makes share-based payments for apparently nil or inadequate consideration. If the identifiable consideration given appears to be less than the fair value of the equity instruments granted or liability incurred, according to IFRIC 8 this situation indicates that other consideration has been or will be received. There are no such arrangements within the Carl Zeiss Group, so that this interpretation will have no impact on the consolidated financial statements.

IFRIC 9: an entity must assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract (applicable to fiscal years commencing on or after June 1, 2006).

This interpretation has no impact on the consolidated financial statements of the Carl Zeiss Group at present.

The consolidated financial statements have been compiled in euros. Unless stated otherwise, all amounts are given in thousands of euros (EUR thou).

For the sake of clarity, individual items are combined in the consolidated balance sheet and the consolidated statement of income and shown separately in the notes. The consolidated statement of income is prepared in accordance with the nature of expenses method.

The consolidated financial statements prepared as of September 30, 2006 and the Corporate Management Report were approved by the Executive Board on December 8, 2006 for submission to the Supervisory Board.

The consolidated financial statements, the Corporate Management Report and the ownership structure of the Group have been filed with the Commercial Register of Ulm District Court.

2 Key Differences in Accounting, Valuation and Consolidation between HGB and IFRS

The last consolidated financial statements prepared by Carl Zeiss AG in accordance with the German Commercial Code (HGB) were those for the 2004/05 fiscal year. This year's consolidated financial statements have been drawn up in accordance with IFRS for the first time. Compared with the application of the HGB rules, the following are the main differences in the accounting, valuation and consolidation policies:

- Revaluation of the property, plant and equipment on the basis of straight-line depreciation over the assets' useful lives (IAS 16);
- Recognition of assets and corresponding liabilities from finance leases in accordance with the criteria of the assignment of economic ownership (IAS 17);
- No amortization of goodwill, instead, annual impairment tests are performed (IFRS 3);

- Capitalization of development costs as intangible assets, provided the necessary criteria are met (IAS 38);
- Recognition of differences arising from the translation of financial statements in foreign currencies outside profit and loss (IAS 21);
- Translation of accounts receivable and accounts payable in foreign currency at the average exchange rate as of the balance sheet date, thus also recognizing unrealized foreign exchange gains (IAS 21);
- Financial instruments accounting (IAS 32, IAS 39);
- Valuation of the pension provisions by the projected unit credit method, taking into account expected future salary and pension increases (IAS 19);
- No creation of provisions for expenses (IAS 37);
- Measurement of non-interest-bearing long-term provisions at discounted present value (IAS 37);
- Recognition of deferred tax assets for temporary differences and tax loss carryforwards and unused tax credits (IAS 12);
- Capital consolidation applying the purchase method in accordance with IFRS 3;
- Consolidation of special purpose entities (SPEs) (SIC 12);
- Expansion of the scope of consolidation.

The quantitative effects of these differences on the consolidated equity and consolidated net income for the previous year are shown in the reconciliations under section 36 "First-time Adoption of IFRS".

3 Scope of Consolidation

The consolidated financial statements include Carl Zeiss AG and all of its subsidiaries, joint ventures and associated companies. Subsidiaries are companies that are under the direct or indirect control of Carl Zeiss AG and are included in full in the scope of consolidation. Joint ventures are companies controlled jointly by Carl Zeiss AG together with other companies. Associated companies are companies over which Carl Zeiss AG exercises a significant influence but which are neither subsidiaries nor joint ventures. Associated companies and joint ventures are included in the consolidated financial statements in accordance with the equity method.

The consolidated financial statements include Carl Zeiss AG and 31 (last year: 32) domestic and 50 (last year: 49) foreign companies whose business activities are controlled by Carl Zeiss AG or where it directly or indirectly holds a majority voting interest. The companies are included in the consolidated financial statements from the time at which Carl Zeiss AG obtained the power of control.

In accordance with SIC 12, the scope of consolidation also includes special purpose entities for which the Carl Zeiss Group bears the business opportunities and risks.

In addition, one domestic joint venture and one foreign investment have been accounted for using the equity method.

In comparison with the consolidated financial statements according to HGB, the following companies were also included in the scope of consolidation on the transition date (October 1, 2004):

- Carl Zeiss Meditec Systems GmbH, Pirmasens;
- Carl Zeiss IMT (Shanghai) Co. Ltd., Shanghai, China;
- Carl Zeiss Systems Engineering Co. Ltd., Tokyo, Japan;
- Carl Zeiss Industrielle Messtechnik Austria GmbH, Graz, Austria.

The scope of consolidation changed as follows in the reporting period:

	Germany	Other countries	Total
Sept. 30, 2005	33	49	82
Additions in the reporting period	1	2	3
Disposals in the reporting period	2	1	3
Sept. 30, 2006	32	50	82

The following companies were withdrawn from the scope of consolidation in the reporting period:

- Carl Zeiss Display Technologies GmbH, Jena;
- Laser Diagnostic Technologies GmbH Europe i.L., Schriesheim;
- Laser Diagnostic Technologies Inc., San Diego, USA.

The following 3 companies were included in the consolidated financial statements for the first time:

- Carl Zeiss NTS Beteiligungsgesellschaft mbH, Oberkochen;
- TCZ GmbH, St. Gallen, Switzerland;
- ALIS Corporation, Peabody (MA), USA.

The changes in the scope of consolidation in 2005/06 had no significant impact on the net assets, financial position or results of operations of the Carl Zeiss Group with the exception of the acquisition of ALIS Corporation, Peabody (MA), USA, the results of which are discussed in detail in section 4 “Business Combinations”.

**Restructuring of the Eyeglass Division
in Fiscal Year 2004/05**

Effective October 1, 2004, the Eyeglass Division of Carl Zeiss AG, Oberkochen, was converted into Carl Zeiss Vision GmbH, Aalen, a separate legal entity.

This company was merged under the organizational umbrella of the Carl Zeiss Vision Group together with the previously fully consolidated companies Optiswiss AG, Basel, Switzerland, Carl Zeiss AS, Lørenskog, Norway, and Carl Zeiss Hungaria Optikai Kft., Mátészalka, Hungary, whose activities were almost exclusively focused on the eyeglass business.

In addition, the Carl Zeiss sales subsidiaries in Korea, the USA and Canada sold their eyeglass divisions under asset deals to the newly established companies of the Carl Zeiss Vision Group in these countries.

Since April 1, 2005, the EQT III Private Equity Fund set up by the Swedish-German financial investor EQT has held a share of 50 % in Carl Zeiss Vision Holding GmbH, Aalen, the parent company of the Carl Zeiss Vision Group. From the Carl Zeiss Group's point of view, therefore, the Carl Zeiss Vision Group became a joint venture at this date.

At the same time as the financial investor became a partner in the joint venture, the Carl Zeiss Vision Group took over the US company SOLA International Inc., San Diego, California, USA, to increase its competitiveness.

As the stockholder situation changed as described above on April 1, 2005, the previous year's figures still included the eyeglass business of Carl Zeiss for the first six months of the reporting period.

For the subsequent period, the joint venture was valued at equity on the basis of its consolidated financial statements.

The transition from full consolidation to at-equity valuation resulted in a gain of EUR 24,175,000 last year, which is shown under transitional result in the consolidated statement of income.

In the context of the transition, the following assets and liabilities belonging to the companies consolidated within the Carl Zeiss Vision Group were removed from the consolidated financial statements:

	EUR mill
Noncurrent assets	67.4
Current assets	83.9
Noncurrent liabilities	59.3
Current liabilities	54.3

The companies of the Vision Group contributed the following sales revenues and results for the period from October 1, 2004 to March 31, 2005 to the revenues and the annual net income of the Carl Zeiss Group:

	EUR mill
Sales revenues	80.3
Net income	3.6

4 Business Combinations

Business combinations in the 2004/2005 fiscal year

The following companies were acquired in the 2004/05 fiscal year:

	First-time consolidation	Voting shares %	Acquisition costs EUR mill
Laser Diagnostic Technologies Inc., San Diego, USA	December 2, 2004	65	23.4
P.A.L.M. Microlaser Technologies AG, Bernried	January 1, 2005	100	19.5
IOLTECH S.A., La Rochelle, France (sub-group including one domestic and 12 foreign companies)	February 1, 2005	57	100.7
NaWoTec GmbH, Rossdorf	June 15, 2005	100	43.7

Laser Diagnostic Technologies Inc., San Diego, USA and IOLTECH S.A., La Rochelle, France were acquired by CZ Meditec AG or its subsidiaries. Carl Zeiss AG holds only 65 % of the shares in CZ Meditec AG. The table above shows Carl Zeiss AG's voting rights in percent, while the acquisition costs are given in full.

In December 2004, the Microscopy Division purchased P.A.L.M. Microlaser Technologies AG, Bernried, a manufacturer of products for particularly demanding microscopic preparation. P.A.L.M. is also a successful performer in the areas of marketing application developments and carrying out contract research projects.

The acquisitions were mostly financed by cash, but partly by share issues at a subsidiary.

Carl Zeiss Meditec AG continued its expansion program in the ophthalmology business by acquiring Laser Diagnostic Technologies (LDT) Inc., San Diego, USA, in December 2004 through Carl Zeiss Meditec Inc., Dublin, USA, and by purchasing a majority stake in IOLTECH S.A., La Rochelle, France, in February 2005.

The US company offers products for glaucoma diagnosis and management.

Its main product will give Carl Zeiss Meditec access to a new customer group in the market segment of glaucoma diagnostics.

After the purchase, all the activities and functions of LDT were incorporated into the US American Group company Carl Zeiss Meditec, Inc.

Effective February 1, 2005, Carl Zeiss Meditec AG acquired 62.7 % of the shares of French eye surgery specialist IOLTECH S.A. from its controlling shareholder, Philippe Tourrette. In a second step, the remaining IOLTECH shareholders received a bid for their shares in the period from March 14 to April 5, 2005. By September 30, 2005 Carl Zeiss Meditec had succeeded in increas-

ing its share of IOLTECH's equity to 87.2 %.

Carl Zeiss Meditec AG is partly owned by minority stockholders, so that the share of IOLTECH held by the Carl Zeiss Group comes to 56.8 %.

The French company IOLTECH is a manufacturer of intraocular lenses, the use of which is prepared and made possible by ZEISS diagnostic instruments and surgical microscopes.

The Semiconductor Technology business group strengthened its position in nano-structuring by taking over NaWoTec GmbH, Rossdorf in June 2005. The new competences obtained give the business group a good starting position for its future business development. The first application for this technology is the electron beam mask repair instrument MeRit®, a joint development which is very highly regarded in the semiconductor industry.

