



Annual Report Carl Zeiss Group
2006/07



We make it visible.

Carl Zeiss is a globally leading international group of companies in the optical and optoelectronic industry. Carl Zeiss is a stock corporation which is wholly owned by the Carl Zeiss Stiftung (Carl Zeiss Foundation).

In fiscal year 2006/07, 12,257 employees all over the world generated revenues totaling EUR 2,604 million.

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.

With our solutions we contribute to the success of our customers. Our know-how and technologies are contained in many things.

We are at home in the growth markets of Industrial Solutions, Medical and Research Solutions and Lifestyle Products. Our name stands for precision, quality and innovative ideas.

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 required 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

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

Microscopy

- Microscopes from Carl Zeiss help research scientists discover new drugs in the fight against disease. Our instruments provide unique insights into the worlds of biology, pharmacy and chemistry. The product line is completed by systems for industrial material analysis and instruments with which school and college students are introduced to the fascination of microscopy.

Industrial Metrology

- Measuring solutions from Carl Zeiss help make airplanes safer, cars better and plastic components more resilient. Without measuring technology, the development, volume 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. In addition, we offer comprehensive services – from contract programming to global on-site support.

Consumer Optics/Optronics

- Binoculars, spotting scopes, lenses for still and cine cameras, planetarium technology and optoelectronic products from Carl Zeiss all have one thing in common: they carry the ZEISS name to millions of people all over the world. The innovative technology and the quality of the products give customers the good feeling that they have made the right decision. Through collaborations with Sony, Nokia and Logitech, we communicate our brand to many people across the world.

Carl Zeiss Vision

- Products and services centered on the eye are the business of Carl Zeiss Vision, a joint venture of Carl Zeiss AG and the Private Equity Fund EQT III. Every second, two people around the globe decide to purchase eyeglass lenses from Carl Zeiss Vision. This means that the company is the world number two in the eyeglass market. Carl Zeiss Vision also offers systems for eye care professionals which optimize the fitting of eyeglasses using the Relaxed Vision system.

Financial Highlights

(IFRS)

	2006/07		2005/06		2004/05	
	EUR mill.	%	EUR mill.	%	EUR mill.	%
Sales revenues	2,604	100	2,433	100	2,217	100
Domestic (Germany)	432	17	380	16	389	18
Foreign	2,172	83	2,053	84	1,828	82
EbitT	394	15	313	13	250	11
Consolidated net income	233	9	167	7	128	6
Income taxes	142	5	89	4	82	3
Earnings before taxes	375	14	256	11	210	9
Depreciation/amortization of fixed assets net of post-capitalization/write-ups	146	6	120	5	119	5
Changes in the provisions for pensions and other noncurrent provisions ¹⁾	7	-	16	-	13	1
Adjustment for non-cash and unusual cash-relevant expenses and income of a material nature	21	1	18	1	-2	-
Cash flows before income taxes²⁾	549	21	410	17	340	15
Cash flows from operating activities	386		265		175	
Cash flows from investing activities	-545		-304		-340	
Cash flows from financing activities	140		-62		260	
Total assets	3,433	100	3,017	100	3,060	100
Property, plant and equipment	528	15	551	18	542	18
Capital expenditure	107		118		108	
Depreciation	114		99		100	
Inventories	718	21	635	21	591	19
Equity	1,041	30	660	22	526	17
Net liquid assets³⁾	612		275		471	
Number of employees as of balance sheet date (September 30)	12,257		11,249		11,049	
Domestic (Germany)	7,965		7,843		7,686	
Foreign	4,292		3,406		3,363	

¹⁾ Adjusted for investment in CTA in Germany and investments in plan assets abroad

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

³⁾ Cash, cash equivalents, securities and fixed-term investments net of loans and liabilities to banks

Poised to take the next step: all doors are open to talented, highly qualified young people at Carl Zeiss. Targeted measures are used to advance employees so that they can play their part in shaping the future of the innovative company



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*Cover photo:
The fascination of optical technologies:
Carl Zeiss implements its corporate
slogan, "We make it visible", with
innovative products and solutions.*

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Carl Zeiss – Economic Success and Excellent Innovations

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

The ZEISS brand stands for innovation, quality, precision and reliability. ZEISS also stands for economic success: fiscal year 2006/07 marks the fourth consecutive year in which Carl Zeiss has achieved considerable growth. Revenues have reached an all-time high of EUR 2,604 million, seven percent more than the previous year; incoming orders also increased seven percent to EUR 2,704 million. Additionally, we have reached record highs in net annual income and EBIT – our EBIT margin is 15 percent.



We have utilized the opportunities provided by globalization: we are represented in all regions of the world with production and sales organizations, and we achieve 83 percent of our revenues outside Germany.

Our innovative power and strong brand have been vital to this success. As a leading provider, we are well-positioned in the three growth markets of Industrial Solutions, Medical and Research Solutions and Lifestyle Products.

The number of employees has also grown: Carl Zeiss created 500 new, highly skilled jobs during the reporting year, primarily in Germany.

The latest technologies, and high-tech and innovative products provide the foundation for our success. We invest eleven percent of revenues in research and development in order to offer our customers the latest solutions and technologies for their requirements. For this, we rely on efficient innovation processes and our ability to turn our ideas into market success.

Our company has a tradition of innovation. For more than 162 years, our name has stood for innovative products. The pioneers and founding fathers of the company – Carl Zeiss and Ernst Abbe – systematically promoted research and development. We are continuing this tradition: in January 2007, the Semiconductor Technology Group received the Innovation Award of German Industry in the “Large Company” category. We were also honored with the Decade Award of German Industry. This honor is bestowed on the finalist for this innovation award who submitted the most projects over the past ten years.

Our solutions, products and technologies set standards – for which we also received numerous additional awards during the past fiscal year.

During the year under review, we further optimized our portfolio and once again improved our position in the various markets with strategic acquisitions and collaborations. We acquired South Africa-based DENEL Optronics, thus enhancing our competitive situation in the market for opto-electronic systems.

The microscopy business was subject to increased competitive pressure during the reporting year. We invested in the expansion of the product portfolio and intensified our research and development activities to counter this effect. Furthermore, with the acquisition of the equipment business of US company Clariant, we have strengthened our activities in the promising market of clinical diagnostics.

We expanded the product portfolio of the Industrial Metrology Group shortly after completion of the fiscal year through the acquisition of a majority interest in Junker & Partner GmbH.

Carl Zeiss Meditec AG increased its offering in the growing market segment of ophthalmic surgery with the acquisition of the implant business of *Acri.Tec® AG. With this move, the company reinforced its market position, particularly in Germany.

We are working to improve the image quality of video communications by collaborating with Logitech, the global market leader in webcams. This collaboration – like those with Sony and Nokia – brings the ZEISS brand to millions of people around the globe.

Our customers are always at the center of our work. With our products and our know-how, we strive to help them succeed. Therefore, we are continually working to enhance our offering in order to quickly and effectively fulfill the wishes and needs of our customers.

We also extend our thanks to our employees. The success of the company is attributable to their knowledge and skills. It is our employees who make the ZEISS brand what it is. Their passion and enthusiasm enable us to implement our aspiration “We make it visible” day in, day out.

We would like to thank our customers and business partners for the good cooperation over the past year. Together with our employees, we look forward to working together with our customers in 2007/08 and contributing to their success.



Dr. Hermann Gerlinger



Dr. Dieter Kurz



Dr. Michael Kaschke



Hermann Gerlinger, Dr. rer. nat.

Member of the Executive Board responsible for Semiconductor Technology, Quality and Processes, the Service Centers and Corporate Purchasing, and 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 in the Lithography Optics Division. 1997 Operations manager in the Lithography Optics Division. 1999 Executive Vice President and General Manager of the Semiconductor Technology Group. Since 2001, President and CEO of Carl Zeiss SMT AG. Since October 1, 2006, Member of the Carl Zeiss AG Executive Board.

Dieter Kurz, Dr. rer. nat.

President and Chief Executive Officer and Labor Director. 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.

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 of the Semiconductor Optics Division, and Executive Vice President and General Manager of the Semiconductor Technology Group. Member of the Executive Board since January 1, 1999. President and Chief Executive Officer of Carl Zeiss since January 1, 2001; President and CEO of Carl Zeiss AG since September 6, 2004.

Michael Kaschke, Dr. sc. nat.

Member of the Executive Board responsible for Medical Systems, Microscopy, Corporate Finance, Controlling and Taxes, Corporate Information Technology.

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 of the Surgical Products Division, 1999 Executive Vice President and General Manager of the Medical Systems Group. Since October 1, 2000, Member of the Carl Zeiss AG Executive Board.

Report of the Supervisory Board

Ladies and Gentlemen,

During the entire reporting year the Supervisory Board performed its duties in accordance with the law and the rules of procedure.

We regularly advised the Executive Board in the management of the company and monitored the company's conduct of business. The Supervisory Board was directly involved in all decisions that were of fundamental importance for the company.

The Executive Board regularly provided us both in writing and verbally with prompt, comprehensive information about all relevant issues concerning corporate planning, the course of business, the position of the Carl Zeiss Group, including the risk situation, and risk management.

In so far as required by legal stipulations and the rules of procedure, we passed our vote on the reports and the proposed resolutions of the Executive Board after thorough examination and consultation.

I was in regular contact with the Executive Board outside the meetings of the Supervisory Board and obtained information about the current business situation and important business transactions.

A total of three Supervisory Board meetings were held in fiscal year 2006/07.



Tilman Todenhöfer

Chairman of the Carl Zeiss AG Supervisory Board

Topics during the Reporting Year

The trends in revenues, earnings and manpower in the Carl Zeiss Group and the business groups, the financial situation and all major investment and divestment projects were the subject of regular consultations.

For example, in the reporting year the Supervisory Board discussed the entry of Carl Zeiss MicroImaging GmbH into the field of clinical diagnostics through the acquisition of the instrument business of Clariant Inc., Aliso Viejo/California (USA). Other topics of discussion were the acquisition of a majority interest in DENEL Optronics, Irene/Pretoria (South Africa) by Carl Zeiss Optronics GmbH and the growth opportunities which this provided. The Supervisory Board also dealt with the acquisition of the measuring device specialist Jumker & Partner, Tholey (Germany), through which Carl Zeiss Industrielle Messtechnik GmbH is expanding its portfolio.

On the basis of detailed documentation and consultations, the Supervisory Board approved the sale of Prontor GmbH, Calmbach (Germany), to VTC Partners GmbH, Munich (Germany) outside the context of its meetings. Its integration into the new corporate group will allow Prontor GmbH to achieve additional growth and acquire new customers. The Supervisory Board also consented to the acquisition of the human ophthalmology business of *Acri.Tec AG, Hennigsdorf (Germany), by Carl Zeiss Meditec AG. The innovative intraocular lenses of *Acri.Tec expand the company's portfolio.

In the committee we also examined licensing and legal matters as well as the internal control system.

Work of the Committees

The Supervisory Board has set up a total of three committees. The Chairman's Committee, whose responsibilities include the employment contracts of the members of the Executive Board and other matters concerning the Executive Board, convened for two meetings during the reporting year. An important subject of its consultations was the introduction of a new compensation system for the Executive Board.

The Mediation Committee as defined by Article 27 Paragraph 3 of the German Co-determination Act did not have to convene during the reporting year.

The Auditing Committee met three times. Representatives of the auditor also took part in the meetings. The subjects covered

included the checking and approval of the annual and consolidated financial statements, the proposal for the selection of the auditor for fiscal year 2006/07, the audit assignment with the main audit points and ensuring the auditor's independence. In addition, the Auditing Committee obtained information about the efficacy of internal auditing, risk management and risks, and measures for the implementation of the corporate tax reforms in Germany in 2008.

The Supervisory Board was constantly informed about the work and, in particular, the decisions of the committees.

Change to the Supervisory Board

A change took place in the composition of the Supervisory Board during the reporting year: Mr. Wolfgang Grothe left the Supervisory Board on entering retirement on 31 December 2006. In his place, Dr. Winfried Scherle was appointed by court order to the committee. The Supervisory Board would like to thank Mr. Grothe for his commitment and constructive, trusting cooperation.

Financial Statements Approved

The KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, audited the financial statements of Carl Zeiss AG and of the Carl Zeiss Group on 30 September 2007 and the corresponding Management Reports. The audits led to an unqualified auditor's report in each case.

The auditor's reports were provided 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 2008. The auditor took part in both meetings and explained the major results of the audit.

After its own in-depth examination, the Supervisory Board has approved the results of the audit and endorses the 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 10 million to the sole shareholder, the Carl Zeiss Foundation.

The Supervisory Board thanks the Executive Board and all employees of the Carl Zeiss Group worldwide who, with their commitment and excellent work, have contributed to a successful fiscal year.

Stuttgart, February 2008
For the Supervisory Board



Tilman Todenhöfer
Chairman

Management Report

2006/07 was another very successful fiscal year (balance sheet date: 30 September) for the Carl Zeiss Group. The Carl Zeiss Group consists of Carl Zeiss AG, Oberkochen, and a number of subsidiaries in Germany and abroad.

The Group comprises five business groups: Semiconductor Technology, Medical Systems, Microscopy, Industrial Metrology and Consumer Optics/Optronics, which focus on the future-oriented markets of Medical and Research Solutions, Industrial Solutions and Lifestyle Products. In addition, Carl Zeiss and another investor hold equal shares in the global eyeglass company Carl Zeiss Vision.

Business and Strategy

Business Trend

2006/07 was another very successful fiscal year for the Carl Zeiss Group: a further increase was achieved in sales revenues and net income.