The acquisitions made in fiscal 2004/05 had the following effect on the assets and liabilities of the Carl Zeiss Group up to the time of initial consolidation:

	LDT	P.A.L.M.	IOLTECH	NaWoTec	Total
	EUR mill	EUR mill	EUR mill	EUR mill	EUR mill
Goodwill	7.3	7.8	42.1	22.2	79.4
Other intangible assets	6.2	8.6	21.3	32.3	68.4
Property, plant and equipment	0.3	0.6	7.5	1.7	10.1
Other noncurrent assets	3.0	0.5	1.3	–	4.8
Noncurrent assets	16.8	17.5	72.2	56.2	162.7
Current assets	8.1	7.1	33.4	1.4	50.0
Noncurrent liabilities	1.7	3.3	7.5	13.4	25.9
Current liabilities	3.6	1.8	17.0	0.5	22.9
Minority interests	–3.8	–	–19.6	–	–23.4

Revenues and net profits for the companies newly acquired last year are incorporated in last year's figures as follows:

	P.A.L.M.	IOLTECH	NaWoTec
	EUR mill	EUR mill	EUR mill
Sales revenues	5.5	34.5	2.9
Net income	0.8	2.7	4.8

Immediately after the purchase, the operating activities of LDT were incorporated into the US American Group company Carl Zeiss Meditec, Inc.

In addition to the new acquisitions listed above, the outstanding 24.9 % of shares in an already fully consolidated subsidiary were purchased, resulting in goodwill totaling EUR 5,640,000.

**Business combinations in the
2005/2006 fiscal year**

	First-time consolidation	Voting shares %	Acquisition costs EUR mill
ALIS Corporation, Peabody (MA), USA	July 18, 2006	100	51.1

SMT AG acquired 100 % of the US company ALIS Corporation, Peabody (MA), USA. The helium ion microscopy technology developed by the ALIS Corporation adds a further future-oriented module to the technology portfolio of the Nano Technology Systems (NTS) division. The newly developed helium ion technology can be used for mapping and analyzing structures in the sub-nanometer range and for extremely precise sample structuring. With this technology, the Semiconductor Technology business group will further expand its global leadership as a technology and systems supplier for nanotechnology and promote its broad use in a wide range of industries and in research.

In the course of the year, Carl Zeiss Meditec AG acquired a further 9.3 % of the shares in IOLTECH S.A., La Rochelle, France, at a total price of EUR 12.3 million excluding expenses. This transaction raised CZ Meditec AG's stake in the company to 96.5 %. The Carl Zeiss Group's share was therefore 62.8 % as of the balance sheet date. Accordingly, this transaction led to changes in minority interests and in the goodwill.

The acquisition made in fiscal 2005/06 had the following effect on the assets and liabilities of the Carl Zeiss Group at the time of initial consolidation:

ALIS Corp.	
EUR mill	
Goodwill	23.2
Other intangible assets	41.8
Property, plant and equipment	0.5
Other noncurrent assets	–
Noncurrent assets	65.5
Current assets	1.6
Noncurrent liabilities	15.3
Current liabilities	0.7

The purchase price allocation carried out upon initial consolidation is based on provisional estimates by the company which could change up to the final assessment and audit of the fair values of the acquired intangible assets, deferred taxes and goodwill.

The company newly acquired in the fiscal year is included in the consolidated financial statements with the following revenues and loss for the year:

ALIS Corp.	
EUR mill	
Sales revenues	–
Net loss	–2.3

5 Principles of Consolidation

The consolidated financial statements are based on the annual financial statements of the subsidiaries included in the consolidated financial statements prepared as of September 30, 2006 in accordance with uniform accounting policies.

Since May 14, 2002, capital consolidation by the purchase method in accordance with IFRS 3 *Business Combinations* has been applied. Accordingly, the identifiable assets and liabilities are recognized at their respective fair values at the purchase date. Minority interests (shares held by other stockholders) are consequently assessed at the amount of their share in the associated fair values of the assets and liabilities. The acquisition costs of the shares acquired are offset against the Group's share of the subsidiary's equity at fair value. If a difference remains on the assets side after the calculation, it is recognized as goodwill under intangible assets. Liabilities-side differences are recognized through the statement of income. For acquisitions before May 14, 2002 the option in IFRS 1.15 was used to the effect that these business combinations were accounted for in the consolidated financial statements in accordance with IFRS similarly to the HGB accounting method. Transactions under common control are accounted for at book value.

The results of the subsidiaries acquired in the reporting period are included in the consolidated statement of income from the time they were effectively purchased (power of control).

A subsidiary is removed from the scope of consolidation at the time when Carl Zeiss AG loses control of the company.

The equity shares held by outside shareholders are recognized in the consolidated financial statements within the consolidated equity capital under minority interests.

Companies under joint control in the sense of IAS 31 *Interests in Joint Ventures* are accounted for using the equity method, in accordance with the alternative treatment in IAS 31.38.

When using the equity method in accordance with IAS 28 *Investments in Associates*, the shares are recognized at purchase cost in the balance sheet upon initial assessment. These costs will be adjusted in subsequent valuations for changes in the Group's share in the equity capital (net assets) after the point of acquisition and for losses due to impairment.

Receivables and payables between consolidated companies are eliminated. Any resulting currency differences are included in retained earnings.

Intercompany profits and losses resulting from goods and services transactions are eliminated.

The income tax aspects of the consolidation are dealt with by applying deferred taxation.

In the consolidated statement of income, intercompany sales and other internal gains have been offset against corresponding expenses or have been reclassified as changes in inventory or own work capitalized.

6 Currency Conversion

The consolidated financial statements are denominated in euros, the functional and reporting currency of the Group. In the individual statements, receivables and payables in foreign currencies are initially valued at the rate applicable on the date of the transaction. Changes in exchange rates are accounted for by revaluation at the average rate of exchange as of the balance sheet date, the resulting gains or losses are recognized in the consolidated statement of income under financial results.

The annual financial statements of consolidated subsidiaries prepared in foreign currencies are converted on the basis of the concept of the functional currency in accordance with IAS 21 *The Effects of Changes in*

Foreign Exchange Rates. This means that all assets and liabilities are converted at average rates of exchange as of the balance sheet date, but the equity is converted at historic rates. The income and expenses in the statement of income are converted at annual average rates of exchange. Differences arising from the currency conversion are included under other reserves in the consolidated equity statement, outside profit and loss. In accordance with the option under IFRS 1.22, the translation differences on October 1, 2004 (the transition date) were set to zero.

The consolidated financial statements of September 30, 2006 and 2005 were based on the following exchange rates for foreign currencies with a material influence:

	EUR 1 =	Rates at balance sheet date		Average rates	
		Sept. 30, 2006	Sept. 30, 2005	2005/06	2004/05
United Kingdom	GBP	0.6775	0.6824	0.6836	0.6877
Japan	JPY	149.4500	136.7000	142.9679	136.3123
USA	USD	1.2669	1.2049	1.2306	1.2719

7 Principles of Accounting and Valuation

The annual financial statements of the companies included in the consolidation have all been prepared in accordance with the accounting and valuation principles applicable to the Group. In cases where the local financial statements of individual companies depart from these principles, the necessary adjustments have been made.

The same principles of accounting and valuation have been applied to this year and last year.

For subsidiaries whose balance sheet date differs from that of the Group, interim financial statements are used as a basis for consolidation.

Use of estimates

In order to prepare financial statements according to IFRS, estimates are required which influence not only the valuation of the assets and liabilities, the nature and scope of contingent liabilities and concrete references to purchasing commitments as of the balance sheet date, but also the amount of income and expenditure in the reporting period. The assumptions and estimates chiefly relate to the application of standard useful life periods across the Group, the collectability of receivables, accounting for and valuing provisions, and the possibility of realizing future tax relief. The actual results may differ from these estimates. Changes are recognized in the statement of income when better information becomes available.

Specific valuation risks are addressed in more detail under other provisions.

Intangible assets

Purchased and self-created intangible assets are only capitalized according to IAS 38 *Intangible Assets* if it is probable that future economic benefits are attributable to the assets and the purchase or manufacturing cost of the asset can be measured reliably.

These assets are recognized initially at the purchase or manufacturing cost. Subsequently, intangible assets with a finite useful life are measured at cost less cumulative amortization and impairment. The amortization is calculated using the straight-line method over the economic useful life of the asset. Intangible assets with an indefinite useful life and goodwill are not amortized and are therefore assessed at cost less impairment losses.

In accordance with IFRS 1, the goodwill on October 1, 2004 (the transition date) was recognized at the book value under the German Commercial Code (HGB) – with the exception of new acquisitions made on or after May 14, 2002. Since no goodwill was shown in the HGB consolidated financial statements because the option of § 309 Para. 1 HGB was exercised, only goodwill arising from the initial inclusion of subsidiaries in the IFRS consolidated financial statements or from the voluntary early application of IFRS 3 *Business Combinations* was recognized in the opening balance sheet as of October 1, 2004.

Development costs have been capitalized wherever the criteria stated in IAS 38.57 were fulfilled on a cumulative basis. The criteria to be fulfilled include the fact that the technical feasibility of the completion of the intangible asset in question must be possible so that it can be available for sale or use. Furthermore, the intention and the ability to complete the intangible asset and to use it or sell it in the future are required. In addition, it must be possible to use or sell self-created intangible assets. An economic benefit to the company must also arise.

The companies of the Carl Zeiss Group carry out development that stretches technology to its limits, therefore generally working on technological quantum leaps. For this reason, only a small proportion of development costs is capitalized in the Carl Zeiss Group, since the capitalization criteria are only cumulatively fulfilled at a relatively late point in time.

The costs directly attributable to a development, including appropriate development-related overhead, are recognized as manufacturing costs. Capitalized development costs are amortized from the time at which the developments are ready for use in a straight line over the expected product life cycle (as a rule, between 3 and 7 years). Research costs and development costs that cannot be capitalized are recognized as expenses at the time they are incurred.

Property, plant and equipment

Property, plant and equipment are measured in accordance with IAS 16 *Property, Plant and Equipment*, at cost less accumulated depreciation and impairment. The manufacturing cost of self-created assets includes not only direct costs, but also appropriate overhead costs for materials and production. Interest on loans is not included. The assets are depreciated in a straight line over their economic useful lives.