A dynamic, two-digit growth in sales was posted by the Semiconductor Technology and Industrial Metrology Groups. The Medical Systems and Consumer Optics/Optronics Groups also remained on track to further growth in the reporting year. In addition, the Carl Zeiss Group improved its profitability, with the EBIT margin rising to 15 percent (last year: 13 percent).

Growth Markets with a Future

Carl Zeiss focuses on the markets of Medical and Research Solutions, Industrial Solutions and Lifestyle Products. In these markets Carl Zeiss benefits from the trends of the future: the demographic development in the industrialized countries is making medical and research solutions and lifestyle products into attractive, dynamic markets. Rising life expectancy is increasing the demands being made both on medical systems for the diagnosis and therapy of, above all, age-related diseases and on the research instruments which aid drug discovery. Higher living standards are allowing customers to spend more on high quality consumer goods which help to make our everyday lives easier and more enjoyable. These include, for example, first-class camera equipment or modern camera phones featuring excellent camera lenses.

In industry, nanotechnology, digitization and automation are the driving forces behind the markets. Innovative products

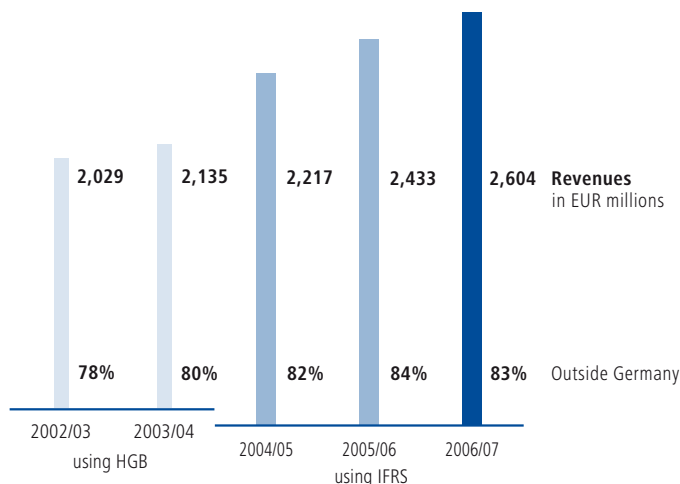
and software solutions from Carl Zeiss already address these growth factors today.

In the reporting year the company continued to optimize its portfolio: the business groups have continued to strengthen their position in the respective markets by expanding their core business, strategic alliances and acquisitions.

Research and Development Strengthened Further

Carl Zeiss generates almost 60 percent of its revenues with products no older than five years. This high proportion of innovative products in overall business shows that market success can only be achieved on the basis of a constantly high level of research and development performance.

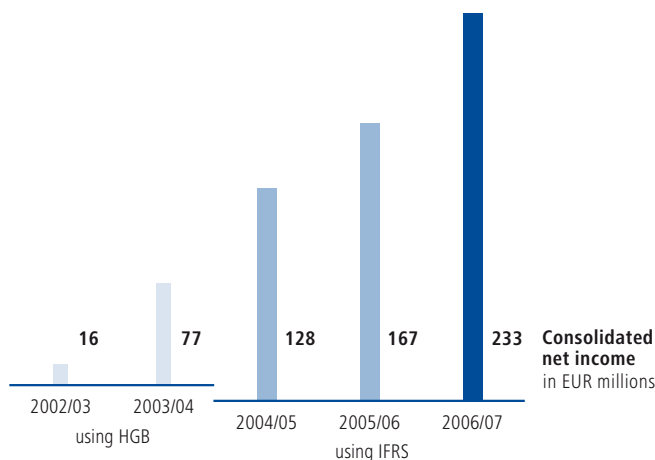
In fiscal year 2006/07 Carl Zeiss invested EUR 290 million, the equivalent of eleven percent of revenues, in research and development (last year: EUR 254 million, or ten percent of revenues).



The results of efficient innovation management are clearly reflected in the patent applications: in the year under review the Carl Zeiss Group submitted a total of 384 inventions (last year: 368). This means that over 30 patent applications were made per 1,000 employees.

Investments in Environmental Protection

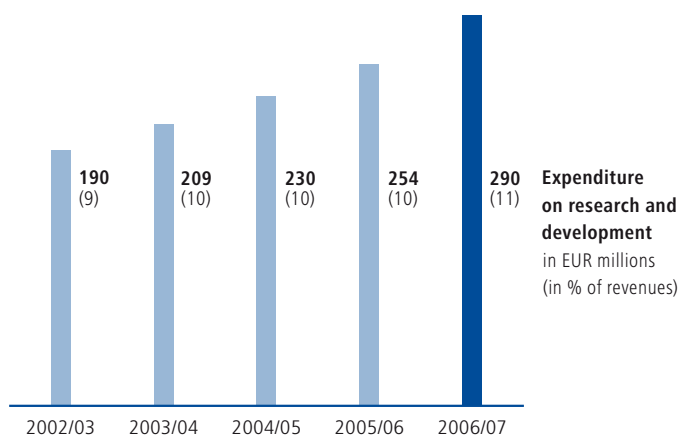
Ecology and economy are not a contradiction in terms at Carl Zeiss. In the reporting year the company invested a total of eleven million euros in environmental protection (last year: eight million euros). This includes construction measures that help improve the energy efficiency of buildings.



The largest manufacturing sites of Carl Zeiss – Oberkochen and Jena – are certified to the international environmental standard ISO 14001, as are many of the company's divisions and a number of foreign subsidiaries.

Strength of the Brand Increased

The ZEISS brand has a unique profile. The name Carl Zeiss promises customers maximum quality: with its first-class products and solutions, the company helps its customers to be successful. The company is also further strengthening the ZEISS brand by collaborating with globally renowned manufacturers of consumer electronics. This makes young, technology-oriented users more aware of the ZEISS brand.



Optimizing the Portfolio

The focal point of the Carl Zeiss Group's growth strategy is the value-oriented development of the corporate portfolio.

During the reporting year, Carl Zeiss combined its medical technology activities under one roof. The listed subsidiary Carl Zeiss Meditec AG has acquired all shares in Carl Zeiss Surgical GmbH, Oberkochen, and Carl Zeiss Surgical Inc., Dublin (USA). In terms of revenue, Carl Zeiss Meditec numbers among Europe's largest stocks specializing solely in the field of medical technology. At the beginning of March, the company was added to the TecDax technology index of the German Stock Exchange, confirming its position as one of the most important technology enterprises in Germany.

In France, Carl Zeiss Meditec completed the acquisition of 100 percent of the shares in IOLTECH S.A., La Rochelle, during the reporting year. This ended the listing on the Paris Stock Exchange of the company which now operates under the name Carl Zeiss Meditec S.A.S. Carl Zeiss Meditec had already acquired a majority share in IOLTECH in February 2004.

On 1 December 2006, Carl Zeiss sold Prontor GmbH, Bad Wildbad (Germany), to Munich-based VTC Industrieholding. Its integration into the new corporate group provides Prontor GmbH, which specializes in precision engineering and assembly, with good future perspectives. VTC retained all 270 employees. The Carl Zeiss Group still purchases production services from Prontor GmbH.

In March 2007 the Microscopy Group acquired the equipment business of the company Clariant Inc., Aliso Viejo/California (USA) and is therefore strengthening its commitment to the promising field of clinical cancer diagnostics and cancer research.

In June 2007 Carl Zeiss announced its collaboration with Logitech International, Romanel-sur-Morges (Switzerland). Logitech is the global market leader in computer accessories. The two companies are jointly setting new standards for image quality in video communications: Logitech is equipping its premium webcams with Tessar lenses from Carl Zeiss. A total of 80 million webcams are sold every year all over the world, about 55 percent of which are instruments from the market leader Logitech.

In June 2007 Carl Zeiss SMT AG acquired the distribution partner Leospore Pte. Ltd., Singapore (Singapore), via a subsidiary. The company now operates under the name Carl Zeiss SMT Pte. Ltd. and will control direct sales in the South-East Asia region in the future, in particular for the Nano Technology Systems (NTS) division. This will enable Carl Zeiss to enhance its on-site customer care: in addition, the technical maintenance and service offering, e.g. customer training, will be expanded.

In July 2007 Carl Zeiss Optronics GmbH acquired a 70 percent interest in the South African company DENEL Optronics (Pty.), Ltd., Irene/Centurion (South Africa)

which belonged to the state-owned South African enterprise DENEL (Pty.) Ltd. The new company operates under the name Carl Zeiss Optronics (Pty.) Ltd. Through this acquisition, Carl Zeiss has further improved its competitive position.

Results of Operations, Financial Position, Net Assets

Revenues Increase Again

In fiscal year 2006/07, sales revenues of the Carl Zeiss Group rose to EUR 2,604 million (last year: EUR 2,433 million). This is an increase of seven percent over the previous year. Adjusted for currency influences, this equates to a growth of nine percent.

The increase in revenues was achieved primarily through organic growth. Changes to the scope of consolidation did not have any major impact on this development, as the acquisitions of Leospore and DENEL Optronics took place in the last months of the reporting year.

Virtually all business groups played their part in the increase in revenues, with the Semiconductor Technology and Industrial Metrology Groups in particular making a significant contribution with two-digit growth.

The Medical Systems Group posted a slight upturn in revenues and a substantial increase in earnings. The Consumer Optics/Optronics Group also recorded a slight increase in revenues. The revenue trend in the Microscopy business fell short of expectations.

Foreign business accounted for 83 percent (last year: 84 percent) of revenues. After adjustments for currency effects, Carl Zeiss grew in all regions of the world during the reporting year.

Incoming orders rose seven percent to EUR 2,704 million (last year: EUR 2,529 million).

Further Improvement in Earnings

The company's consistent focusing on growth, profit and value enhancement paid off once again in fiscal year 2006/07: for the fourth consecutive year, a record figure was recorded for net income.

In fiscal year 2006/07, EbitDA (*Earnings before Interest, Taxes, Depreciation and Amortization*) totaled EUR 540 million (last year: EUR 437 million). EbitDA does not take into account depreciation on property, plant and equipment or

amortization on intangible assets activated, above all, in conjunction with the various acquisitions.

Overall, the Carl Zeiss Group generated an Ebit (*Earnings before Interest and Taxes*) of EUR 394 million. This corresponds to a rise of 26 percent over the previous year (EUR 313 million). Therefore, earnings rose more strongly than sales revenues.

The constant increase in the Ebit over the past years clearly underscores the successful and sustained value-oriented corporate management of the Carl Zeiss Group.

Earnings before income taxes improved to EUR 375 million (last year: EUR 256 million). Consolidated net income also lay clearly above last year's level: after deduction of taxes, net income reached the record value of EUR 233 million (last year: EUR 167 million), an increase of 40 percent.

Other operating income reflects the earnings from licenses totaling EUR 41 million (last year: EUR 29 million) and the insurance compensations resulting from the fire damage caused to the main Oberkochen plant in October 2005. These were recorded as income after the conclusion of the appraisal report in the reporting year.

Despite the increase in manpower, personnel costs increased sub-proportionally to sales revenues. This clearly underscores the increase in productivity and the innovative strength of the Carl Zeiss Group. During the reporting year, the Group created around 360 highly skilled jobs, particularly in Germany.

The cost of materials ratio (cost of materials in proportion to total operating performance) has decreased over the previous year. Last year, this ratio was increased due to the larger volume of external purchases resulting in part from the fire damage.

The increase in other operating expenses must be seen in the context of the expansion of sales volume.

	2006/07	2005/06
	EUR mill.	EUR mill.
EbitDA	540	437
EbitDA margin	21%	18%
Ebit	394	313
Ebit margin	15%	13%
Consolidated net income	233	167

The financial result improved significantly over last year. Contributory factors here were positive effects from the CTA (*Contractual Trust Arrangement*) – which are reflected in the expected return on plan assets – the improved currency result from hedges and the higher interest income attributable not only to high liquid assets but also to the higher interest level. In contrast, the Group suffered a greater loss than last year on at-equity investments. This was due to special effects arising from refinancing and interest rate hedging transactions of a company valued at equity.

Germany's corporate tax reform program also had a one-time negative effect on the Carl Zeiss Group's results in the reporting period. Deferred taxes have to be assessed at the future – lower – tax rate as of the balance sheet date. This has led to tax expenses totaling around ten million euros.

Corporate Value Continues to Rise

In its process of increasing corporate value, Carl Zeiss also reached a very good result during fiscal year 2006/07, exceeding the very healthy value reported the year before. Virtually all business groups have achieved an increase in their value according to the financial performance ratio EVA® (*Economic Value Added*), which serves as an internal indicator of business success. This figure results from net operating profit minus the cost of capital. In the reporting year the EVA® of the Carl Zeiss Group amounted to EUR 133 million (last year: EUR 82 million).

Goals and Principles of Financial Management

The Carl Zeiss Group operates a global financial management system which encompasses all subsidiaries and is centrally coordinated at a corporate level by the company Carl Zeiss Financial Services GmbH.

Financial management is geared to the operational and strategic orientation of the Carl Zeiss Group: the prime objectives are to provide liquid assets for operational business, to further strengthen financial flexibility for constant expansion of business activity and to limit financial risks.

Financial derivatives are used to hedge the currency risk which is not covered by production and procurement in the individual countries and foreign currencies. Financial investments are made exclusively in securities with a first-class rating.

Net Liquid Assets Rise Thanks to High Cash Flow

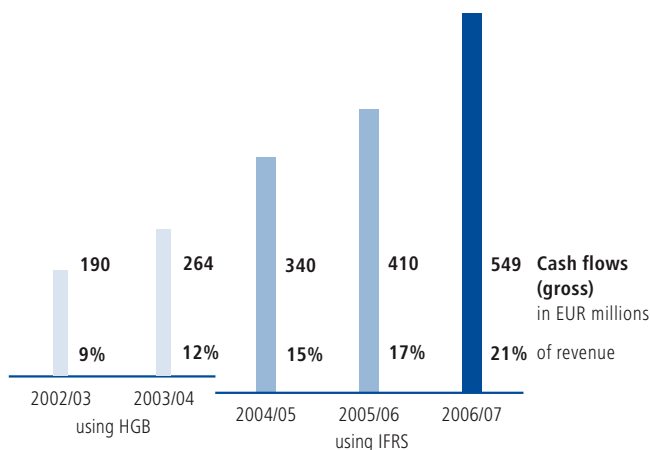
The further rise in earning power is also reflected in the cash flow before income taxes¹⁾, which improved once again to EUR 549 million (last year: EUR 410 million). This equates to 21 percent of revenues.

The outflow of funds for investments in property, plant and equipment and intangible assets, as well as the financing of pension obligations through a CTA, are largely covered by the inflow of funds from current operating activities. The cash flow from operating activities is signifi-

cantly determined by the healthy level of net income. The operating cash flow was reduced by, among other things, increased inventories and increased trade receivables resulting from the expansion in business of the Carl Zeiss Group during the reporting period.

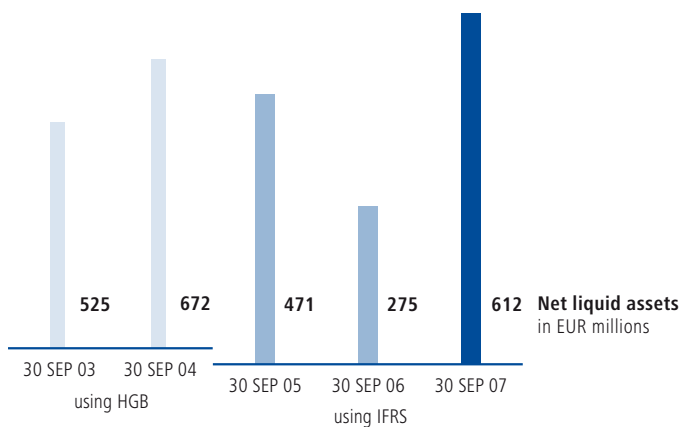
The cash flow from investing activities came to EUR -545 million in the reporting period (last year: EUR -304 million). Investments in the CTA are also recognized here; a special investment in the CTA of EUR 63 million was made in the reporting period which reduced the cash flow accordingly. Non-current financial investments in securities and fixed-term deposits maturing in more than 90 days are also included here. These amounted to EUR 342 million in the reporting period. Investments in property, plant, equipment and intangible assets rose slightly compared to the previous year. Last year's figure for the cash flow from investing activities was mainly influenced by acquisitions and by the initial investment in the CTA.

The EUR 171 million capital increase in cash at Carl Zeiss Meditec AG, a stock exchange listed subsidiary, had a positive influence on the cash flow from financing activities. The combined capital increase in cash and kind was carried out for the purpose of merging the Carl Zeiss Group's medical technology activities under one umbrella – the company Carl Zeiss Meditec AG. These liquid assets belonging to Carl Zeiss Meditec AG are also carried in the Carl Zeiss Group's consolidated balance sheet.



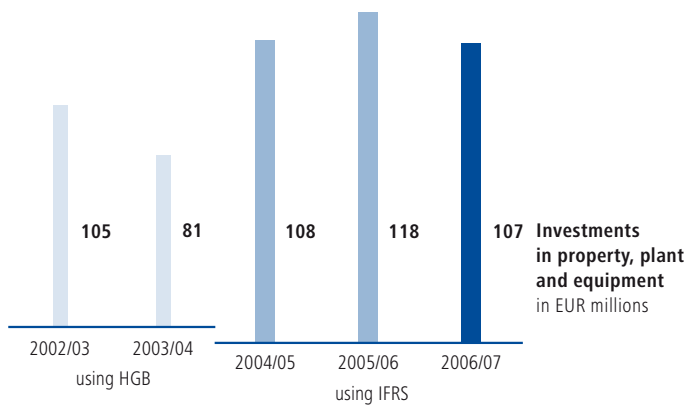
The third party liabilities result from promissory note loans totaling EUR 250 million and liabilities from leases of around EUR 100 million. This external financing has been taken up at fixed rates, and has thus remained unaffected by rising interest rates.

Cash funds²⁾ amounted to EUR 962 million as of the balance sheet date (last year: EUR 637 million). They continue to provide the Carl Zeiss Group with plenty of scope for further growth. Net liquid assets³⁾ totaled EUR 612 million (last year: EUR 275 million) on the balance sheet date.



Intangible Assets

Intangible assets have increased due to the acquisition activities in the previous years. In the reporting year, the increase is also attributable to acquisitions, although the amount was less than in the comparable period. Intangible assets totaling nine million euros were acquired through the purchase of the instrument business of Clarient Inc., Aliso Viejo/California (USA).



Property, Plant and Equipment

In fiscal year 2006/07, the company invested a total of EUR 107 million in property, plant and equipment (last year: EUR 118 million). Depreciation on property, plant and equipment amounted to EUR 114 million (last year: EUR 99 million). This figure includes impairments of eleven million euros.

¹⁾ Determined following the recommendation of the German Financial Analysis Association/Schmalenbach-Gesellschaft

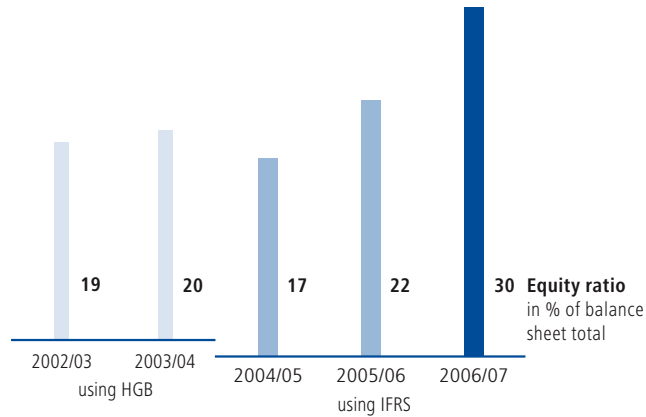
²⁾ Cash, cash equivalents, securities and fixed-term investments

³⁾ Cash funds net of loans and liabilities to banks

The focus of investment was, above all, the Semiconductor Technology Group. The expansion of the world's most advanced development and production center for lithography optics was continued. The fourth construction phase will be completed in the summer of 2008. In addition to these investments, extensive modernization measures were implemented at the Oberkochen site during the reporting year.

Inventories totaled EUR 718 million (last year: EUR 635 million) on the balance sheet date. The increase over the previous year results primarily from the preparations for product launches to be made in fiscal year 2007/08, aimed at ensuring that customers are offered optimum availability.

At EUR 518 million, trade receivables also exceeded last year's value of EUR 473 million. This is primarily attributable to the substantial expansion of business volume during the reporting year. On the operational side, while current assets increased, liabilities toward suppliers rose by approximately EUR 38 million to EUR 153 million (last year: EUR 115 million). Likewise, advance payments on orders rose by EUR 63 million over the previous year and were the main reason for the increase in the other current liabilities. The increase in provisions is due both to the good result and the associated income taxes, and to the effects of initial consolidations. In addition, revenue-variable provisions have increased due to the growth in business.



Equity Ratio Reaches New Record Level

The equity ratio rose eight percentage points to 30 percent and therefore reached the set mid-term target. The main contributory factors here were the good result, the capital increase of Carl Zeiss Meditec AG and a further improvement in the balance sheet structure through the CTA investment.

Within the framework of the appropriation of profits, Carl Zeiss paid over six million euros as a dividend to the Carl Zeiss Foundation in line with the stipulations of the foundation statutes. A dividend payment was also made by Carl Zeiss Meditec AG. These payments have reduced the equity of the Carl Zeiss Group.

Restructuring of Pension Obligations Continued

Carl Zeiss restructured the financing of its pension obligations last year. Around EUR

242 million was incorporated in 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 transferred the funds needed to meet its pension obligations toward active employees in Germany to this dedicated trust. This clearly separates the funds for operational business from pension commitments and increases the transparency and international comparability of the company's financial reporting.

The legally independent trust invests the assets transferred to it on the basis of an appropriate long-term investment strategy. The company's pension commitments remain unchanged. The pensions obligations towards retirees will continue to be shown in full on the balance sheet of Carl Zeiss AG and its subsidiaries. In the consolidated financial statements the

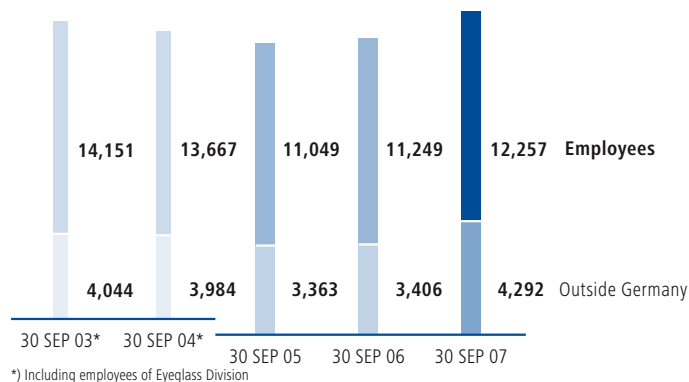
pension obligations are offset against the appropriated trust assets, leading to a reduction in the balance sheet total.

Through the CTA investment during the reporting year, it was possible to fully finance pension commitments to active employees in Germany using assets which are separate from operational business. These had a total value of approximately EUR 346 million on the balance sheet date.

Pension commitments toward retirees, former employees in Germany and employees outside Germany are shown as pension provisions on the consolidated balance sheet. These totaled EUR 876 million (last year: EUR 984 million) on the balance sheet date. This equates to 26 percent (last year: 32 percent) of the balance sheet total.

Employees Benefit from Success

In fiscal year 2006/07 – as in the previous years – Carl Zeiss AG decided to issue 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 success of the company. The rate of interest of the certificate is dependent on the company's return on sales. It has a term of five years. After this time, the employee is reimbursed the value of the certificate. The certificates issued by the company in the past years bore interest at a rate of 20 percent.



Overall, certificates amounting to six million euros have been issued to employees over the past three years in recognition of their achievements. Premature repayments are performed in exceptional cases only – during the reporting year, repayments were made chiefly to the employees of Prontor GmbH. This company was sold effective 1 December 2006.

Employees

On the balance sheet date, the Carl Zeiss Group had 12,257 employees (last year: 11,249) across the globe, 1,008 (nine percent) more than the previous year. Changes to the scope of consolidation also contributed to the increase in personnel and accounted for 469 employees.

Carl Zeiss increased its headcount in Germany in particular, where it created around 360 jobs for predominantly highly skilled staff.

The company has a workforce of 4,292 people outside Germany (last year: 3,406). There was a total of 417 apprentices and trainees working in Germany on the balance sheet date.

Risk Report

Risk Management at Carl Zeiss

The Carl Zeiss Group systematically records external and internal risks for all business units and subsidiaries. Their damage potential and likelihood and possible time of occurrence are uniformly evaluated on a corporate basis.

Risk management is an important tool for value and result oriented management. Risk management is coordinated from corporate headquarters and consolidated at Group level.

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

The Executive Board of Carl Zeiss AG plays an active role in the risk management of the Carl Zeiss Group: it constantly evaluates risks and assesses the suitability of the initiated measures in order to minimize the recognized risks. In addition, the effectiveness of monitoring systems is checked continually and systematically.

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 Group's prospects of success in many different ways.

Recruitment Risks

The company is able to meet its requirements for specialist and management staff. Nevertheless, Carl Zeiss is stepping up its activities to ensure that it can continue to recruit highly qualified specialist employees and commit them to the company in the future. Special employee development programs have been introduced in order to further increase our attractiveness as an employer.

Procurement Risks

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

As a high technology enterprise, Carl Zeiss is dependent on its IT systems. An external strategic partner looks after the IT area. Responsibility for the IT strategy continues to rest with the Carl Zeiss Group. Carl Zeiss has the contractual right to audit the external partner and therefore check his risk preventive measures. This ensures that the IT systems and protective devices are state of the art and constantly enhanced.

Financial Risks

The individual risks for which the Carl Zeiss Group is prepared include the trend in the global economy and currency parities. The trend in euro exchange rates, in particular with the US dollar and Japanese yen, entails risks. To largely ward off these risks, Carl Zeiss Financial Services GmbH conducts hedging transactions.

Risks occurring 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, 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. With the acquisition of technology start-ups in particular, future technological developments are only predictable to a limited extent. To ensure that transactions are concluded successfully, Carl Zeiss has established a standardized process for mergers and acquisitions – here, a special focal point lies on due diligence testing. Every transaction is systematically evaluated regarding its value and synergy potential. The transparency created by this procedure helps to ensure a reliable decision-making process.

The asset development of the already mentioned CTA is impacted by the further development of 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.

Risk control of the CTA is conducted by the company Allianz Global Investors Advisory GmbH (AGIA). The assets are valued on every trading day and compared to the obligations of the CTA to be hedged. The investment committee, in which five Carl Zeiss executives and two AGIA employees are represented, monitors the risk control process and the investment strategy.

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. To minimize the risk of violating the property rights of third parties, Carl Zeiss checks systematically during and after development processes whether the rights of third parties could be affected.

Risks for Business Groups

In the past few years, the Semiconductor Technology Group has recorded constant growth. Carl Zeiss has succeeded in creating and maintaining a development lead. If a rapid, unexpected change in technology occurs, this could impair growth potential. The Semiconductor Technology Group is subjected to the volatility of this industry. Furthermore, a large proportion of revenues is dependent on one large customer. The acquisition and integration of the start-up company ALIS Corporation, Peabody, Massachusetts (USA), which is specialized in helium ion microscopy, is contributing to the stabilization of the product portfolio of the Semiconductor Technology Group.