Depreciation is based on the following ranges for the useful lives:

	Useful life
Buildings	5 to 40 years
Technical equipment and machinery	3 to 21 years
Other equipment, plant and office equipment	3 to 23 years

Impairment of intangible assets and property, plant and equipment

IAS 36 *Impairment of Assets* demands a review at every balance sheet date of whether there are any indications of impairment in the values of assets carried in the balance sheet. If such indications are identifiable or if an annual review is mandatory, as in the case of intangible assets which do not have a finite useful life and goodwill, an impairment test is carried out. The recoverable amount of the asset or of a cash generating unit (CGU) is estimated to determine whether its book value needs to be adjusted. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. To determine the value in use, the estimated future cash flows are discounted to the present value by a risk-adjusted rate after tax using the discounted cash flow method. This risk-adjusted discount rate lies within a range of 8.4 % to 12.0 % for the Carl Zeiss Group, depending on the CGU. If the analysis is performed before tax, the range for the risk-adjusted discount rate is 9.1 % to 12.6 %. The discount rates are determined by the Weighted Average Cost of Capital (WACC) method. The detailed planning period for the future cash flows is three fiscal years. For the fiscal years thereafter, the cash flow for the last year of detailed planning is carried forward with no growth factor. The value of an asset has to be adjusted downwards if the book value of the asset or cash-generating unit exceeds the higher of the fair value less costs to sell and the value in use. An impairment loss is recognized immediately in the statement of income.

An impairment loss recognized in previous years can be corrected in the income statement if the reasons for the impairment no longer exist, for all assets except goodwill. However, the writeup can only be made to the extent that the value of the asset does not exceed the book value that would have arisen through depreciation if the impairment had not been recognized in previous years. Writeups of goodwill are prohibited.

Government grants

Government grants are recognized, in accordance with IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*, only when there is reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received. Investment grants are always recognized as accruals on the liabilities side and amortized over the life of the asset. Profit- and loss-related grants are recognized in the period in which the corresponding expenses are incurred.

Leases

Leases are classifieded as finance leases if they transfer substantially all the risks and rewards incident to ownership to the lessee. All other leases are classified as operating leases.

Leased assets which need to be classified as finance leases according to IAS 17 *Leases*, so that in economic terms they actually take the form of purchases of assets with long-term financing, are recorded at the commencement of the lease term at the lower of the fair value of the asset or the present value of the minimum lease payments. The corresponding liability is recognized on the balance sheet as a lease liability. The asset is depreciated over the shorter of the life of the asset or the lease term if it is not certain whether the lessee will obtain ownership at the end of the lease.

Finance lease payments are apportioned between the finance charge and the reduction of the outstanding liability, in accordance with their financing character. The finance charge is recognized as an interest expense in the statement of income.

For operating leases, the lease payments are recognized as an expense in the period in which they are incurred.

Financial instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

According to IAS 39 *Financial Instruments: Recognition and Measurement*, financial instruments fall into the following categories:

- Financial assets and liabilities valued at fair value through profit or loss or financial assets and liabilities held for trading;
- Available-for-sale financial assets;
- Held-to-maturity investments and
- Loans and receivables.

Financial instruments are recognized at the time when the obligation to purchase or sell an asset is entered into. They are measured at fair value or amortized cost, depending on their classification.

The fair value generally corresponds to the market value. If there is no active market, the fair value is determined by adequate valuation methods (e.g. discounted cash flows or option pricing models).

The amortized cost is the purchase cost taking into account repayments, impairments and the amortization of a premium or discount.

The fair value option described in IAS 39 is not used by the Carl Zeiss Group.

Financial assets held for trading are carried at the fair value, with changes in market value being recorded in the statement of income.

These assets are solely derivative financial instruments, which are used in the Carl Zeiss Group mainly in the context of interest and currency hedging. The Carl Zeiss Group does not use hedge accounting.

Other investments as well as securities and shares in equity or bond funds are classified as "available-for-sale" and are therefore measured at fair value. If there is no active market for instruments so that the market value cannot be estimated reliably, these are carried at amortized cost. Lower fair values are applied if indicated. Unrealized profits and losses are recorded outside profit and

loss in a separate item under equity, taking deferred taxation into account. If the asset is disposed of or in the event of a probable permanent impairment of market value to a level below cost, the changes in market value are recorded as a loss. Increases in the market value of equity instruments are always recorded outside of profit or loss, even if a prior allowance for impairment has been posted to the statement of income.

Held-to-maturity investments, loans and receivables and short- and long-term financial liabilities are measured at amortized cost.

These are generally loans, trade receivables and current and noncurrent other financial assets and liabilities. Interest-free or low-interest loans are carried at their present value and marked up over the period to their maturity.

Inventories

Raw materials, supplies and merchandise for resale are valued at cost, which is determined by the average-cost method. Unfinished and finished products are valued at manufacturing cost. This includes not only the cost of materials and wages, but also adequate factory overhead costs for materials and production, production-related depreciation and production-related administrative costs. Interest on loans is not capitalized.

An allowance is made for impairment if the cost is higher than the expected net recoverable value. Inventory, sales and revenue risks are therefore taken adequately into account.

Receivables and other assets

Receivables and other assets are carried at their nominal value or at cost. Perceivable default risks are taken into account by individual adjustments.

Cash and cash equivalents

Cash in hand and at bank and all funds originally repayable within three months are recognized as liquid assets.

***Pension provisions and other
post-employment benefits***

The companies of the Carl Zeiss Group have different pension plans. Moreover, foreign subsidiaries have entered into commitments to provide a certain level of medical care after employment has terminated.

Payments for contribution-based obligations and contributions to statutory pension insurance schemes are recorded as expenses for the period in which they are incurred.

Obligations arising from defined benefit plans are calculated by the projected unit credit method taking expected future increases in salaries and pension benefits into account, in accordance with IAS 19 *Employee Benefits*.

The pension provisions and other post-employment benefits of the domestic companies are based on actuarial computations and the 2005 G mortality tables compiled by Professor Dr. Klaus Heubeck. At foreign subsidiaries, provisions for pensions and other post-employment benefits are recognized on the basis of country-specific parameters.

Differences between the defined benefit obligation (DBO) and external plan assets and the pension provisions in the balance sheet mainly result from actuarial gains or losses in connection with changes in the portfolio and the divergence of real trends from the parameters assumed in the calculation.

In recognizing these actuarial gains or losses arising from defined benefit pension obligations, the Carl Zeiss Group uses the corridor method. In other words, actuarial gains and losses that lie outside a range of 10 % of the higher of the DBO or the fair value of the plan assets at the beginning of the fiscal year are amortized over the expected average remaining service period of the beneficiaries. The Carl Zeiss Group is making use of the option offered by IFRS 1.20 to recognize all cumulative actuarial gains and losses as of 1 October 2004 and therefore to net them off against equity in the opening balance sheet outside profit and loss, handling them in the same way as all other changes caused by the transition to IFRS.

The service costs are recognized under personnel expenses, the interest component of the allocations to provisions and the expected return on the plan assets are recorded in financial results.

Other provisions

In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, present obligations to third parties resulting from past events are recognized under other provisions if settlement is expected to result in an outflow of resources of which the amount can be measured with reasonable certainty. Provisions are carried at full cost.

If the discount effect has a significant impact on the amount of the provision and the remaining period of the obligations can be determined reliably, long-term provisions are recognized at discounted present value. In such cases, the accretion of the provision over time is recorded as an interest expense.

Provisions for partial retirement schemes, anniversary bonuses and death benefit are valued on the basis of actuarial opinions.

Restructuring provisions

Restructuring provisions are recognized if a decision on a restructuring program has been taken before the balance sheet date or the economic necessity of such a program exists and a restructuring plan has been drawn up before the balance sheet date which gives details of the business area or location affected, the approximate number of employees affected and the period of implementation, and the employees concerned or their representatives have been informed. The amount of the provisions will include all expenses directly related to the restructuring program, which will necessarily be incurred in the course of restructuring and which are not related to the present or future activities of the company.

Provisions for warranties

Warranty or guarantee obligations may arise for legal reasons or from terms of contract or goodwill. Provisions are recognized for expected payments under warranty or guarantee obligations. Use of such provisions is to be expected if the warranty period has not yet expired, if warranty expenses have been incurred in the past or if there is reason to believe that actual warranty cases will arise. Depending on the situation, the warranty risk is derived either from individual estimates or past empirical values and provisions are made accordingly.

Provisions for litigation risks

Provisions are recognized for risks arising from litigation in which a company of the Carl Zeiss Group is the defendant. They cover the costs that the company will incur if the court finds against it and if there is a greater chance of a negative than a positive decision. This sum includes payments to be made by the company, in particular damages and compensation, as well as the expected costs of litigation. Where the Group is the plaintiff, provisions are only made for the costs of litigation.

Deferred taxes

Deferred taxes are recognized on the basis of the liability method in accordance with IAS 12 *Income Taxes*.

Deferred tax assets and liabilities are recognized for all temporary differences between the carrying amount in accordance with IFRS and the tax balance sheet values of the companies included, as well as for consolidation measures.

In addition, deferred tax assets are recognized for future benefits arising from unused tax losses and unused tax credits to the extent that their use is probable.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilized. Any such reduction is also reviewed annually and be subsequently reversed to the extent that it becomes probable that sufficient taxable profit will be available for the benefit to be utilized.

Deferred tax liabilities are not recognized if they arise from temporary differences relating to investments in subsidiaries where Carl Zeiss is able to control the timing of the reversal of the difference and it is probable that the reversal will not occur in the foreseeable future.

Deferred taxes relating to temporary differences that are recognized directly in equity are also recorded under equity and not in the statement of income.

Deferred tax assets and deferred tax liabilities are offset on the balance sheet if the enterprise has the legal right to settle on a net basis and the taxes are levied by the same taxing authority on the same entity. Accordingly, deferred tax assets and deferred tax liabilities are also offset within the combined tax returns.

Liabilities

Liabilities are recognized on the balance sheet at amortized cost using the effective interest method.

Recognition of revenue and other income

The company recognizes revenue from the sale of goods on the basis of appropriate contracts as soon as all parts of the product have been delivered, risk has passed to the buyer, payment has been agreed or can be determined, no significant obligations towards the customer are outstanding and collection of the receivable can be considered probable. Sales revenues are measured after deduction of all discounts, price reductions and customer bonuses. If the sale includes subsequent services or maintenance contracts, the revenue pertaining to these is recognized in the period in which it is earned and in accordance with the stage of completion of the services or pro rata over the period of the contract.