The risks for the Medical Systems Group lie in the possible restrictions in the services offered by the healthcare system, which could impact prospects for further growth. On the other hand, the demographic trend in the industrialized countries and the economic development in the emerging countries, as well as the increasing demands being made on the medical devices used for the diagnosis and therapy of age-related diseases, are providing growth opportunities to the company.

The trend toward budget cutbacks is evident in the fields of research and education, with the resultant impact on the Microscopy Group. In the Microscopy Group, increased competitive pressure – also as a result of the currency gap with the Japanese yen and the US dollar –

entails risks. To counter this situation, the Microscopy Group has intensified its research and development activities and has heavily invested in the new and further development of the product portfolio.

A reluctance to invest is also evident in the business with defense technology. The consolidation of defense technology in Germany and amended procedures for the awarding of government contracts may influence the business of the Optronics division. The long duration of projects is also another risk factor. Carl Zeiss is confronting this risk by means of optimized inventory management. Carl Zeiss has further sharpened its competitive edge by acquiring a majority interest in DENEL Optronics (Pty.) Ltd., Irene/Centurion (South Africa). As with every acquisition, this integration process may also involve risks.

The development of the capital goods industry impacts the business of the Industrial Metrology Group. There is enormous price pressure in this industry. The level of investment is once again rising in the automotive and supplier industry. However, this development is not dynamic enough to predict a continued, stable growth trend in the future. In order to implement its growth strategy despite this situation, the Industrial Metrology Group is using product innovations such as, for example, the *METROTOM*[®] computer tomograph, to gain access to new customer segments.

The Sports Optics division is still faced with strong price pressure and decreasing consumer confidence. The division is confronting this risk with innovative products which are particularly attractive thanks not only to their optical excellence, but also to the integration of electronic devices.

Overall Risk Situation

Through the initiated and planned measures, no individual risks are discernible that, on the basis of the information currently available to the company, could significantly jeopardize the net assets, financial situation and results of operations of the Carl Zeiss Group.

Outlook

Global Economic Expectations

Carl Zeiss expects an overall weakening of global economic growth in fiscal year 2007/08. For the economic trend in Western Europe and the USA, the company anticipates a slowdown in growth. In Asia – with the exception of Japan – and Eastern Europe, Carl Zeiss continues to assume lasting economic growth. For the most part, global growth is being sustained by the emerging economies.

Market Forecasts

In the semiconductor technology market, Carl Zeiss assumes that fiscal year 2007/08 will see a slowdown in the investment dynamic. In the field of nanotechnology, however, an upturn in business is expected.

In the markets of the Medical Systems and Microscopy Groups, Carl Zeiss continues to predict sustained investment in the healthcare sector, combined, however, with considerable budget restrictions. Nonetheless, the medical technology and biomedical markets offer good growth opportunities in the mid-term: due to demographic developments in the industrialized nations and the increasing importance of the emerging nations, Carl Zeiss anticipates an increase in the demand for medical technology products as well as microscopes and software solutions for research.

A subdued trend is anticipated in the business with the most important customers of Industrial Metrology products, the automobile manufacturers – especially in the USA. However, growth opportunities are emerging in this industry, particularly in Asia. There are good prospects for Industrial Metrology with *Metrotomography*®, also in the field of quality assurance in the electronics and plastics industries as well as in medical technology. The trend toward regenerative energy generation, e.g. using wind power stations, is opening up new options for Industrial Metrology.

For the business with binoculars, the company expects a further increase in competitive pressure in a stagnant market. Carl Zeiss also predicts reduced growth rates for the business with camera lenses. On the other hand, the business with lenses for high quality camera phones and digital single lens reflex (D-SLR) cameras will continue to show a positive development.

Development of the Carl Zeiss Group

For fiscal year 2007/08, the company predicts a continuation of the overall positive trend in the volume of business generated by the Carl Zeiss Group.

Events after the End of Fiscal Year

Industrial Metrology on Track to Further Growth

Directly after the end of fiscal year 2006/07, Carl Zeiss Industrielle Messtechnik GmbH made two acquisitions: on 1 October 2007 it completely acquired the company Dr. Wolf & Beck GmbH, Wangen (Germany). The core competency of Dr. Wolf & Beck GmbH focuses on the development, production, integration and application of non-contact optoelectronic sensors for coordinate measuring machines and on data acquisition, data processing and integration software for optical metrology. Carl Zeiss Industrielle Messtechnik has had a majority interest (75 percent) in Dr. Wolf & Beck GmbH since mid-2002.

Also on 1 October 2007, a subsidiary of Carl Zeiss Industrielle Messtechnik GmbH acquired a 75 percent stake in Junker & Partner GmbH, a firm headquartered in Tholey (Germany). This has permitted Carl Zeiss to expand its product portfolio and gain access to new customer segments.

Carl Zeiss Meditec AG Acquires *Acri.Tec® AG

At the beginning of October 2007 the publicly listed company Carl Zeiss Meditec AG acquired the implant business of the enterprise *Acri.Tec® AG based in Hennigsdorf (Germany). This has enabled Carl Zeiss Meditec to considerably strengthen its market position in Germany and expand its offering in the growing market segment of eye surgery. Carl Zeiss Meditec acquired *Acri.Tec® shares for a cash payment. The transaction was officially finalized on 1 October.

Dividend Payment by Carl Zeiss Meditec AG

The Board of Management and the Supervisory Board of Carl Zeiss Meditec AG propose a dividend payment of EUR 35 million (EUR 0.43 per share). The annual general meeting for fiscal year 2006/07 has yet to approve this proposal.

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

Growth Markets with a Future

The business groups of the Carl Zeiss Group operate in the growth markets of Medical and Research Solutions, Industrial Solutions and Lifestyle Products. Here, the trends of the future offer the company optimal growth opportunities.



Medical and Research Solutions

Life expectancy is increasing around the globe. The demographic trend in the industrialized world and the rising living standards in emerging economies are leading to an increasing demand for medical technology solutions. The life sciences are playing an important role in this development: innovative microscope systems support the tissue-based diagnosis of diseases and the selection of the appropriate therapy. With a wide range of products, Carl Zeiss helps preserve and improve vision, our most important sense of perception.

Industrial Solutions

Nanotechnology, digitization, automation – these are the subjects that will define industrial development, now and in the future. Powerful microchips are the basis for providing and processing information at an ever-faster pace. Innovative optics from Carl Zeiss are the key to the microchip generations of tomorrow. Products and solutions for measuring and analysis technology are helping to expertly master highly complex processes in the micrometer and nanometer ranges.



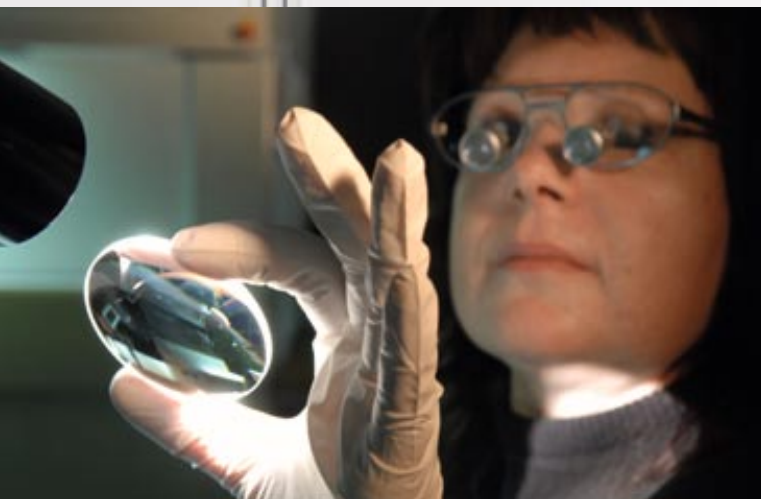
Lifestyle Products

Innovative technology from Carl Zeiss is incorporated in many things that make life more enjoyable and interesting: in camera phones with outstanding lenses for capturing those perfect moments, in high-grade digital cameras for recording memories of a wonderful vacation or in binoculars for rediscovering the world of nature. The economic development in many countries permits an increasing number of people to purchase high-quality consumer goods that promise new experiences.

Innovation, Fascination and Tradition: the ZEISS Brand

What do a renowned surgeon, a scientist and an extreme climber have in common? The fascination for the ZEISS brand.

ZEISS stands for the highest quality, precision and innovative technology in a very wide range of different fields, and has done so for over 160 years. ZEISS unites innovation, fascination and tradition – the following feature article provides some examples.



Quality in focus: Maximum precision and highest quality – this is what the name Carl Zeiss stands for.

Professor Hirotoishi Sano, a renowned specialist in vascular brain surgery, has been fascinated by the ZEISS brand ever since he performed his first procedure with the aid of a surgical microscope. That was way back in 1973 when Sano was just 28 years of age. Today, he is Director of the Center for Emergency Medicine and Head of the Neurosurgery Department at the Fujita Health University in Toyoake (Japan).

He has now performed over 2,800 aneurysm procedures, to which he adds about 200 every year. Speed is absolutely

of the essence in these operations for the treatment of serious brain hemorrhages resulting from damage to blood vessels. Precision is his topmost priority in order to ensure that his patients can live without fear again after surgery. "Needless to say, this is only possible with leading-edge technology. This has its price, of course, but it is worth it. I have been using the OPMI® Pentero® platform for years and bought the INFRARED 800 as soon as it was launched on the market," says Sano. During surgery, this module assists in exactly determining whether the procedure has been successful. Through the use of infrared light, the illumination system displays blood in white against a black background and therefore helps to accurately verify that the aneurysm has been completely clipped.

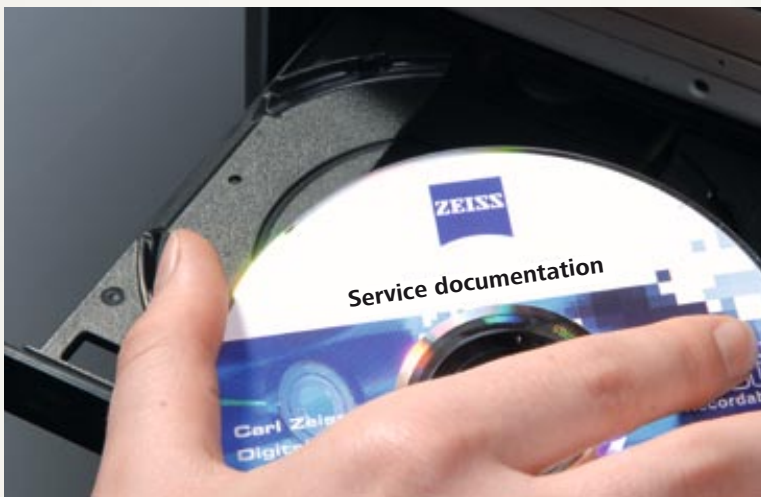
For Professor Sano, ZEISS stands for precision, reliability and trust. And it is no different for the customers of Marco Molino. He heads the Carl Zeiss measuring house in the city of Novara in the Piedmont region of Italy. Companies like Siemens VDO or Microfusione Stellite, a leading manufacturer of high precision cast parts for the aerospace and automotive industries, make use of the on-site service

ZEISS

and have their components tested with Carl Zeiss know-how and systems. "We have the optimum measuring machine and software solution for every measuring job our customers have to perform. They can rely 100 percent on us and the measuring result," Molino stresses. And more and more customers are using this service: the company already operates over 20 such service centers across the globe – and others are planned. The brand is the summary of the encounters custom-

ers and business partners have with it: this includes their experiences with products, a service technician or an employee at a trade fair booth. "The ZEISS brand is very multifaceted and diverse. We work on a daily basis to implement the values for which our brand stands," emphasizes Dr. Dieter Kurz, President and CEO of Carl Zeiss.

Carl Zeiss focuses on a clear umbrella brand strategy: product brands such as *METROTOM®*, *Starlith® 1900i* or



Customer orientation: Carl Zeiss offers a variety of services - with personal, on-site service, as well as electronic updates and documents.



Brand steeped in tradition: products from Carl Zeiss were already labeled with engraved trademarks over 100 years ago.

OPMI® Pentero® are subordinate to the ZEISS umbrella brand. These are used to differentiate products and are not in conflict with the umbrella brand. The key identifying feature is always the blue ZEISS logo or the “Carl Zeiss” lettering. Thus, all Carl Zeiss products and services contribute to the reputation of the umbrella brand and simultaneously benefit from it. Also, the names of companies within the Carl Zeiss Group reflect the clear focus on the brand: virtually all subsidiaries have “Carl Zeiss” as an integral part of their names and therefore document their membership in the Group.

A global study has confirmed the very good reputation enjoyed by the ZEISS brand: it stands for maximum quality, the highest precision and the most modern technology. “ZEISS represents a high

symbolic value: desirability, and the best that you can get regarding quality and performance,” is how an Indian customer describes the ZEISS brand. And many other people share his view: the study also showed that, despite the diversity of the products from the individual divisions of the company, there is a high level of correspondence in the image users have of the brand. The study also demonstrated that the demands made by the different customer groups on both the brand and the company are very similar: they expect Carl Zeiss to offer complete solutions and provide not only excellent quality, but also outstanding service. When conducting the study, the company surveyed several thousand existing and potential customers all over the world.