If the right to return goods is agreed in the case of product sales, the revenue is only recognized if the company has appropriate historic data available. On the basis of this data, the value of probable returns can be estimated and recognized as an expense against revenue in the period in which the expense is incurred.

Interest income is recorded over time using the effective interest method. Dividends are not recognized until the legal right to payment arises. If license fees are payable under multi-period contracts, the revenue is generally recognized on a straight-line basis.

Recognition of expenses

In general, expenses are recorded where there is a probability of an outflow of economic resources from the company.

Research and development costs are recorded directly as expenses for the period, unless they can be capitalized. Grants towards research and development costs are offset against expenses if the entitlement arises for work that has already been performed and therefore paid for.

The company is liable towards the buyer for the flawless functioning of the products sold during the contractual warranty period. The creation of appropriate provisions for warranties is recorded under other operating expenses at the time when the revenue from the sale is recognized.

Notes to the consolidated statement of income

8 Sales Revenues

Sums invoiced to customers for goods and services are reported under sales. Deductions from sales such as discounts are offset.

Sales have been generated with precision-mechanical, optical and electronic products and can be divided up by geographic area as follows:

	2005/06		2004/05	
	EUR thou	%	EUR thou	%
Germany	380,499	16	389,046	18
Rest of Europe	1,138,538	47	1,010,155	45
America	569,045	23	469,985	21
Other regions	344,862	14	347,491	16
	2,432,944	100	2,216,677	100

9 Other Operating Income

This item includes on-charged overhead, research and development grants and income from rentals and leases.

Other operating income also includes:

	2005/06	2004/05
	EUR thou	EUR thou
Income from license agreements	29,006	23,351
Insurance compensation	1,902	1,864
Release of other provisions	18,353	26,518
Gains from the disposal of noncurrent assets	901	3,668
Write-ups of noncurrent assets	4,043	587
Release of value adjustments on receivables	2,516	6,034

The income from the release of other provisions mainly includes the release of provisions for risks resulting from trade and other risks.

The gains from the disposal of noncurrent assets shown for the reporting period mainly result from the sale of technical equipment and machinery. At one Group company in Germany, real estate not required for the business was sold at a profit. The figures

for the previous year mainly refer to gains from the disposal of technical equipment and machinery which were sold to the Carl Zeiss Vision Group as part of asset deals in North America.

The statement of income recognizes government grants for the year in the amount of EUR 6,959,000 (previous year EUR 9,223,000).

10 Cost of Materials

	2005/06	2004/05
	EUR thou	EUR thou
Cost of raw materials, consumables and supplies, and of purchased materials	887,482	752,726
Inventory value adjustments	-911	5,074
Cost of purchased services	44,168	50,631
	930,739	808,431

11 Personnel Expenses

	2005/06	2004/05
	EUR thou	EUR thou
Wages and salaries	637,992	645,213
Social security costs	121,835	118,142
Pension costs	34,346	21,513
Other benefits	285	460
	794,458	785,328

12 Depreciation of Property, Plant and Equipment and Amortization of Intangible Assets

	2005/06	2004/05
	EUR thou	EUR thou
Depreciation of property, plant and equipment and amortization of intangible assets	124,482	119,435
of which impairments in accordance with IAS 36	1,411	2,716

Of the impairments, EUR 322,000 relates to an intangible asset at a foreign subsidiary. In addition, downward value adjustments were made on technical equipment and plant, last year principally in connection with the restructuring of a division.

13 Other Operating Expenses

Other operating expenses consist primarily of administration costs, sales costs, professional fees and allocations to other provisions.

Also included are:

	2005/06	2004/05
	EUR thou	EUR thou
Losses from the disposal of noncurrent assets	1,916	4,573
Maintenance	45,642	32,304
Representatives' commissions	54,756	46,960
License fees	8,324	13,168
Warranty costs	18,968	11,116

14 Other Taxes

Other taxes consist of tax expenses and gains arising independently of income.

15 Financial Result

Result from investments accounted for using the equity method

The notes on this subject are to be found in section 19 "Investments Accounted for using the Equity Method".

Income from the transition consolidation of CZ Vision

These results, which are not subject to income taxes, last year included only positive profit effects of the CZ Vision Group's transition from full consolidation to the equity method.

Net Interest Income

	2005/06	2004/05
	EUR thou	EUR thou
Other interest and similar income	31,719	26,783
attributable to subsidiaries	352	262
Interest and similar expenses	81,912	78,947
attributable to subsidiaries	92	501
interest costs (pensions)	56,221	56,959
	-50,193	-52,164

Other financial results**Result from investments**

	2005/06	2004/05
	EUR thou	EUR thou
Investment income	4,316	8,705
Income from profit transfer agreements	464	201
Expenses from loss absorption	1,825	392
Taxes charged to subsidiaries within the combined tax return	254	123
	3,209	8,637

Investment income includes income of EUR 1,731,000 (last year: EUR 441,000) attributable to subsidiaries.

The other financial results also include the following expenses and income:

	2005/06	2004/05
	EUR thou	EUR thou
Income from exchange rate differences	16,630	20,550
Expenses from exchange rate differences	17,570	13,435
Income from changes in market value	845	3,776
Expenses from changes in market value	2,074	6,302
Expected return on plan assets (pensions)	7,236	4,773
Depreciation of financial assets	1,850	1,814
Income from the disposal of current securities	10,624	397

The income from the disposal of current securities in the reporting period mainly shows price gains from available-for-sale

securities which were realized by sale or by the transfer of the special funds to the CTA.

16 Taxes on Income

The taxes on income include domestic and foreign income taxes, the release of provisions for taxes, tax refunds and deferred taxes.

The taxes on income can be broken down as follows according to their origin:

	2005/06	2004/05
	EUR thou	EUR thou
Current tax expenses less tax refunds and release of tax provisions	90,660	80,663
Deferred tax expenses	–	1,753
Deferred tax income	1,186	–
Taxes on income	89,474	82,416

Deferred taxes are calculated on the basis of the statutory rates of tax that apply in the individual countries at the expected time of realization or which will very probably apply. The current corporate income tax rate in Germany is 25 %. Taking into account the solidarity surcharge and the different trade tax rates, the tax rates for domestic companies ranged from 36.9 % to 39.4 % (unchanged from last year). The rate applicable to the tax reconciliation account is a consolidated tax rate of 38.8 % (unchanged from last year). The nominal tax rates applying outside Germany in the fiscal year lie between 7.5 % and 42.1 % (unchanged from last year).

The income tax expenses do not include any income and expenses arising in connection with changes to accounting policies in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

The deferred tax assets and liabilities as of September 30 can be assigned to individual balance sheet items as follows:

	Sept. 30, 2006		Sept. 30, 2005	
	Assets	Liabilities	Assets	Liabilities
	EUR thou	EUR thou	EUR thou	EUR thou
Intangible assets	3,736	34,326	1,513	25,480
Property, plant and equipment	3,914	99,893	3,287	86,157
Other noncurrent assets	20,851	4,050	10,798	4,959
Inventories	18,878	2,302	20,310	3,562
Receivables and other current assets	3,990	2,819	3,811	7,862
Noncurrent liabilities	227,090	22,889	192,686	249
Current liabilities	28,007	31,152	27,696	13,049
Tax loss carryforwards	5,055	–	8,270	–
Total deferred taxes	311,521	197,431	268,371	141,318
Impairment	3,123	–	895	–
Netting	145,487	145,487	103,431	103,431
Deferred taxes (net)	162,911	51,944	164,045	37,887

On the balance sheet date, the Carl Zeiss Group has unused tax loss carryforwards available to offset against future profits. Deferred tax assets amounting to EUR 5,055,000 (last year EUR 8,270,000) as of the balance sheet date are recognized for the usable tax loss carryforwards. These concern Germany, Austria and the USA (last year, the United Kingdom and Sweden were also included). The reduction of the deferred tax assets for loss carryforwards in the reporting period is attributable to current profits in the 2005/06 fiscal year.

Loss carryforwards in the amount of EUR 24,733,000 (last year EUR 34,220,000) exist regarding which no deferred taxes are accounted for. Most of these can be offset for longer than 5 years or are totally unforfeitable. These loss carryforwards were classified as unusable as of the balance sheet date.

Consolidation has resulted in EUR 8,931,000 of deferred tax assets (last year EUR 11,725,000) and EUR 33,814,000 of deferred tax liabilities (last year EUR 26,075,000).

The reconciliation of the expected income tax expenses based on earnings before taxes on income at a consolidated tax rate of 38.8 % for the reporting period and the actual tax expenses for the previous year shown in the statement of income is as follows:

	2005/06	2004/05
	EUR thou	EUR thou
Earnings before taxes on income	256,276	209,848
Expected income tax expenses	99,435	81,421
Differences arising from different tax rates	-4,710	-4,877
Effects of changes in tax rates	-1,063	903
Results from investments accounted for using the equity method	6,900	8,545
Non-deductible expenses	4,348	9,017
Tax-free income	-6,692	-16,692
Effects unrelated to the accounting period	-10,989	2,595
Other	2,245	1,504
Actual income tax expenses	89,474	82,416

Notes to the Consolidated Balance Sheet

17 Intangible Assets

Goodwill in the amount of EUR 128,795,000 (last year EUR 100,986,000) is subjected to an impairment test every year at the level of the cash generating units.

The cash flow used for the calculation is based on detailed plans with a planning horizon of three years. For the subsequent fiscal years, the cash flow for the last year of detailed planning is carried forward. No growth factor was assumed here. The discount rates applied are weighted average costs of capital after taxes between 8.4 % and 12.0 %, depending on the cash generating unit (9.1 % to 12.6 % before taxes).

Last year's impairment tests did not lead to any allowances against the goodwill on the balance sheet. In the reporting period, a foreign subsidiary suffered an impairment of EUR 322,000.

The following table shows the most important goodwill items carried in the consolidated balance sheet per segment.

Transaction	Goodwill	Segment
	EUR mill	
Reverse acquisition of CZ Meditec AG	10.4	Medical and Research Solutions
Acquisition of LDT	7.3	Medical and Research Solutions
Acquisition of P.A.L.M.	7.8	Medical and Research Solutions
Acquisition of IOLTECH (sub-group)	47.2	Medical and Research Solutions
Acquisition of CZ 3D Aalen	5.7	Industrial Solutions
Acquisition of NaWoTec	22.2	Industrial Solutions
Acquisition of ALIS Corp.	23.2	Industrial Solutions

In the reporting period, a total of EUR 254 million (last year EUR 230 million) was invested in research and development. Of this total, EUR 6,093,000 was capitalized (last year EUR 3,699,000), because the criteria of IAS 38 were met.