The ZEISS brand combines five different business groups, their products, solutions and customers – and it also combines tradition and innovation: the basis for today’s brand success was laid by the company’s founder Carl Zeiss and the scientist Ernst Abbe over 160 years ago. Even then, the microscopes they built were well ahead of their time, setting new standards in both quality and precision – just like the ZEISS microscope systems of today: for Dr. Mary E. Dickinson of the Baylor College of Medicine in Houston, Texas (USA), there is nothing better than ZEISS when it comes to microscopes. The scientist devotes her attention to basic and translational research. Vertebrate embryology and an understanding in vivo stem cell environments are the focal points of her work. She has been using

systems from Carl Zeiss for some years. Time and time again, the results she has obtained have impressively underscored the meaning of the Carl Zeiss corporate slogan "We make it visible". "With the *LSM 5 LIVE* microscope system from Carl Zeiss, we have succeeded in visualizing the heartbeat of a zebra fish embryo," says Dickinson with obvious enthusiasm.

The ZEISS brand sets standards in optical technology, product expertise and innovation. It has its own personality on which customers can rely – this was also confirmed by one of the study participants: "ZEISS is superior to other brands – it is noble, it is represented worldwide and it has a high degree of development competency." Here, appeal and trust play a decisive role. "The many components of the brand develop a level of trust that also acts as a guarantee: the customer knows that Carl Zeiss will do everything to deliver the promised performance, and preferably exceed it," summarizes Dr. Dieter Kurz. The name Carl Zeiss and the blue logo give our customers the good feeling that they have made the right decision – a feeling of certainty.

Certainty and safety are of major importance for extreme climbers like Hans Kammerlander. In his first ascent of the Jasemba mountain in May 2007, he therefore had Carl Zeiss binoculars in his baggage: with binoculars and a spotting scope, he and his team were able to identify possible dangers on the route and recognize changes occurring on the mountain from the base camp at an early stage. In his book "Am seidenen Faden" ("Hanging by a Thread"), Kammerlander expresses his enthusiasm for his equipment: "... ZEISS, the best of the best."

A close-up photograph of a person's hand holding a small, blue, rectangular sticker. The sticker features the word "ZEISS" in a bold, white, sans-serif font. The hand is positioned at the bottom right of the frame, with the thumb and index finger visible, holding the sticker against a light-colored, textured background. The sticker is slightly curved and appears to be peeling or being applied to the surface.

Inspire ...





Inspire ...

... tomorrow: In a few years, microchips will become even smaller and more powerful than those of today, and they will make life increasingly comfortable and convenient. As the global market leader in lithography systems, Carl Zeiss is laying the foundation for the leading-edge technology of tomorrow with its innovative developments. In addition to optics for the production of microchips, Carl Zeiss is also the leader in electron and ion beam technologies. Electron and ion beam microscopes make it possible to visualize even the smallest structures that light can no longer image.





Semiconductor Technology Group

With revenues of EUR 1,042 million (last year: EUR 864 million), the Semiconductor Technology Group once again had an outstanding fiscal year. The launch of unique products and numerous awards during the reporting year underscore the leading technology position of the group.

With revenues exceeding EUR 1 billion, the Semiconductor Technology Group (Carl Zeiss SMT AG) has achieved an important goal. The group's revenues increased by 21 percent over the previous year. Incoming orders also developed very positively and are 19 percent above last year's figure.

The basis of this success is the innovative power of the group: innovative ideas are quickly transformed into marketable products. Important feedback for this development was provided by new requirements from customers and the

markets, which are integrated into new products.

Development and production in the Semiconductor Technology Group operate at the highest technological level. The business group focuses its activities on the Model of Excellence from the European Foundation for Quality Management (EFQM) to meet this challenge over the long term.

Shortly after the end of the reporting year, the business group's entry for the Ludwig Erhard Award came in third in the "Large company" category. This honor recognizes sustained corporate development based on the philosophy of the EFQM model.

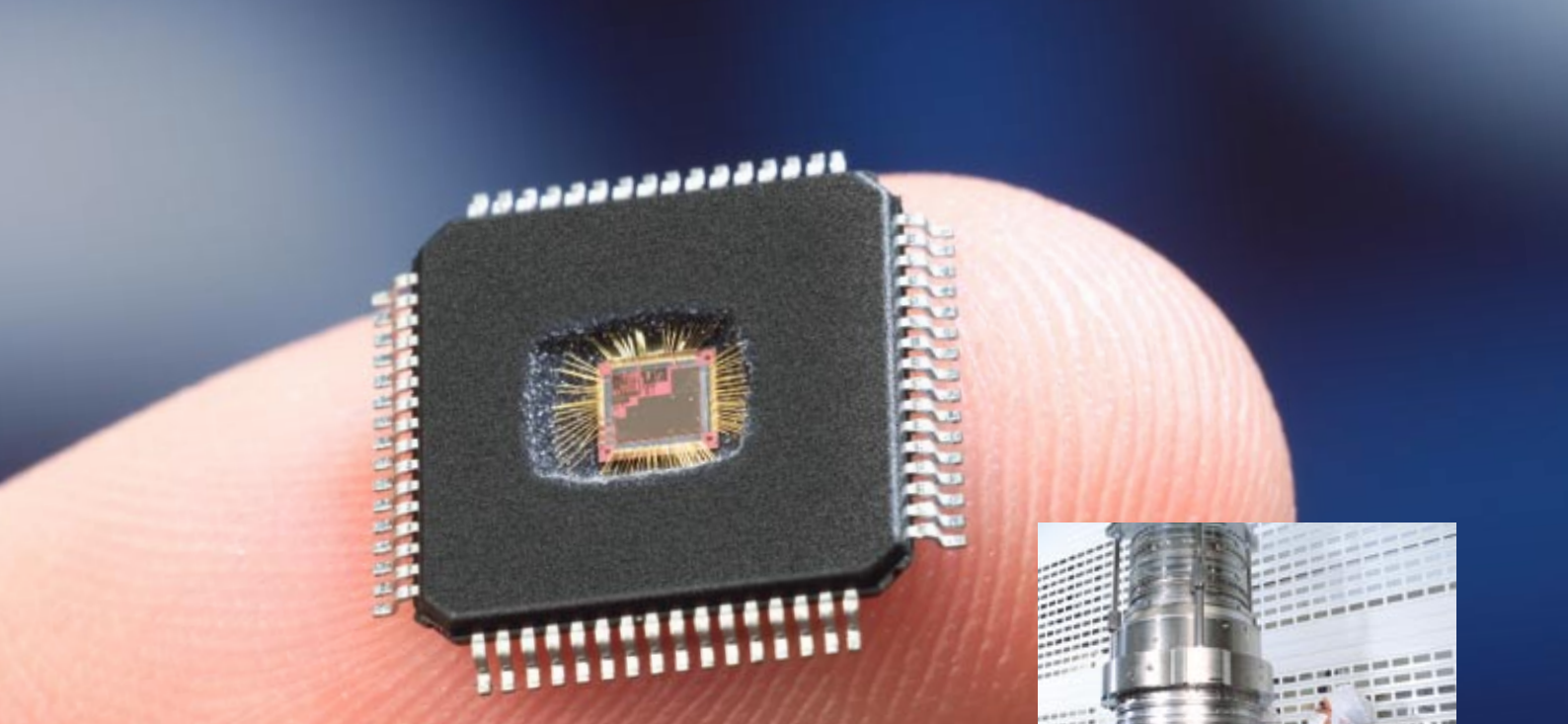
Last year, the Semiconductor Technology Group opened the world's most advanced development and production center for lithography optics. More than 1,400 employees work there on the technologies of the future. During the reporting year, the group once again created 270 high-skill jobs around the world.

Award-winning Innovations

The *Starlith® 1700i* immersion optics from Carl Zeiss received the Innovation Award of German Industry in January 2007. Presented annually since 1980, it is the world's first innovation award. Immersion lithography, in which a liquid is placed between the last lens element and the wafer, enables higher detail resolution and depth of field for the fabrication of even more powerful microchips. These in turn provide the foundation for general technological advancement.



Technology of the future: Lithography lenses from Carl Zeiss enable the manufacture of increasingly smaller, more powerful microchips.



Size comparison: A semiconductor lens from Carl Zeiss that is larger than one meter is used to manufacture microchips that measure only a few millimeters.

With the enhancement of the *Starlith*® line of optics, the Semiconductor Technology Group once again demonstrated its technology leadership in the field of lithography: the first *Starlith*® 1900i immersion lenses were delivered to our strategic partner and customer ASML, Veldhoven (Netherlands) during the reporting year. ASML is the global market leader in wafer scanners.

The *Starlith*® 1900i optical system images 40-nanometer structures. This will accelerate the spread of flash storage which saves large quantities of data with minimal space requirements: currently, there is room for two gigabytes on a surface the size of a thumbnail – the high imaging performance of the *Starlith*® 1900i will make even four gigabytes possible. In particular, this enables the expansion of the storage capacity of small devices such as MP3 players, digital cameras and cell phones.

Technology of Tomorrow

Shortly after the end of the reporting year, a team from Carl Zeiss was nominated for the 2007 German Future Award – a prize presented by the German Federal President in recognition of achievements in technology and innovation – for the development of Extreme Ultraviolet (EUV) lithography. This technology will enable substantial increases in the performance of current microchips in coming years. The optical systems currently in use, however, will reach their physical limits within the foreseeable future.

EUV lithography enables chip structures of less than 32 nanometers, thus providing a long-term foundation for a further increase in microchip performance with a simultaneous reduction in manufacturing costs. Future scenarios such as a networked home, automatic image and voice recognition or increased traffic safety through electronic driver support will then be within the realm of reality. Developers and engineers in the Semiconductor Technology Group have been working on this technology for more than





Honored: Carl Zeiss received the R&D 100 Award in the USA for its LIBRA® 200 MC scanning transmission electron microscope.

10 years – the group has already invested more than EUR 100 million in this area. The first two optical EUV systems were delivered to ASML – for the EUVL alpha demo tool – during fiscal year 2005/06. These are used for further technology and process development in practical operations. With EUV lithography, Carl Zeiss and ASML are implementing the technology generation for microchip fabrication of tomorrow.

Innovation Offensive

During the summer of 2007, the group delivered the world's first *ORION™* helium-ion microscope to the US National Institute of Standards and Technology (NIST) in Gaithersburg, Maryland (USA). Incorporating helium-ion beam technology, *ORION™* delivers images with currently unparalleled resolution and material contrast, thus providing researchers with a new level of quality for materials analysis.

Carl Zeiss received the Wall Street Journal Technology Innovations Award in the "Materials and Other Base Technologies" category for the development of the helium-ion microscope. The technology behind *ORION™* is based on developments achieved by start-up company ALIS Corporation in Peabody, Massachusetts (USA), which was acquired by Carl Zeiss SMT last year and integrated into the Nano Technology Systems Divisions (NTS).

Shortly after the end of the reporting year, the *LIBRA® 200 MC* electron microscope was honored with the R&D 100 Award presented by the renowned US R&D Magazine. This scanning transmission electron microscope from Carl Zeiss is therefore one of the 100 technologically most important new products of 2007 in the USA. This electron microscope makes it possible to analyze the properties of very thin material samples. The system is equipped with a unique monochromator (MC) module that ensures better resolution.

Dr. Annette Schavan, German Federal Minister for Education and Research, inaugurated the Carl Zeiss Nanosolutions Center at the beginning of September 2007. It is the largest and most advanced demo center for high-performance microscopy in Germany. The company invested more than six million euros in the center which provides users from the



State-of-the-art demo lab: Customers and scientists can work with the latest high-performance microscopes at the Nanosolutions Center of Carl Zeiss. German Federal Minister for Education and Research Dr. Annette Schavan (right) inaugurated the only demo center of its kind in Germany.



fields of semiconductor technology, materials sciences, life sciences and the pharmaceutical industry with the world's best electron and ion microscopes for the visualization and analysis of specimens. Specialists from Carl Zeiss support customers in the use of these instruments.

“We are proud to work together with ZEISS, a German company that is recognized around the world and at the forefront of technology.”

Thomas Fischer, Managing Director, Advanced Mask Technology Center (AMTC), Dresden (Germany)

Phame® Enables Shorter Development Cycles

The Semiconductor Metrology Systems Divisions (SMS) also presented new systems for defect analysis and repair on lithography masks during the reporting year. The *MeRiT®MG45* is a further development of the very successful electron beam-based repair system for lithography masks. It now also enables repairs on masks for 45-nanometer structure widths.

For the measurement of the masks required for chip fabrication, the division has developed a revolutionary method to measure accuracy: *Phame®* is the only system of its type anywhere in the world. It allows chip manufacturers to measure the structures on phase-shift masks and thus perform fast, precise process monitoring. This reduces design and development cycles for new generations of microchips. *Phame®* was developed in close cooperation with one of the world's leading chip manufacturers.

Making even the Smallest Structures Visible

The Laser Optics Division also had a successful reporting year. The division produces components for lasers used as light sources in lithography, and optics for automated wafer inspection. Carl Zeiss handed over the 100th system for optical quality inspection of wafers – *CMO* – to a leading manufacturer of wafer inspection equipment during fiscal year 2006/07. The *CMO* lens enables localization of even the tiniest defects on wafers, clearly increasing yield in microchip fabrication.

Enter ...





Enter ...

... a new dimension: Carl Zeiss continually pushes the boundaries of optics and technology. The company develops innovative products for ear, nose and throat surgery, as well as ophthalmology. Medical technology from Carl Zeiss helps surgeons achieve optimal treatment outcomes. During complex therapy, doctors must be able to rely on their instruments in order to remain entirely focused on the patient. The ZEISS brand delivers what it promises: innovative technology, high quality and ease of use. For more efficient treatments – combined with safety.





Medical Systems Group

The Medical Systems Group operates in a market with attractive global growth rates. During fiscal year 2006/07, the Medical Systems Group achieved record levels of revenues and earnings. Sales revenues reached EUR 638 million¹⁾; adjusted for currency influences, this corresponds to a five percent increase over the previous year (EUR 631 million).

The successful integration of Carl Zeiss Surgical into Carl Zeiss Meditec AG at the beginning of the reporting period created an integrated medical technology company that successfully operates in the fields of ophthalmology, neurosurgery and ear, nose and throat (ENT) surgery. These segments offer good growth potential for the future.

Medical Technology as an Attractive Growth Market

The global population is continuing to increase, and with it, the percentage of elderly people. As the frequency of diseases generally rises with increasing age, the need for diagnostic and treatment products in ophthalmology, as well as neuro/ENT surgery, the two core markets of the business group, will continue to climb. 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 diagnostics and

more effective therapy. With its solutions, the Medical Systems Group is ideally positioned to cater to these developments.

Business Outside Germany Remains the Driver of Growth

The business group once again generated the majority of its revenues outside Germany during fiscal year 2006/07. Business developments reflect the regional importance and speed in the global medical technology market. The most important region during the reporting period was the USA, followed by the majority of countries in Europe.

Three Markets – Three Strategic Business Units

The business group adapted its organizational structure as part of the broader focus of its operations. This is concentrated on the growth markets in each of which the business group is one of the leading companies. The three strategic business sectors of Ophthalmic Systems, Surgical Ophthalmology and Neuro/ENT are powerful organizations that specifically align their business activities to the needs of their customer groups.



First class: Cirrus HD-OCT delivers high-resolution images of the retina, thus helping doctors make their diagnosis.

¹⁾ The figures deviate from the published figures of Carl Zeiss Meditec AG as a result of different consolidation models.



“Our patients place their trust in us, just as we rely on the quality and precision of instruments from Carl Zeiss Meditec. The VisuMax femtosecond laser is a prime example of innovations that optimally support the correction of visual defects.”

Dr. Rainer Wiltfang, Medical Director of the SMILE EYES Eye Laser Clinic in Munich

Innovations for Ophthalmology

Revenues from ophthalmic devices and systems were influenced by currency developments. This was impacted, in particular, by the increasing strength of the euro over the US dollar and the Japanese yen. Furthermore, the planned November 2007 market launch of the new *Cirrus™ HD-OCT* diagnostic system announced during the reporting period and the repositioning of the existing *Stratus OCT™* led to subdued development of sales with products based on the optical coherence tomography (OCT) technology platform.

The main sources of revenue were the *Humphrey® Field Analyzer*, *IOLMaster®* and *Stratus OCT™* diagnostic systems, and the *VISUCAM* line of fundus cameras.

Non-contact operation: the VisuMax femtosecond laser system enables correction of visual defects. These procedures are performed without the aid of mechanical devices – providing even higher precision and safety, and causing less strain on the patient.



Networked: Surgical microscopes from Carl Zeiss can be easily integrated into hospital and office networks, making important patient information always available before, during and after a procedure.

Ophthalmic Surgery Expands Product Portfolio

The business group is continuing the targeted expansion of its presence in the field of ophthalmology, particularly the surgical treatment of cataract. Two new implants were developed during the fiscal year: the *XL Stabi ZO®* and *Invent ZO®* intraocular lenses unite the expertise of Carl Zeiss Meditec in the field of optical design with the know-how in the area of intraocular lenses for the first time.

The acquisition of ophthalmic surgery specialist *Acri.Tec® AG in October 2007 enabled the business group to further expand its product portfolio in the field of ophthalmic surgery.

Visualization Modules Help during Operations

Revenues generated with surgical visualization solutions also continued their positive trend during the fiscal year. The main source of revenues remained the

OPMI® Pentero® surgical microscope used in neuro and spine surgery. Its range of functions and applications has been expanded through a series of unique technologies, including two additional systems for fluorescence diagnostics: *BLUE 400* and *INFRARED 800*. Through the display of blood circulation in tissue using a fluorescence agent, the *INFRARED 800* module can clearly improve patient care – and thus finally the treatment outcome.

An additional innovation is the new *OPMI® Pentero® C* surgical microscope. Equipped with the latest technology, this new system provides more mobility and improved workflows in the operating room through its ceiling installation. Further potential is derived from the integration of systems such as *OPMI® Pentero®* into existing hospital or practice networks, making it possible to seamlessly transfer diagnostic data to these networks.



Recognize the details: loupes are an essential tool in dentistry. They enable better recognition of even the finest structures, increasing the quality of the treatment for both dentists and patients.

Innovations with High Customer Benefit

The primary objective of the business group is to enable its customers – specialist doctors around the world – to continually improve treatment outcomes and increase efficiency in their daily work. This will also remain the focus of research and development activities in the future. For this reason, new technology and market trends will be systematically and continually monitored and evaluated, with the most promising ideas being turned into new products.

Position Enhanced

The Medical Systems Group intends to continue its profitable course of growth in the future. The three main elements of this strategy are: the expansion of existing business through an enhanced product range and an increased focus on customers, utilization of the good market position in existing markets in order to enter selected, neighboring market segments and fields of treatment with promising growth opportunities, and increasing the percentage of revenues generated with integrated solutions in all areas in which the Medical Systems Group is already operating.

Discover ...





Discover ...

... more: microscopes from Carl Zeiss provide researchers with new insights into the secrets of nature. Innovative microscope systems assist in the tissue-based diagnosis of diseases. This facilitates the discovery of new drugs to combat diseases and helps doctors select a suitable therapy. Microscope systems from Carl Zeiss can be used in many different fields – in biology, medicine, pharmacy and chemistry. Systems for industrial materials analysis and instruments which convey the fascination of microscopy to young people complete the product offering.





Microscopy Group

In fiscal year 2006/07 the Microscopy Group generated revenues totaling EUR 323 million (last year: EUR 340 million). This decline is attributable in particular to the fierce competition in the microscope business, cuts in funding and currency effects. With investments in the further development of the product portfolio und strategic acquisitions, the business group has strengthened its position in preparation for future challenges.

In fiscal year 2006/07, the Microscopy Group (Carl Zeiss MicroImaging GmbH) fell short of expectations: revenues decreased by five percent compared to last year. With a total of EUR 332 million, incoming business remained almost stable.

Intensive competition in the microscopy market environment was the crucial reason why the microscopy business did not perform as well as expected during the fiscal year: apart from the low level of growth evident on the overall market and the aggressive competitive scenario, the dependence on public funding and budgets was also a contributory factor, particularly in the field of biomedical research. In the reporting year, research budgets were cut in the USA and Japan in particular.

Investments in the Future

Changes and trends in the microscopy market are making investments necessary. In response to this situation, Carl Zeiss initiated targeted measures during the

reporting year: for example, research and development activities have been intensified in order to further develop and expand the microscopy product portfolio in line with the specific needs of the target groups.

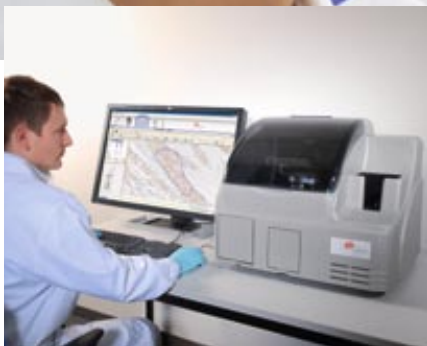
In fiscal year 2006/07 the business group further expanded its sales structures outside Germany: Carl Zeiss invested in the sales organization in the USA and France in particular; in addition, a new sales organization started operations in Tokyo. One focus of attention here is the setup and expansion of sales activities for the microscope systems used in industrial materials testing.

New Business Unit:

Clinical Diagnostics

With growing life expectancy in the population, the importance of clinical diagnostics is increasing. After the acquisition of the instrument business of Clariant Inc., Aliso Viejo, California (USA), in March 2007, Carl Zeiss is intensifying its commitment to the promising field of clinical cancer diagnostics and research.

The *ACIS III System* developed by Clariant has a leading position in the field of tissue-based cancer diagnosis. It consists of an automated microscope and special software, and saves the microscopic image of a tissue section digitally. Through the automatic quantification of specific cell components which are found in increased amounts if certain diseases are present, the system supports the



New insights: tissue-based cancer diagnosis assists doctors in selecting the right therapy.

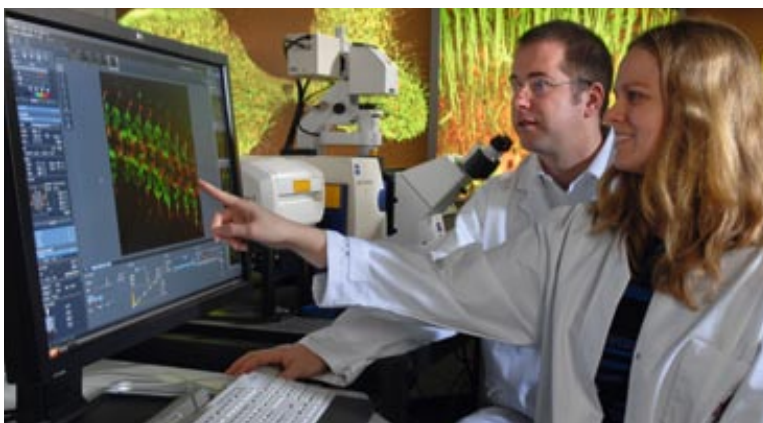
doctor in making a diagnosis and in the selection of a suitable therapy.

For the distribution of the system, Carl Zeiss is collaborating with the Danish enterprise Dako, an internationally established, leading manufacturer of reagents for tissue-based cancer diagnosis.

New Software with Intuitive User Guidance

During the year under review the Microscopy Group introduced *ZEN*, the newly developed software used to operate laser scanning microscopes. The outstanding features of the software specially developed for applications in biomedical research include its individually adjustable user interface and intuitive user guidance (*ZEN-Efficient Navigation*) which adapts to the customer's personal work routine. *ZEN* paves the way for a new form of user software for microscopy.

ZEN takes into account the personal needs and habits of the user. Extensive tests have shown that *ZEN* meets, in particular, customer requirements for intuitive user guidance and has a short learning curve.



Intuitive: ZEN software facilitates lab work through intuitive user guidance and the personalized user interface.



“The SteREO Lumar.V12 is the only stereo microscope that is sensitive enough to quickly detect and reliably examine cysts on the kidneys of genetically manipulated zebra fish embryos in a stereogram.”

Dr. Birgit Perner, Scientist in the Molecular Genetics work group at the Institute for Geriatric Research at the Fritz Lippmann Institute in Jena (Germany)



New standards: the SteREO Discovery.V20 with a zoom factor of 20 offers maximum precision for materials analysis. Accessories allow the microscope to be adapted to personal requirements.

New Standards in Stereomicroscopy

The healthy trend in the field of materials analysis continued in the reporting year. In May 2007 the business group introduced the innovative *SteREO Discovery.V20* stereo microscope.

With its zoom factor of 20, the microscope sets standards in advanced stereomicroscopy. The *SteREO Discovery.V20* offers maximum precision: through the use of mobile lenses which are exactly positioned electronically, an excellently corrected microscopic image is obtained over the entire zoom range. Over 30 invention disclosures and patent applications ensure that the technological lead is maintained.

A broad spectrum of accessory components allows the microscope to be optimally adapted to the customer's personal requirements.

The fields of application of the *SteREO Discovery.V20* include research and development departments in industry and quality assurance and high-end production areas.

Harvest with Carl Zeiss

In the field of spectral sensors the Microscopy Group concluded a collaboration agreement with the world's leading supplier of agricultural, forest and construction machinery John Deere.



Harvest with Carl Zeiss: the HarvestLab system measures the harvested crop once a second using a near infrared sensor from Carl Zeiss. This makes it possible for agriculturalists to charge their customers on the basis of quality.

Together with John Deere, Carl Zeiss has developed the *HarvestLab* sensor system for process control during the harvest. This globally unique sensor system can be used to determine the dry matter value of the crop being harvested. For the very first time, this makes it possible for farmers to charge their customers on the basis of quality.

Carl Zeiss has developed a near infrared sensor for the *HarvestLab* system which measures the harvested crop once a second. On the basis of the measured results a chaff cutter or combine harvester can always be optimally set to the condition of the harvested crop, therefore increasing the economic efficiency of the harvesting process.

Cooperation with Harvard

In August 2007, the Microscopy Group signed a licensing agreement with Harvard University in Cambridge, Massachusetts (USA): Carl Zeiss can use the coherent anti-Stokes Raman scattering (CARS) microscopy technology developed by the university. CARS makes it possible for the first time to image molecules in living cells and organisms without any need to label them with a dye. This provides biomedical research with a further innovative contrasting technique. Combined with fluorescence microscopy, the technique will contribute to a more in-depth understanding of biological and biochemical processes.

The CARS technology can also be used beyond the field of cell biology, e.g. for the development and testing of new active ingredients in the pharmaceutical industry, or for medical diagnostics. Carl Zeiss plans to use the technology in its confocal and multi-photon microscopes.

Reorganization of Business Units

The Carl Zeiss Microscopy Group started the new fiscal year with a new organizational structure. The 100 percent subsidiary, P.A.L.M. Microlaser Technologies GmbH, Bernried (Germany), has been merged with Carl Zeiss MicroImaging GmbH and now operates under the ZEISS umbrella brand. Furthermore, all future activities of the Microscopy Group are bundled into the "BioSciences", "Clinical" and "Industrial" strategic business units and will be optimally adapted to the different customer requirements.

Give ...





Give ...

... it your all: with its innovative measuring systems and software solutions, Carl Zeiss delivers the perfect measuring result for maximum quality standards. From development to production, measuring solutions from Carl Zeiss help make airplanes safer, cars better and plastic components more resilient. Without measuring technology, the development, economical large-scale production and quality of everyday products would be inconceivable. Industrial measuring technology from Carl Zeiss provides reliable measuring results and ensures quality – from large parts for wind turbines to tiny micro-parts.