One domestic subsidiary uses software under leases that are classified as finance leases in accordance with IAS 17, with economic ownership of the asset being assigned to the lessee. Software with a net book value of EUR 1,039,000 (last year EUR 1,299,000) is carried under intangible assets in the consolidated balance sheet as a result of these leases.

	Patents, industrial property rights, licenses, software	Goodwill	Development costs	Other intangible assets	Total
	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou
Purchase / manufacturing costs					
Oct. 1, 2004	55,031	18,003	13,655	4,051	90,740
Change in scope of consolidation	67,108	80,282	–	5,497	152,887
Additions	4,914	5,640	3,699	53	14,306
Disposals	5,443	347	–	31	5,821
Transfers	75	–	–	–75	–
Currency differences	95	423	–	310	828
Sept. 30, 2005	121,780	104,001	17,354	9,805	252,940
Amortization / impairment					
Oct. 1, 2004	18,170	2,971	1,400	1,736	24,277
Change in scope of consolidation	4,244	–	–	–	4,244
Additions	11,084	–	6,805	1,449	19,338
Disposals	3,113	–	–	–	3,113
Write-ups	–	–	–	–	–
Transfers	–	–	–	–	–
Currency differences	31	44	–	38	113
Sept. 30, 2005	30,416	3,015	8,205	3,223	44,859
Book values Sept. 30, 2005	91,364	100,986	9,149	6,582	208,081
Purchase / manufacturing costs					
Oct. 1, 2005	121,780	104,001	17,354	9,805	252,940
Change in scope of consolidation	41,821	23,219	–	–	65,040
Additions	6,133	5,283	6,093	138	17,647
Disposals	360	91	797	–	1,248
Transfers	317	–	–	–	317
Currency differences	–206	–463	–	–292	–961
Sept. 30, 2006	169,485	131,949	22,650	9,651	333,735
Amortization / impairment					
Oct. 1, 2005	30,416	3,015	8,205	3,223	44,859
Change in scope of consolidation	–	–	–	–	–
Additions	17,307	322	5,261	1,633	24,523
Disposals	257	91	797	–	1,145
Write-ups	–	–	–	–	–
Transfers	37	–	–	–	37
Currency differences	–105	–92	–	–60	–257
Sept. 30, 2006	47,398	3,154	12,669	4,796	68,017
Book values Sept. 30, 2006	122,087	128,795	9,981	4,855	265,718

18 Property, plant and equipment

	Land and equivalent rights and buildings including buildings on land owned by third parties	Technical equipment and machinery	Other equipment, plant and office equipment	Advance payments and construction in progress	Total
	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou
Purchase / manufacturing costs					
Oct. 1, 2004	395,076	542,866	438,751	13,913	1,390,606
Change in scope of consolidation	-31,191	-127,935	-15,598	-41	-174,765
Additions	6,876	18,955	58,163	32,868	116,862
Disposals	4,523	24,970	41,775	179	71,447
Transfers	3	4,987	8,373	-13,363	-
Currency differences	768	202	849	11	1,830
Sept. 30, 2005	367,009	414,105	448,763	33,209	1,263,086
Depreciation / impairment					
Oct. 1, 2004	153,332	367,603	290,225	-	811,160
Change in scope of consolidation	-18,740	-107,785	-12,376	-	-138,901
Additions	10,133	35,178	54,786	-	100,097
Disposals	1,955	17,500	33,294	-	52,749
Write-ups	-	-	-	-	-
Transfers	-19	261	-242	-	-
Currency differences	408	245	612	-	1,265
Sept. 30, 2005	143,159	278,002	299,711	-	720,872
Book values Sept. 30, 2005	223,850	136,103	149,052	33,209	542,214
Purchase / manufacturing costs					
Oct. 1, 2005	367,009	414,105	448,763	33,209	1,263,086
Change in scope of consolidation	133	175	336	-	644
Additions	13,531	34,559	60,804	23,265	132,159
Disposals	1,562	21,854	28,394	239	52,049
Transfers	35,132	-17,673	14,349	-31,869	-61
Currency differences	-3,023	-906	-1,598	-30	-5,557
Sept. 30, 2006	411,220	408,406	494,260	24,336	1,338,222
Depreciation / impairment					
Oct. 1, 2005	143,159	278,002	299,711	-	720,872
Change in scope of consolidation	22	20	95	-	137
Additions	10,117	30,616	59,226	-	99,959
Disposals	1,244	17,563	9,700	-	28,507
Write-ups	22	2,510	204	-	2,736
Transfers	827	-3,400	2,536	-	-37
Currency differences	-1,194	-574	-1,164	-	-2,932
Sept. 30, 2006	151,665	284,591	350,500	-	786,756
Book values Sept. 30, 2006	259,555	123,815	143,760	24,336	551,466

Write-ups on the technical equipment and machinery in this fiscal year are mainly due to the reversal of impairments from previous years.

The book values include the following amounts from finance leases with the Carl Zeiss Group as the lessee:

	Sept. 30, 2006	Sept. 30, 2005
	EUR thou	EUR thou
Land and buildings	119,031	76,599
Technical equipment and machinery	25,615	28,126
Other equipment, plant and office equipment	1,410	1,616
Construction in progress	–	20,319

The book values above include one domestic production facility which was classified under IAS 17 as a finance lease and is carried in the consolidated balance sheet at the balance sheet date with a book value of EUR 131,348,000 (last year EUR 108,885,000). Furthermore, a sale-and-lease-back transaction by a US subsidiary is also classed as a finance lease in accordance with IAS 17, so that the land, buildings and improvements continue to be on the balance sheet of the lessee and are depreciated there. They are carried at a book value of EUR 10,191,000 (last year EUR 11,944,000).

Further details of these leases can be found in section 29 "Financial Liabilities".

Property, plant and equipment with a net book value of EUR 2,433,000 are subject to restraints on disposal or serve as collateral for liabilities.

The Group had entered into contractual obligations of EUR 34,877,000 for the purchase of property, plant and equipment as of the balance sheet date.

19 Investments Accounted for using the Equity Method

Carl Zeiss AG has valued one associated company using the equity method in these consolidated financial statements. In addition, its shares in Carl Zeiss Vision Holding GmbH, which represents a joint venture in accordance with IAS 31, are also accounted for using the equity method on the basis of its consolidated financial statements, the alternative treatment permitted by IAS 31.38.

	Country	Shareholding	
		Sept. 30, 2006	Sept. 30, 2005
Carl Zeiss Vision Holding GmbH	Germany	48 %	50 %
TCZ GmbH	Switzerland	100 %	40 %
TCZ Pte. Ltd.	Singapore	40 %	–

The reduction in the share in Carl Zeiss Vision Holding GmbH, Aalen is the result of a capital increase by this company in the context of the management equity sharing program, in which the shareholders (the Carl Zeiss Group and EQT) did not participate. The new shares issued do not have voting rights, so that the Carl Zeiss Group still holds 50 % of the voting rights.

The operational activities of TCZ GmbH, St. Gallen, Switzerland, were transferred in the reporting period to TCZ Pte. Ltd., Singapore, Singapore, since its key customers are based in the Asian region and the business has thus followed its customers. The Group's interest in TCZ GmbH, St. Gallen, Switzerland, was then increased to 100 % so that it is now a fully consolidated subsidiary. TCZ GmbH had ceased active business operations as of the balance sheet date.

The Carl Zeiss Group's share in the losses of the above-mentioned companies, amounting to EUR 17,784,000, is shown in the consolidated statement of income (last year EUR 22,022,000) under results from financial assets accounted for using the equity method. The Group's share in the losses of TCZ GmbH, St. Gallen, Switzerland, is reported for this period up to the time of the transition to full consolidation. The figure shown for the previous year also includes the share in the losses of an equity interest sold in that year.

Summary of the financial information for financial assets accounted for using the equity method
(Base 100 %; September 30):

	2005/06				
	Assets	Liabilities	Equity	Sales revenues	Result
	EUR mill	EUR mill	EUR mill	EUR mill	EUR mill
Carl Zeiss Vision Holding GmbH	1,355	1,191	164	845	-31
TCZ Pte. Ltd.	20	6	14	-	-1

	2004/05				
	Assets	Liabilities	Equity	Sales revenues	Result
	EUR mill	EUR mill	EUR mill	EUR mill	EUR mill
Carl Zeiss Vision Holding GmbH *	1,347	1,145	202	417	-41
TCZ GmbH	27	6	21	-	-2

* Short fiscal year from April 1, 2005 to September 30, 2005

20 Other Noncurrent Financial Assets

	Sept. 30, 2006	Sept. 30, 2005
	EUR thou	EUR thou
Shares in subsidiaries	15,912	21,884
Loans to subsidiaries	1,225	801
Loans to joint ventures	70,000	70,000
Investments	15,571	13,915
Securities	714	740
Other noncurrent financial assets	2,435	3,475
	105,857	110,815

The loan to joint ventures of EUR 70,000,000 refers solely to a shareholder loan granted to the CZ Vision Group.

The other noncurrent financial assets mainly consist of loans and rent deposit accounts which are payable in more than one year.

21 Inventories

	Sept. 30, 2006	Sept. 30, 2005
	EUR thou	EUR thou
Raw materials and supplies	150,761	140,934
Unfinished goods, other work in progress	292,703	272,704
Finished goods and goods for resale	189,436	170,411
Advance payments made	2,036	6,533
Inventories	634,936	590,582

The book values include valuation adjustments of EUR 114,304,000 (last year EUR 124,050,000).

The amount of inventory value adjustments, which is recorded as an expense and shown in the consolidated statement of income under cost of materials, comes to EUR 3,355,000 in the reporting period

(last year EUR 9,002,000). Write-ups of EUR 8,458,000 (last year EUR 3,297,000) were recorded in the income statement.

Purchase obligations towards suppliers worth EUR 41,051,000 existed as of the balance sheet date.

22 Trade receivables

	Sept. 30, 2006	of which due after more than one year	Sept. 30, 2005	of which due after more than one year
	EUR thou	EUR thou	EUR thou	EUR thou
Trade receivables	473,352	3,679	386,111	5,396
including value adjustments of	17,409	–	17,993	–

23 Other current assets

	Sept. 30, 2006	of which due after more than one year	Sept. 30, 2005	of which due after more than one year
	EUR thou	EUR thou	EUR thou	EUR thou
Receivables from subsidiaries	13,629	–	17,523	–
Receivables from associated and related companies	34,369	772	12,875	–
Other current financial assets	9,641	–	13,146	–
Other current non-financial assets	43,228	–	36,343	–
	100,867	772	79,887	–

Receivables from subsidiaries result from cash management and from trade receivables from companies not included in Carl Zeiss AG's consolidated financial statements.