Industrial Metrology Group

The Industrial Metrology Group generated revenues of EUR 316 million during fiscal year 2006/07 (last year: EUR 278 million). Business with measuring systems, services and software showed a favorable development in all regions of the world. The group has pointed the way with new products such as O-INSPECT and MASS® technology.



Precise: The optical sensor on O-INSPECT is particularly well-suited to monitor small, complex parts.

The Industrial Metrology Group (Carl Zeiss Industrielle Messtechnik GmbH) increased its revenues by 14 percent during fiscal year 2006/07. It is systematically pursuing its growth strategy: shortly after the close of the reporting year, Carl Zeiss Industrielle Messtechnik GmbH completely acquired its subsidiary Dr. Wolf & Beck GmbH, Wangen (Germany), and 75 percent of Junker & Partner in Tholey (Germany).

Globally Successful

The group posted a 13 percent increase in incoming orders over last year. During the reporting year, the business of Industrial Metrology benefited from the global investment activities of the industry: the business group generated very strong growth in Asia in general – particularly in India. One reason for this is the increased demand for higher quality standards in Asian markets. Business with large corporations in the automotive and aerospace industries, in particular, has

developed very well in the American market. The Industrial Metrology Group has also posted clear growth on the European market, especially in Eastern Europe.

On-site Service

With factories in Germany (Oberkochen), the USA (Minneapolis) and China (Shanghai), Carl Zeiss is represented in the most important centers of global industrial production.

The group further enhanced its global production, procurement and logistics network during fiscal year 2006/07 in order to constantly strengthen its good international position. This global network supplies all 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.



Flexible: O-INSPECT enables optical and contact scanning. The right sensor is available for each application – without having to interrupt the work process.

Carl Zeiss further expanded its network of decentralized measuring centers during the reporting year in its endeavors to offer fast, expert service. During fiscal year 2006/07, the group opened new measuring centers in France, Italy, Hungary, Austria and China, enabling it to offer contract measurements locally.

Constant Flow of Information

The sales and marketing network ensures that customers have on-site access to highly qualified personnel. Furthermore, customers are continually informed about new services and products.

More Flexibility

The innovations introduced by the group during the reporting year include the *O-INSPECT* coordinate measuring machine. It combines optical and contact measuring in one system, making workflows more flexible as the operator can switch between the optical and contact sensor at any time without interrupting the workflow. This measuring machine is particularly well-suited for small, complex parts.

The Future of Measuring: MASS®

MASS® multi-sensor technology transforms the *PRISMO®* and *ACCURA®* coordinate measuring machines into flexible measuring centers that enable both optical and contact measurements on a single machine. Many different measuring jobs must be performed when inspecting the geometry of industrial products. With *MASS®* technology, the right sensor is available for every application. This improves efficiency in the process flow and increases the range of applications of the ZEISS *PRISMO®* and *ACCURA®* coordinate measuring machines.



Quality with a capital Q: Carl Zeiss produces measuring machines with which large parts can also be easily and precisely measured.

Large, Larger – MMZ

The Industrial Metrology Group installed several large machines from the MMZ line during the reporting year. The MMZ machines are primarily used for quality assurance in the energy and aerospace industries, as well as in vehicle construction and mechanical engineering. The range of components measured using the MMZ measuring systems from Carl Zeiss includes various parts for wind turbines.

New Customer Segment

Carl Zeiss opened a new chapter in measuring technology last year with the introduction of *Metrotomography*® – the fusion of metrology and computer tomography. The *METROTOM*® computer tomograph uses x-rays to show what remains hidden to traditional 3D metrology: the instrument measures the interior and exterior of workpieces.

METROTOM® became firmly established in the market during the reporting year. Here, the group also gained access to new customer segments: the innovative measuring system is used by the plastic

and consumer goods industry for the quality inspection of small, complex parts.

Software:

Standard Interfaces

Software solutions played a key role during the reporting year: the business group enhanced its leading position in the field of manufacturer-independent software. This makes it possible to install ZEISS software on non-ZEISS measuring machines.

To ensure this capability, the Industrial Metrology Group continued its work on the standardization of software interfaces which enable the exchange of data between programs and systems from different manufacturers. Carl Zeiss is the leader in the standardization of these interfaces.



F25 Delivers Nanometer Accuracy

Carl Zeiss received the 2006/07 Eugen Hartmann Prize for the accuracy certification of the *F25* coordinate measuring machine. This certification is a scientifically based recommendation for the acceptance testing of the coordinate measuring machines used for the quality assurance of microparts. The Eugen Hartmann Prize is presented by the Task Force of the German Engineering Association for Measuring and Automation Technology (VDI/VDE).

The *F25* measuring machine is particularly well-suited for the quality inspection of microparts and is also used by leading research institutes in the field of microsystem technology. Together with suppliers of production machines for microsystem parts, Carl Zeiss has developed a testing procedure which is used to determine and verify the performance of production machines. The process requires the *F25* to operate at its highest possible nanometer accuracy.

25,000th Measuring Machine

The Industrial Metrology Group built its 25,000th coordinate measuring machine during the reporting year. The *PRISMO*® measuring system was officially transferred to Munich-based MTU Aero Engines at the beginning of September. MTU Aero Engines uses more than 50 coordinate measuring machines from Carl Zeiss to measure parts and engine components.

Honored: Customer Orientation

Carl Zeiss has received its third consecutive Bosch Supplier Award. This award is presented by the Bosch Group to recognize the quality, delivery reliability, price/performance ratio, technology potential and dedication to continuous improvement of its global suppliers.



*Nanometer accuracy: The quality of microparts is vital to the reliability of many devices. The *F25* measuring system from Carl Zeiss specializes in the inspection of these parts.*

“The high demands made on MTU engines, which are also used in the Airbus A380, require reliable measuring results. That is why we put our full trust in measuring machines from Carl Zeiss.”

Karl-Heinz Klügl, head of incoming goods inspection at MTU Aero Engines, Munich (Germany)

Capture ...





Capture ...

... that perfect moment: experience nature in a new light with a perfect view. To ensure the desired result, binoculars must offer leading-edge performance – such as those from Carl Zeiss. Many people all over the world place their trust in the quality of ZEISS when it comes to binoculars for the outdoors. Our brand delivers on its promise: imaging excellence without compromise. This is true not only of binoculars and spotting scopes, but also of digital or analog still, video and movie cameras and planetarium technology.





Consumer Optics/Optronics Group

The Consumer Optics/Optronics Group generated revenues totaling EUR 245 million (last year: EUR 234 million) corresponding to growth of five percent. The Camera Lens Division, Carl Zeiss Sports Optics and the business with planetariums and opto-electronic solutions all reported a positive trend in the reporting year.

Every second, more than one customer decides to purchase a ZEISS camera or cine lens or a device equipped with optics from Carl Zeiss. During the year under review, more than 40 million consumers bought cameras, camcorders and cell phones featuring ZEISS lenses.

The products of the Camera Lens Division are important ambassadors of the Carl Zeiss Group. Camera and cine lenses, as well as the partnerships with Sony, Nokia and Logitech, bring the ZEISS brand to millions of people around the globe.

The Camera Lens Division developed very favorably in the reporting year: revenues rose by more than 70 percent. In addition to the license business, the large quantity of lenses sold by the division from its own sales program contributed to this success. It expanded its own sales department which was set up the previous year. Carl Zeiss now has powerful sales partners for its camera products in all major countries.

Lenses for Digital SLR Cameras

In the reporting year, Carl Zeiss continued to expand its product line with the addition of interchangeable lenses for digital SLR (Single Lens Reflex) cameras. In addition to special lenses marketed for various systems and industrial applications, the new lens line for the Sony Alpha program is being further expanded.

Staying in touch: looking each other in the eye – no matter how large the distance is. With their optical brilliance, webcams from Logitech featuring ZEISS optics set new standards in video communications.





Brilliant images: using ZEISS cine lenses, cameraman Frank Griebel made the movie "Perfume" into an experience for the senses. He received the German Film Award for the fascinating images he created.

New Standards for Video Communication

As a result of the increasing popularity of broadband connections, the use of video communication will increase strongly and the quality demands of the users will grow in the future. To set new standards in image quality in this field, Logitech International, headquartered in Romanel-sur-Morges (Switzerland), the world market leader in computer accessories, and Carl Zeiss announced a collaboration in June 2007.

The Logitech QuickCam® Pro 9000 and the Logitech Cam® Pro are the first two joint products. These webcams are equipped with Tessar lenses with auto-focus which have been optimized for two-megapixel sensors. They deliver a brilliant, high-contrast image with high resolution.

New, Compact Cine Lenses

In fiscal year 2006/07 Carl Zeiss presented new cine lenses for the Super 16 film format. Thanks to their compactness and light weight, the five new high-speed, wide-angle lenses of the *Ultra16* series are particularly well-suited for extreme use, e.g. in very cramped spaces or for fast-moving chase scenes in movies.

During the year under review, the business group reported growing demand in particular for high-definition (HD) lenses for digital movie production.



“With the QuickCam Pro line of webcams featuring optics from Carl Zeiss, we have come one step closer to making video communications practically indistinguishable from having a conversation in the same room.”

Junien Labrousse, Executive Vice President of Logitech Products, Fremont, California (USA)



Experience nature: Unique photos while birdwatching are made possible by ZEISS spotting scopes and the DC4 camera eyepiece: they permit simultaneous observation and digital photography.



Observation and Photography at the Same Time

In fiscal year 2006/07, Carl Zeiss Sports Optics GmbH remained on track for further growth and expanded its opto-electronic expertise in the field of spotting scopes.

With the DC4 camera eyepiece, Carl Zeiss Sports Optics is once again underscoring its innovative strength: ZEISS spotting scopes of the *Diascope* series combined with the DC4 camera eyepieces allow users to observe and take photographs at the same time. This enables unique snapshots – while birdwatching, for example.

The DC4 camera eyepiece embodies the expertise of Carl Zeiss in optics and innovative electronics.

Optimal Companion

During the reporting year Carl Zeiss introduced a product with additional electronic functionality: the *Victory Diarange® M 2.5-10x50T** with integrated laser rangefinder which supplements the *Victory Diarange®* series. The laser rangefinder – which covers the range from 10 to 999 meters – displays the distance in less than one half of a second. This allows the hunter to decide shortly before the shot whether the distance allows a reliable hit. The compact design and powerful optics make the riflescope an optimal companion for hunters.

Trend:

Additional Electronic Functionality

Carl Zeiss estimates that, in three years' time, every third binocular, spotting scope or riflescope sold in the premium segment will feature additional electronic functionality. The company is well poised for this development: today, the Sports Optics

Division already offers many products with additional electronic functionality.

Optronics:

New Site in South Africa

In fiscal year 2006/07, the Optronics Division posted a substantial increase in incoming business. Revenues rose slightly compared to the previous year.

In July 2007, Carl Zeiss Optronics acquired a 70 percent interest in the South African company DENEL Optronics in Irene/Centurion (South Africa) which belonged to the South African state-owned enterprise DENEL. The German and South African antitrust authorities have given their consent to the merger. The new company operates under the name Carl Zeiss Optronics (Pty.) Ltd. and employs 320 people.

Unique: System for Jet Pilots

A new product in the division's portfolio is a unique system for jet pilots. The optical system automatically follows the pilot's line of sight and allows the projection of additional information into the visor of his helmet, e.g. images from a thermal imager. The system is integrated into the new European Eurofighter tactical aircraft.

Optronics Internationally Successful

In fiscal year 2006/07, the division became further established in international business: the Indian navy selected Carl Zeiss as the prime contractor for equipping two submarines with new periscope systems.

The division implemented further projects for the Korean airforce in collaboration with the US company Raytheon Systems, and for the Swiss army together with the Swiss technology group RUAG.

Prize for Product Strategy

Carl Zeiss was honored with the European Optronics Product Line Strategy of the Year Award. Consulting firm Frost & Sullivan honored Carl Zeiss Optronics with this prize for the optimal adaptation of its product portfolio and product developments to the needs and requirements of its customers.



A new reality: Digital projection systems from Carl Zeiss enable the creation of fascinating worlds on the planetarium dome.

Breaking into Show Business

The Planetarium Division turned in a very positive performance in the reporting year. The focus of activity in fiscal year 2006/07 was the further development of digital dome projection. Carl Zeiss stands out against its competitors through the combination of traditional, analog star projectors and the digital systems: the innovative *powerdome*® control platform combines both technologies for integrated presentations.

During the reporting period, Carl Zeiss entered the business with image content for planetariums. Cooperation agreements were signed with artists and service providers so that shows or astronomical image contents for dome projections can also be offered to customers in the future. This business is to be further expanded.

Global Projects

In fiscal year 2006/07, Carl Zeiss installed analog and digital planetarium systems in Spain, Kuwait, Brazil, Austria and the USA, among other places.

Carl Zeiss is supplying a new *UNIVERSARIUM* projection system for the large planetarium in Peking. The planetarium will be renovated in time for the 2008 Olympic Games in Peking. About one million people are expected to attend the facility every year.

Telescope for Greece

Carl Zeiss has developed, produced and mounted the largest telescope in south-eastern Europe for the Greek National Observatory in Athens. The telescope went into operation on the Peloponnes peninsula in August 2007.

Feel ...





Feel ...

... safe: over 200 million people all over the world wear eyeglass lenses from Carl Zeiss Vision. Good vision is key to the quality of life we enjoy. The name Carl Zeiss stands for visual excellence: the right lenses open up whole new dimensions of visual perception. No other sense provides us with as many impressions as sight. What we see with our eyes conveys moods to us and inspires us, providing an important basis for building and engendering trust.





Carl Zeiss Vision

Carl Zeiss Vision is the world number two in the eyeglass market. The new enterprise is equally owned by Carl Zeiss AG and the EQT III private equity fund. The business of Carl Zeiss Vision is valued at equity in the financial statements of the Carl Zeiss Group.