The current financial assets also include derivative financial instruments with a positive market value.

The other current non-financial assets mainly include tax credits from non-income taxes and prepaid expenses.

24 Securities

The current securities consist of stocks and other available-for-sale securities maturing within more than 90 days from the time of acquisition. These are recorded at fair value

in the consolidated balance sheet, with changes in market value up to the time of sale being shown under equity, outside profit and loss.

	Sept. 30, 2006	Sept. 30, 2005
	EUR thou	EUR thou
Stocks	–	43,696
Other securities	153,214	242,652
	153,214	286,348

The other securities are largely made up of commercial paper maturing in less than one year or intended for sale within one year.

The drop in value is almost entirely due to the transfer, of the special funds to the CTA.

25 Cash and Cash Equivalents

	Sept. 30, 2006	Sept. 30, 2005
	EUR thou	EUR thou
Liquid assets	476,460	464,435
Securities maturing in less than 90 days from the time of acquisition	7,539	124,527
	483,999	588,962

Liquid assets include checks, cash in hand and cash at bank.
The effective rates of interest on 90-day cash

at bank generally lie between 2.0 % and 3.0 %. The fair value of the liquid assets is their book value.

26 Equity

As in the previous year, the **common stock** of Carl Zeiss AG amounts to EUR 120,000,000 and is divided into 120,000,000 par-value stocks which are all held by the Carl-Zeiss-Stiftung.

Additional paid-in capital is constant at EUR 52,770,000.

The **consolidated retained earnings** include the statutory reserves of Carl Zeiss AG, amounting to EUR 5,950,000, retained earnings from consolidated subsidiaries, credit differences arising from capital consolidation, the provisions from the first application of IFRS and the cumulative currency differences as of October 1, 2004, which have been reclassified as of the transition date in accordance with the alternative treatment permitted by IFRS 1.22. In addition, goodwill resulting from the capital consolidation of subsidiaries consolidated in previous years has been deducted from this item.

The **cumulative other reserves** contain the differences arising from the translation outside profit and loss of the foreign currencies used for the financial statements of foreign subsidiaries from the time of the first application of IFRS onwards. Likewise, the effects of the valuation outside profit and loss of financial instruments classed as available-for-sale is reflected here.

Minority interests consist of third-party shares in the equity of domestic and foreign subsidiaries.

The development of the consolidated equity is shown in the equity statement, which is based on the rules of IAS 1.

27 Pension Provisions

The pension provisions include commitments of Carl Zeiss AG and various subsidiaries for current pensions and for future pension entitlements. This item also includes the provisions recognized by our US companies for post-retirement healthcare liabilities.

The Carl Zeiss Group has both defined contribution and defined benefit post-employment benefit systems.

With the defined contribution plans, the relevant company's obligation is limited to the payment of the agreed sums.

Defined benefit plans entail a commitment towards beneficiaries – both active and former employees – and their surviving dependents to pay the agreed benefits. The Carl Zeiss Group has such commitments in respect of both domestic and foreign Group companies. The Carl Zeiss Group funds defined benefit plans partly from provisions and partly from external funds.

The reporting period also saw the introduction in Germany of a Contractual Trust Arrangement, under which assets are transferred to a legally independent trust so that plan assets are created which are entirely dedicated to meeting pension obligations. EUR 241,623,000 was transferred to the independent trust as an initial investment. These assets meet the criteria of IAS 19.7 for plan assets, which allows them to be netted against the pension obligations in these consolidated financial statements.

Actuarial assumptions are unavoidable in any defined benefit pension system. In addition to life expectancy, which is obtained in Germany, for example, from the 2005 G mortality tables compiled by Professor Dr. Klaus Heubeck, the following assumptions were adopted in the actuarial calculations:

	Germany		Other countries	
	2005/06	2004/05	2005/06	2004/05
Discount rate	4.5 %	4.0 %	1.5 % – 5.5 %	1.5 % – 5.8 %
Trend in salaries	3.0 %	3.0 %	2.0 % – 4.4 %	2.0 % – 4.4 %
Trend in pensions	1.0 % – 1.8 %	1.0 % – 1.8 %	2.9 % – 4.0 %	2.9 % – 4.0 %
Trend in costs of medical care	–	–	10.0 %	10.0 %
Expected return on plan assets	5.0 %	–	7.0 % – 8.5 %	7.0 % – 8.5 %

The financing status of the defined benefit plans according to IAS 19 is as follows:

	Sept. 30, 2006	Sept. 30, 2005
	EUR thou	EUR thou
Defined benefit obligations not financed by a fund	857,483	1,169,567
Defined benefit obligations wholly or partly financed by a fund	519,017	157,744
Total defined benefit obligations	1,376,500	1,327,311
Plan assets at fair value	356,156	109,566
Net obligations	1,020,344	1,217,745
Past service cost not yet recognized	–	–
Actuarial gains/losses not yet recognized	–36,154	–4,951
	984,190	1,212,794

The consolidated statement of income contains the following:

	2005/06	2004/05
	EUR thou	EUR thou
Current service cost	29,917	27,354
Interest cost	56,221	56,959
Expected return on plan assets	-7,236	-4,773
Past service cost	692	290
Amortization of actuarial gains/losses	2,659	10
Other	232	-6,271
Net expenses for the fiscal year	82,485	73,569

The pension provisions have developed as follows:

	2005/06	2004/05
	EUR thou	EUR thou
Consolidated pension provisions on Oct. 1	1,212,794	1,262,730
Foreign exchange differences	-3,958	-3,240
Changes in scope of consolidation	-	-52,541
Net expenses for the fiscal year	82,485	73,569
Pension benefits paid	-65,508	-67,724
Investment in Contractual Trust Arrangement	-241,623	-
Consolidated pension provisions on Sept. 30	984,190	1,212,794

28 Other Provisions

	Sept. 30, 2006	of which due in one year or less	Sept. 30, 2005	of which due in one year or less
	EUR thou	EUR thou	EUR thou	EUR thou
Provisions for income taxes	55,637	55,637	67,513	67,513
Provisions for personnel-related obligations	105,716	52,364	99,169	44,937
Provisions for sales-related obligations	119,468	119,468	109,346	109,346
Other provisions	47,872	28,388	52,022	36,064
	328,693	255,857	328,050	257,860

The tax provisions include amounts for taxes not yet finally assessed.

Personnel-related provisions are for obligations under partial retirement schemes, anniversary expenses and vacation not yet taken, the timing or volume of which cannot yet be

precisely determined. Sales-related provisions mainly include warranties, services still to be rendered and anticipated losses from onerous contracts. The other provisions mainly include amounts for restructuring and the risk of litigation costs.

	Oct. 1, 2005	Change in scope of consolidation	Consumption	Release	Additions including re- classification	Accretion	Currency differences	Sept. 30, 2006
	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou
Provisions for income taxes	67,513	–	8,346	7,992	4,460	–	2	55,637
Provisions for personnel-related obligations	99,169	429	57,030	394	64,115	–	–573	105,716
Provisions for sales-related obligations	109,346	1,135	40,515	9,613	59,584	–	–469	119,468
Other provisions	52,022	308	11,918	8,346	16,588	266	–516	47,872
	328,050	1,872	117,809	26,345	144,747	266	–1,556	328,693

29 Financial Liabilities

	Sept. 30, 2006	of which due in one year or less	of which due in more than 5 years	Sept. 30, 2005	of which due in one year or less	of which due in more than 5 years
	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou
Loans	–	–	–	58,096	–	–
Profit-participating certificates	5,983	–	–	2,136	–	–
Liabilities to banks	362,180	18,602	211,020	346,502	68,925	288,225
Liabilities from finance leases	27,175	2,877	20,701	30,798	2,866	23,874
Other financial liabilities	14,353	4,620	2,488	25,891	11,061	14,819
	409,691	26,099	234,209	463,423	82,852	326,918

The loans in the previous year relate to a US subsidiary's private placement which was repaid in the reporting period.

Profit-participating certificates

The profit-participating certificates comprise those of series 2004-D, 2005-D and 2006-D, all with a term of 5 years. These certificates were issued this year and last year for employees of the Carl Zeiss Group in Germany to enable all employees to share in the company's success. Each certificate has a par value of EUR 250. The arrangement may only be cancelled by either party in narrowly defined exceptional cases. Yield is on a variable scale from 0 % to 20 %, depending on the Carl Zeiss Group's return on sales. The profit-sharing rights are carried in the balance sheet at par value.

Promissory note loans

Under agreements dated June 16, 2005 Carl Zeiss AG issued two promissory note loans in the amount of EUR 80 million and EUR 170 million, maturing on June 24, 2010 and June 25, 2012 respectively. Fixed interest of 3.25 % and 3.625 % respectively is payable annually. EUR 244,008,000 of this total is included in the liabilities to banks. Another EUR 4,981,000 is shown under other financial liabilities, as the lender of this amount is an insurance company.

Liabilities to banks

This item also shows liabilities arising from a finance lease transaction. In the year 2001, two Group companies concluded several leases and sub-leases with two property leasing companies for a large production facility. The leases and sub-leases will expire in December 2013.

They are classified as finance leases in accordance with IAS 17. The leasing companies carry out refinancing through bank loans. Therefore, the consolidated balance sheet shows not only the production facility but also the liabilities to banks, which were EUR 109,627,000 as of the balance sheet date (last year EUR 96,829,000) and bear 6 % (last year 6 %) interest. The short-term portion amounts to EUR 14,264,000 (last year EUR 9,343,000). The creditors have collateral for the loans in the form of the land acquired with the credit facility including the buildings erected on it, they do not have any right of recourse against companies of the Carl Zeiss Group. The loans are being repaid in monthly installments and run until 2013.

Liabilities arising from finance leases

The Carl Zeiss Group has concluded finance leases for a number of fixed assets, mainly for premises abroad, technical equipment and machinery and software.

The most significant liability arising from a finance lease comes from a sale-and-lease-back transaction at a US subsidiary. On September 28, 1999 the company, based in Dublin, USA, sold existing land, buildings and improvements and leased them back. The lease-back transaction is classified as a finance lease in accordance with IAS 17. The lease will run for a period of 20 years. When the original lease expires in the year 2019, the lessee will be granted the right to two extensions of five years each. In addition, the agreement contains a clause allowing the lease payments to be increased by 13 % every five years.

The liabilities can be broken down as follows:

	Sept. 30, 2006	of which due in one year or less	of which due in more than 5 years	Sept. 30, 2005	of which due in one year or less	of which due in more than 5 years
	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou
Future minimum lease payments	41,200	4,578	32,652	46,628	4,520	38,117
Share of interest / future cost of finance	14,025	1,701	11,951	15,830	1,654	14,243
Present value of future minimum lease payments	27,175	2,877	20,701	30,798	2,866	23,874

30 Trade payables

EUR 819,000 of the trade payables is due in more than one year (last year EUR 1,031,000).

31 Other Liabilities

	Sept. 30, 2006	of which due in one year or less	Sept. 30, 2005	of which due in one year or less
	EUR thou	EUR thou	EUR thou	EUR thou
Accrued personnel liabilities	61,782	61,782	58,680	58,680
Accruals in sales	126,181	126,181	74,435	74,435
Other accruals	8,087	8,087	3,189	3,189
Liabilities to subsidiaries	17,161	17,161	13,920	13,920
Liabilities to associated and related companies	3,005	3,005	7,991	7,991
Advance payments received on orders	136,651	123,304	141,777	108,795
Tax liabilities (non-income)	12,321	11,898	13,331	13,331
Wage tax withheld	15,550	15,548	6,429	6,429
Liabilities for social security	3,386	3,386	12,296	12,296
Deferred income	32,611	27,447	25,721	23,025
Other non-financial liabilities	38,652	38,434	22,742	22,571
	455,387	436,233	380,511	344,662

The accrued personnel liabilities mainly relate to vacation pay and salary entitlements and to accrued special payments. In sales, mainly outstanding invoices and bonus and commission payments are shown.

Liabilities to subsidiaries include liabilities from cash management and from trade payables to companies not included in Carl Zeiss AG's consolidated financial statements.

The other non-financial liabilities include advance payments received from insurance companies of EUR 22,300,000 in the reporting period which arose in connection with fire damage at the Oberkochen production facilities in October 2005.

Government grants of EUR 15,000 (last year EUR 836,000) are recognized as deferred income for this year.

Other Information

32 Notes to the Consolidated Cash Flow Statement

The consolidated cash flow statement shows how the cash funds of the Carl Zeiss Group have changed due to inflows and outflows in the course of the fiscal year. In accordance with IAS 7, a distinction is made between cash flows from operating, investing and financing activities.

The funds considered in the cash flow statement comprise all cash and cash equivalents carried in the balance sheet.

Cash flows from investing and financing activities are determined on the basis of payments. The operating cash flow, in contrast, is derived indirectly starting from the income or loss for the year. With the indirect method, adjustments are made for changes recorded in balance sheet items in connection with operating activities that arise from the effects of foreign currency translation and changes in the scope of consolidation. The changes in the balance sheet items concerned therefore cannot be reconciled with the corresponding figures in the published consolidated balance sheet.

EUR 4,858,000 of the cash funds (last year EUR 943,000) is subject to a restraint on disposal or transfer.

33 Contingent Liabilities

	Sept. 30, 2006	Sept. 30, 2005
	EUR thou	EUR thou
Note liability	659	75
Contingent guarantees	1,206	2,257
attributable to subsidiaries	681	1,233
Contingencies from warranty contracts	225	434
Contingencies arising from collateral put up to secure liabilities	78	78
Other contingent liabilities	2,105	476

The other contingent liabilities mainly include environmental and litigation risks for which no provisions have been recognized since their use is considered to be highly improbable.

34 Other Financial Obligations / Operating Leases

Other financial obligations arise from rent contracts and leases for office premises and equipment. These arrangements run for terms between one to more than five years. Some of them include options for extensions or purchase and price adjustment clauses. Expenses arising from leases, rent contracts and similar arrangements in the reporting period came to EUR 25,706,000 (last year EUR 27,056,000).

The future minimum rent and lease payments under non-cancelable operating leases come to:

Period	EUR thou
One year or less	13,044
Between 1 and 5 years	15,972
More than 5 years	1,863

35 Events after the Balance Sheet Date

On October 12, 2006, the Thuringian Higher Regional Court in Jena overruled the objections of seven complainants who had been blocking the planned merger of Carl Zeiss Meditec AG, Jena, Carl Zeiss Surgical GmbH, Oberkochen, and Carl Zeiss Surgical Inc., Dublin, USA, for a period of more than seven months. The Higher Regional Court's judgment was given in a "release procedure" (Freigabeverfahren) that expedites the proceedings with the aim of preventing economic disadvantages to the company if a delay occurs or if individual stockholders use dilatory tactics. The decision was handed down in the second and final instance, so that no further right of appeal exists. The previously announced increase in capital by a combination of cash and contribution in kind has therefore now gone forward as planned. The transaction was fully completed at the end of November, so that Carl Zeiss Surgical GmbH and Carl Zeiss Surgical Inc. have been included in the consolidated financial statements of Carl Zeiss Meditec AG as from November 1, 2006. Carl Zeiss AG's share in the equity of Carl Zeiss Meditec AG remains virtually unchanged by this transaction. The increase in capital as a contribution in kind is a transaction under common control. The entire increase in cash will be allocated to the consolidated equity capital of Carl Zeiss AG.

Effective December 1, 2006, Prontor GmbH, Bad Wildbad, previously a wholly owned subsidiary of Carl Zeiss AG, was sold to VTC Industrieholding, Munich. The new owner is retaining all 270 members of Prontor's staff.

The Carl Zeiss Group will continue to have access to Prontor GmbH's manufacturing know-how in future on the basis of long-term agreements. The company was removed from the scope of consolidation on December 1, 2006.

Carl Zeiss Meditec AG, Jena, acquired 100 % of the equity of IOLTECH S.A., La Rochelle, France, with effect from November 15, 2006. The remaining minority shareholders were squeezed out against a cash compensation payment following the block acquisition of 110,174 shares on July 10, 2006, when the company exceeded the required 95 % stake. Also with effect from November 15, IOLTECH S.A. was delisted from Eurolist Section C on the Euronext exchange in Paris.

In the context of the appropriation of profits, the Executive Board of Carl Zeiss AG proposes the payment of a dividend of EUR 6,251,000 to the sole stockholder, the Carl-Zeiss-Stiftung, Heidenheim an der Brenz and Jena.

No other transactions of material importance to the assessment of the net assets, financial position or results of operations of the Carl Zeiss Group have occurred.

36 First-time Adoption of IFRS

The first-time adoption of International Financial Reporting Standards (IFRS) leads to differences between the consolidated equity capital and consolidated income for the comparative period according to IFRS and the corresponding figures shown for this period or on the relevant dates in accordance with HGB, due to adjustments to the comparative figures for last year.

The conversion of the consolidated accounting policies from HGB to IFRS was performed retrospectively. When preparing the consolidated financial statements in accordance with IFRS for the first time, the Carl Zeiss Group made use of facilitating measures in accordance with IFRS 1 in the areas of business combinations (IFRS 3), employee benefits (IAS 19) and cumulative exchange differences (IAS 21).

The IFRS 3 rules had been applied voluntarily from May 14, 2002 onwards. The resulting differences between the balance sheet figures in the consolidated financial statements prepared as of September 30, 2004 according to HGB and the opening IFRS balance sheet as of October 1, 2004 were recognized outside profit and loss in the consolidated retained earnings.

In accordance with IFRS 1, the consolidated equity statement, the statement of income and the cash flow statement prepared in accordance with HGB have been reconciled with the consolidated equity statement, the statement of income and the cash flow statement in accordance with IFRS.

		Sept. 30, 2005	Oct. 1, 2004
		EUR mill	EUR mill
Consolidated equity according to HGB		596	420
Capitalization of development costs	(a)	9	12
Other intangible assets	(b)	27	22
Property, plant and equipment	(c)	215	216
Inventories	(d)	6	4
Other assets	(e)	–	–
Pension provisions	(f)	–366	–397
Other provisions and accruals/deferrals	(g)	42	52
Deferred taxes	(h)	136	136
Other liabilities	(i)	–141	–112
Change in scope of consolidation	(j)	2	2
Consolidated equity according to IFRS		526	355

		2004/05
		EUR mill
HGB consolidated net income		151
Capitalization of development costs	(a)	–3
Other intangible assets	(b)	–1
Property, plant and equipment	(c)	–1
Inventories	(d)	2
Pension provisions	(f)	–5
Other provisions and accruals/deferrals	(g)	–10
Deferred taxes	(h)	–
Change in scope of consolidation	(j)	–3
Other	(e), (i)	–2
IFRS consolidated net income		128

The effects on the consolidated income statement are not derived from a pure reconciliation of the differences in the balance sheet, due to the transition consolidation of the Carl Zeiss Vision Group in the 2004/05 fiscal year and the market valuation outside profit and loss of the securities classed as available-for-sale.

The cash flow statement was previously prepared in accordance with DRS 2, which contains no material differences from IAS 7. Consequently, the relevant differences arise almost entirely from the change in the scope of consolidation and the inclusion of the special funds according to SIC 12. This has mainly led to restatement of the cash funds.

The specific differences between items in the financial statements according to IFRS and HGB arise from the different accounting, valuation and consolidation methods as described in section 2 "Key Differences in Accounting, Valuation and Consolidation between HGB and IFRS".

(a) Capitalization of development costs

According to IAS 38, development costs must be capitalized under certain conditions. HGB prohibits the capitalization of self-created intangible assets. At the time of conversion, the Carl Zeiss Group carried a development portfolio worth EUR 12 million that met the capitalization criteria of IAS 38.

(b) Other intangible assets

In addition to the Group-wide redefinition of the standard useful lives of assets, the main impact here comes from the fact that IFRS 3 was voluntarily applied early, so that a reverse acquisition was carried on the balance sheet for one domestic Group company. This

way of recognizing business combinations is unknown to the German Commercial Code. The resulting goodwill was EUR 10 million on October 1, 2004.

(c) Property, plant and equipment

The changes to the property, plant and equipment are mainly based on the following effects:

- The Group-wide redefinition of standard useful lives for assets and the consistent use of straight-line depreciation. In consolidated financial statements prepared in accordance with HGB, certain assets were subject to declining balance depreciation. The above-mentioned balance sheet adjustments resulted in an increase in the property, plant and equipment of EUR 95 million as of October 1, 2004.
- In accordance with IAS 17, assets from finance leases are shown under property, plant and equipment if the criteria for the assignment of economic ownership to the lessee are met (EUR 121 million).

The most important single effect, amounting to EUR 94 million, results from the recognition of a finance lease for a new production facility in Germany.

(d) Inventories

In the valuation of inventories, in addition to different costing rates for determining production costs, the principal change was the elimination of value adjustments in accordance with the German Commercial Code to the lower replacement price.

(e) Other assets

In contrast to the HGB consolidated financial statements, no general bad debt provisions for trade receivables are recognized.

Receivables in foreign currencies are always translated at the rate of exchange as of the balance sheet date, which means that unrealized currency gains are recorded. This is not the case under the HGB rules.

Securities are valued at fair value in accordance with IAS 39.

(f) Pension provisions

Pension provisions are carried in accordance with IAS 19 on the basis of the Projected Unit Credit Method. In contrast to HGB, future increases in pensions, wages and salaries are taken into account.

In addition, an assumed rate of interest of 4.5 % was applied to the IFRS opening balance sheet figures in Germany (compared with 6 % in the HGB consolidated financial statements).

(g) Other provisions, accruals and deferrals

Provisions are recognized under IAS 37 only for third party obligations. The provisions for expenses permissible in HGB consolidated financial statements are not recognized under IFRS rules.

In addition, provisions were identified that do not fully meet the IAS 37 criteria for recognition or contain expense components for which provisions cannot be created under IFRS, unlike the situation under German commercial law.

Noncurrent provisions are discounted to their present value as of the balance sheet date if the discounting effect is significant.

(h) Deferred taxes

In accordance with IAS 12, all temporary differences between the book values of assets and liabilities in the IFRS balance sheet and their tax values are recorded as both deferred tax assets and deferred tax liabilities. In addition, deferred tax assets are shown in tax loss carryforwards.

In the HGB consolidated financial statements, only deferred tax assets in connection with consolidation measures reported in the income statement were recognized, and therefore the alternative treatment allowed by § 274 Para. 2 HGB was not used in the individual statements.

(i) Other liabilities

In other liabilities, the future obligations from finance leases in which economic ownership is assigned to the Carl Zeiss Group are shown (EUR 121 million).

Liabilities in foreign currencies are translated as of the balance sheet date, similarly to the approach for foreign currency receivables. This, too, can lead to the recognition of unrealized foreign currency gains.

Furthermore, the profit-participating certificates on September 30, 2005 do not meet the IAS 32 criteria for equity capital (in contrast to the HGB accounting rules), and are therefore shown under financial liabilities.

(j) Change in scope of consolidation

The changes in the scope of consolidation concern Group companies which were previously carried as shares in subsidiaries under financial assets, and were included in the consolidated financial statements for the first time when the Group converted to IFRS. The liabilities-side differences resulting from their first-time consolidation were recorded outside profit and loss as part of the consolidated retained earnings.

37 Average Number of Employees for the Year

	2005/06	2004/05
	Heads	Heads
Germany	7,618	8,205
Rest of Europe	1,369	1,735
America	1,497	1,506
Other regions	518	476
	11,002	11,922
Trainees/interns	433	500
	11,435	12,422

In the reporting period, 3,310 wage-earners (last year 4,051) and 7,692 salaried staff (last year 7,871) were employed on average. The employees are those working for the companies included in the scope of consolidation. The above numbers also include the relevant proportions of employees working part-time and those with temporary employment contracts.

Most of the reduction is due to the fact that CZ Vision was included for six months of the previous year. On a comparable basis, the average number of employees would actually have risen.

38 Financial Instruments and Risk Provisioning

Financial instruments are contracts which give rise to a financial asset of one entity and a financial liability or equity interest of another entity. According to IAS 32, these include non-derivative financial instruments such as trade payables and receivables and financial payables and receivables. They also include derivative financial instruments that are used to hedge against currency exchange risks and interest rate risks.

Financial assets and financial liabilities are taken into account in the consolidated balance sheet from the date on which the Group becomes a contracting party for the financial instrument. Financial assets that are acquired or sold at market conditions are generally accounted for on the settlement date. The existing non-derivative financial instruments are carried at amortized cost, derivative financial instruments are carried at their fair value.

The following applies to the performance relationships underlying all non-derivative financial instruments: depending on the type and amount of the respective performance, to minimize the default risk collateral is required, credit information / references are obtained or historic data from the previous business relationship, in particular payment patterns, is used. If default risks are perceived for the individual financial assets, they are covered by allowances.

Value of financial instruments

The book values and market values of important non-derivative financial instruments are shown in the table below:

Balance sheet item	Sept. 30, 2006		Sept. 30, 2005	
	Book value	Market value	Book value	Market value
	EUR thou	EUR thou	EUR thou	EUR thou
Shares in subsidiaries	15,912	15,912	21,884	21,884
Other investments	15,571	15,571	13,915	13,915
Loans	72,939	74,562	72,248	77,220
Trade receivables	473,352	473,352	386,111	386,111
Receivables from subsidiaries, associated and related companies	47,998	47,998	30,398	30,398
Other financial assets	11,388	11,434	13,580	13,580
Securities	153,928	153,928	287,088	287,088
Cash / cash equivalents	483,999	483,999	588,962	588,962
Trade payables	115,200	115,200	101,840	101,840
Payables to subsidiaries, associated and related companies	20,166	20,166	21,911	21,911
Other financial liabilities	20,335	20,161	28,026	30,092
Liabilities to banks / loans	362,180	353,363	404,598	405,308
Lease liabilities	27,176	29,900	30,798	33,901

Valuation of derivative financial instruments

Derivative financial instruments are used solely to hedge against currency exchange risks. They cover the Group companies' underlying trade transactions and the primary financial transactions (underlying transactions). Scenario, sensitivity and value-at-risk analyses are used to quantify the market risks for risk management and monitoring purposes. The Executive Board has set a limit on the maximum accepted market risk in the form of a constantly monitored risk potential. In addition, a hedge quota is determined for all relevant currencies for detailed operational management. This quota lies within the relevant ranges set by the Executive Board. Furthermore, risk limits have been determined for counterparties and types of transaction. All contracts are with reputable international financial institutions (S&P rating of A- or higher).

The transactions are executed with strict segregation of duties into front office (trading), back office (execution, documentation) and middle office (controlling, financial risk management) tasks.

The currency hedging contracts relate in particular to forward exchange deals and plain-vanilla currency options. They are chiefly used to hedge receivables and payables that are already carried in the balance sheet and arise from transactions in the currencies of major industrialized countries as well as the currency exposure derived from a rolling 12-month plan that is updated twice a year.

The nominal values represent the total of all purchase and sales contracts for derivative financial transactions, without netting off. The market values are derived from the amounts at which the relevant derivative financial instruments were traded or quoted as of the balance sheet date, without offsetting developments in the underlying transactions. Where no market values were available, they were calculated by accepted methods (including the net present value method and option pricing models).

The market values of all derivative financial instruments are as follows:

	Sept. 30, 2006			Sept. 30, 2005	
	Nominal value	Assets	Liabilities	Assets	Liabilities
	EUR mill	EUR mill	EUR mill	EUR mill	EUR mill
Currency hedging contracts	163.8	5.0	–	4.0	2.4
Interest rate hedging contracts	–	–	–	–	2.9

39 Information on Related Party

Transactions

The term "related party" comprises the Carl-Zeiss-Stiftung, Heidenheim an der Brenz and Jena, the operating enterprise SCHOTT AG, Mainz and non-consolidated subsidiaries. Business relations with these companies are handled on generally accepted market terms and conditions. Relationships with associated companies and joint ventures are also dealt with on this basis. The resulting effects on the consolidated financial statements are negligible, with the exception of the brand license agreement and the agency agreements with the Carl Zeiss Vision Group. The above-mentioned agreements are reflected in the consolidated financial statements in the income from licenses (EUR 7,500,000; last year EUR 3,750,000) and other operating income (EUR 4,435,000; last year EUR 2,058,000) as well as receivables from associated and related companies (EUR 27,246,000, last year EUR 11,598,000).

In the context of the reform of the foundation and the associated move to become legally independent of the Carl-Zeiss-Stiftung, a loan of EUR 5,000,000 was granted to Carl Zeiss AG which is shown in the consolidated balance sheet under liabilities to subsidiaries. No relationships exist with key persons exercising a material influence.

40 Corporate Governance Code

The Executive Board and the Supervisory Board of Carl Zeiss Meditec AG, Jena, a listed company included in the Group's financial statements, have issued a declaration on the recommendations of the "Government Commission on the German Corporate Governance Code" in accordance with § 161 of the German Stock Corporation Act (AktG). This declaration has been made public and is available to shareholders on the company's website (www.meditec.zeiss.de).

41 Remuneration of the Executive Board and the Supervisory Board

The total remuneration of the Members of the Executive Board amounted to EUR 3,803,000 in the 2005/06 fiscal year (last year EUR 3,677,000). This total can be broken down as follows:

	2005/06	2004/05
	EUR thou	EUR thou
Short-term benefits	3,123	2,995
Past-employment benefits	680	682

A fee of EUR 333,000 was paid to Members of the Supervisory Board for their supervisory activities in the reporting period (last year EUR 412,000).

At the balance sheet date, pension obligations towards former members of the Executive Board and their surviving dependents totaled EUR 17,170,000 (last year EUR 18,389,000). They received EUR 453,000 in pension and similar payments and EUR 174,000 in other long-term benefits in the reporting period.

The Members of the Executive Board and Supervisory Board are listed on pages 84 and 85.

Oberkochen, December 8, 2006

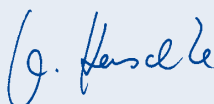
Executive Board of Carl Zeiss AG



Dr. Dieter Kurz



Dr. Hermann Gerlinger



Dr. Michael Kaschke

Auditor's Report

We have audited the consolidated financial statements prepared by the Carl Zeiss AG, Oberkochen, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from October 1, 2005 to September 30, 2006. The preparation of the consolidated financial statements and the group management report in accordance with the IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Section 1 HGB [Handelsgesetzbuch "German Commercial Code"] are the responsibility of Carl Zeiss AG's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance.

Knowledge of the business activities and the economic and legal environment of the group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the dis-

closures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations. In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Section 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the group's position and suitably presents the opportunities and risks of future development.

Stuttgart, December 8, 2006

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Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

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