Revenues of Carl Zeiss Vision remained stable compared to last year: in fiscal year 2006/07 sales totaled EUR 844 million (last year: EUR 845 million).

On the balance sheet date, the global workforce of the Carl Zeiss Vision Group totaled 10,293 full time equivalents (FTEs) in over 30 countries (last year: 10,626). There are 1,187 FTEs (last year: 1,263) working for the company in Germany.

Successful in America

In the American markets a positive trend was reported for the business of Carl Zeiss Vision during the reporting year. In particular, the market launch of eyeglass lenses of the premium ZEISS brand made it possible for the company to win additional market share.

During the year under review, Carl Zeiss Vision further expanded its business with large ophthalmic retail chains in the US market: momentum for this expansion was provided in particular by the SOLA Compact ULTRA™ and ZEISS GT2 product lines.

In recognition of the good cooperation with the company, the US chain Wal*Mart honored Carl Zeiss Vision with the Wal*Mart Supplier Award during the reporting year. The prize was presented for consistent excellence in, for example, product quality and delivery reliability. During fiscal year 2006/07, Carl Zeiss Vision pressed ahead with the integration of the prescription labs, therefore improving the service it offers its customers.

Full Distribution Responsibility in Europe

In the United Kingdom, France and Italy, the company has now assumed full responsibility for the distribution of its

products and has successfully integrated the new configuration into its distribution structure. In these countries the products of Carl Zeiss Vision were formerly offered via the sales organizations of Carl Zeiss AG.

In the European market, the company posted a slight decline in business due to the loss of a large customer. Despite this situation, revenues and earnings remained stable and reached the same level as last year. The market launch of the *i.Profiler*®, an innovative measuring system that provides complete information on the visual performance of the eye, generated positive momentum. This measuring system forms the basis of new techniques for the optimized production of individualized eyeglass lenses.

New Key Account in Europe

Since November 2007, the company has been the main supplier of the global GrandVision chain which operates over 1,000 ophthalmic outlets in the major



Z for reliability: ZEISS eyeglass lenses are immediately recognizable from their engraved trademark.



Unique: The new GT2 3D progressive lenses from Carl Zeiss Vision offer eyeglass wearers a new dimension in 3D vision.

Western and Central European markets. At the same time, Carl Zeiss Vision has acquired a 100 percent interest in GrandVisionLab (GVL), the most important supplier of GrandVision. GVL employs approximately 400 people in a highly automated production facility west of Paris (France). With 6,000 prescription lenses and 3,000 finished pairs of eyeglasses a day, GVL is one of Europe's most modern manufacturing sites in the field of eyeglasses. With this strategic partnership, Carl Zeiss Vision is further expanding its position in Central and Western Europe.

Additional Market Share in Asia

The business of Carl Zeiss Vision was particularly successful in Asia. The company won market share, above all, in China and South-East Asia. In fiscal year 2005/06 Carl Zeiss Vision, acquired the

prescription and frame division of GENERAL OPTICAL (GENOP), Johannesburg (South Africa) – a network of labs and service centers now operates as Carl Zeiss Vision South Africa. The integration of this company into the structures of Carl Zeiss Vision was successfully completed during the reporting year.

Global Focus

During the fiscal year under review, the company continued to work on the expansion of a global production and distribution network: an important component of this global network is the new manufacturing site for prescription lenses in the Chinese city of Guangzhou, which started production in August 2007.

Investment in India

In November 2007 – shortly after the end of the fiscal year – Carl Zeiss Vision acquired a majority interest in the manufacturing company GKB Hi-Tech Lenses Ltd., Mapusa/Goa (India), and in the distribution company GKB Optolab Ltd.

GKB is the leading manufacturer of prescription lenses in India and has achieved high, two-digit growth rates and considerably expanded its market position over the past few years.

Carl Zeiss has held a minority interest in GKB Hi-Tech Lenses Ltd. since 2004. With the complete acquisition, Carl Zeiss Vision has secured a good position in the rapidly growing Indian market.

New Dimension of Vision

In fiscal year 2006/07 Carl Zeiss Vision presented the innovation *i.Scription*®. This is an optimization which enables high contrast, sharper vision on the basis of highly precise *i.Profiler* measurements. The key to this development is a new technique for the optical design and production of eyeglass lenses which allows individualized corrections with accuracies in the range of one hundredth of a diopter.

Innovations – The Key to Corporate Success

Innovations are the focus of business at Carl Zeiss: the company generates 60 percent of revenue with products less than five years old. If a technology company is to constantly launch successful innovations in the market, it must rely on three foundation pillars: ongoing investments in research and development, working in international networks, and motivated and highly skilled employees.

Generating and implementing new, innovative ideas are an absolute must if a company is to be successful. For this reason, Carl Zeiss has established a targeted innovation management system: the company systematically controls its innovations so that they can be turned into marketable products within a short time. The economic success of the company is based on the power it gains from innovation: Carl Zeiss generates around 60 percent of revenue with products less than five years old.

Key to Success: Investments

During the reporting year, Carl Zeiss invested EUR 290 million – or eleven percent of revenues – in its research and development activities. This high level of investment is a tradition at Carl Zeiss: the company has been investing around ten percent of revenues in research and development for several years now. This is clearly more than the average of technology companies.

Protecting Innovative Ideas

To protect innovative ideas and developments, the company applied for patents for 384 inventions during the year under review. Carl Zeiss applies for approximately two patents per workday.

Key to Success: Networks

The transfer of know-how at Carl Zeiss is a key driver of innovations. The company therefore relies on international teams of internal and external engineers and scientists to bundle competencies. The network with more than 400 external partners includes research centers, universities, customers and suppliers. Successful products such as the *Visante™ OCT* for non-contact examinations of the eye, or the *METROTOM®* computer tomograph which has opened a new chapter in industrial metrology, are only two examples of successful work conducted within international networks.



Innovationspreis
der deutschen Wirtschaft
Erster Innovationspreis der Rhein-Main

Urkunde

Innovationspreis der deutschen Wirtschaft
Schirmherrschaft: Bundesminister für Wirtschaft und
Wirtschaftsclub Rhein-Main e.V., Frankfurt, und die
erben den Innovationspreis der deutschen Wirtschaft, um
Wirtschaft zu fördern und die internationale Wettbewerbsfähigkeit

Der Sieger des Sonderpreises

Carl Zeiss AG, Jena

Die Carl Zeiss AG, Jena, hat sich in den vergangenen Jahren durch ihre hervorragende Leistung im Bereich der optischen Industrie und der Entwicklung neuer Produkte und Verfahren zur Herstellung von optischen Systemen und Komponenten einen Namen gemacht und ist damit zu einem der führenden Unternehmen in diesem Bereich geworden.

Optical Coherence Tomography (OCT) is a technology based on light waves for the contact-free imaging of sections of the retina. The *Visante OCT* makes diagnosis of diseases of the eye considerably easier and more comfortable for patients as the eye is not touched during the examination.

OCT technology was integrated into the first commercial product and introduced to the market by Carl Zeiss Meditec and the Massachusetts Institute of Technology in Boston (USA) in 1996. Today, OCT is being enhanced in cooperation with the University of Cardiff in Wales and the École Polytechnique Fédérale in Lausanne (Switzerland).

Carl Zeiss worked closely with the Fraunhofer Institute for Non-destructive Inspection Methods in Saarbrücken (Germany) during the development phase of the *METROTOM®* computer tomograph. The result is an innovative measuring machine that merges measuring technology and tomography to create *Metrotomography®*. The interior and exterior of workpieces are measured using x-rays. The computer tomograph is utilized to measure parts, for material testing and assembly inspection. Defects or damage are quickly found with the machine. An additional benefit of the system: it is possible to examine single parts, such as prototypes, within an extremely short time and without damaging them.

Key to Success: Employees

Technology companies require the special creativity and dedication of highly skilled employees. Therefore, there are a number of initiatives at Carl Zeiss designed to promote employee potential.

Career Model for Experts

Carl Zeiss introduced what is known as the technical ladder around two years ago. It offers highly skilled engineers and scientists tailored development and advancement opportunities: instead of entering the traditional management ladder, employees with proven technical expertise can be nominated for the technical ladder. Among other things, they then receive time budgets for research activities in their specialist field of work. The career model comprises several levels and conforms to international standards.

Learning from Mistakes

Ideas can only be developed where there is scope for development and creativity is rewarded – such as the annual Innovation Awards offered to employees by Carl Zeiss. They honor innovative projects in six categories: Innovative Business Design, Leading-edge Technology, Short Time to Market, High-risk Project, and Best Knowledge Sharing. The sixth category, Successful Failure, recognizes projects that were prematurely terminated, but nonetheless led to new ideas and developments. Gaining fresh impetus and learning from failures is a key element of the Carl Zeiss corporate culture.

Attractive for Engineers and Scientists

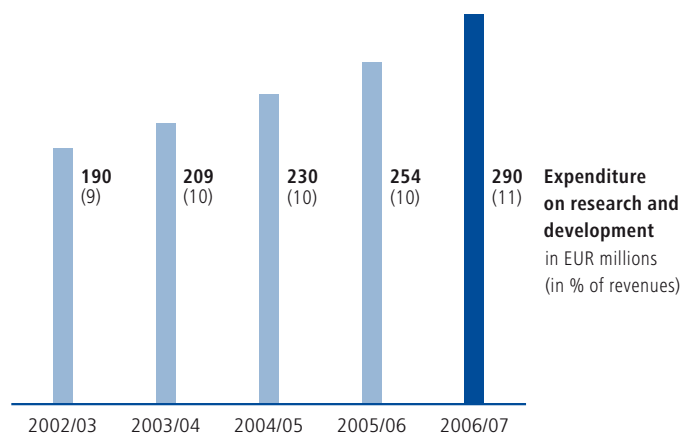
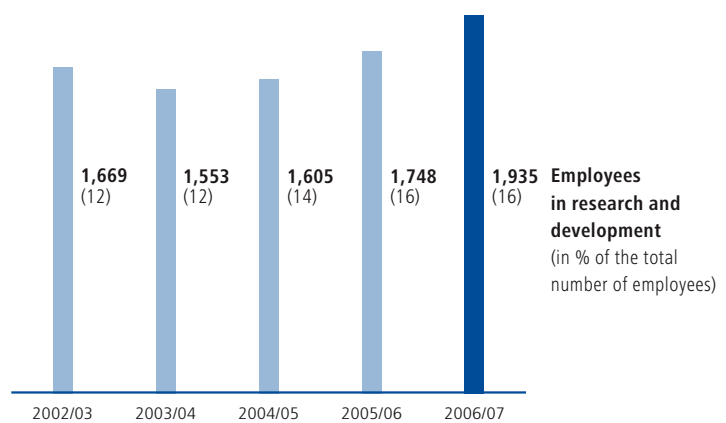
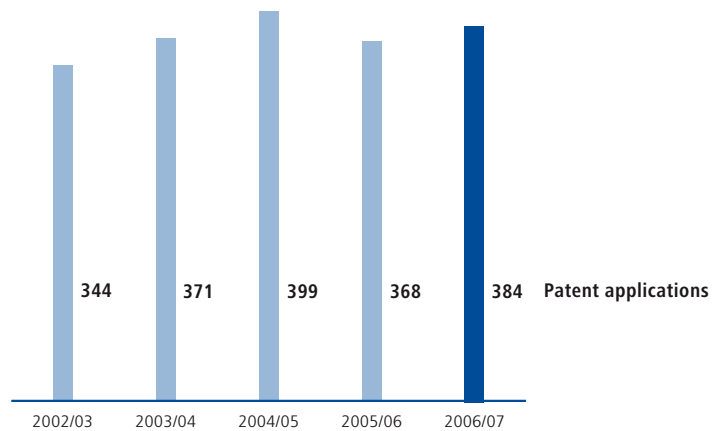
Carl Zeiss is an attractive and popular employer for engineering or science graduates – this is reflected in surveys conducted by the German magazines “WirtschaftsWoche” and “manager magazin”, in which Carl Zeiss achieved greatly improved ratings in 2007.

Carl Zeiss offers good career perspectives, particularly for engineers and scientists. The company has 1,935 employees in research and development around the world. This is approximately 16 percent of all employees.

Award-winning Innovations

The corporate Vision states that Carl Zeiss will endeavor to become one of the most innovative companies in its fields of business. The company's economic success and numerous awards and honors for innovative products demonstrate that Carl Zeiss is on the right track.

The Decade Award, in particular, which Carl Zeiss received together with the 2007 Innovation Award of German Industry, clearly underscores the sustainability of the innovation leadership of Carl Zeiss: these honors are given to the company that submitted the most entries for the Innovation Award of German Industry over the past ten years.



Human Resources at Carl Zeiss

The success of the company and the ZEISS brand is dependent on the abilities and knowledge of our employees. This is precisely why Carl Zeiss attaches major importance not only to the training of young people, but also to the ongoing training and development of executive staff. In line with this goal, a large number of processes and programs was established in order to promote the skills and nurture the talent of employees.

In fiscal year 2006/07, the Carl Zeiss Group created over 500 new, primarily highly qualified jobs, more than half of which were in Germany.

On the balance sheet date (September 30, 2007) a total of 12,257 people were working for the Carl Zeiss Group worldwide. This equates to 1008 (nine percent) more than last year (11,249). 469 of these were the result of changes in the scope of consolidation.

There are 7,965 employees working at sites in Germany; 4,292 outside Germany. 16 percent of employees work in research and development.

The First Step to a Future Career

Every year, Carl Zeiss trains several hundred young people in an extremely wide variety of careers. On the balance sheet date, there were a total of 417 apprentices and trainees in Germany.

In fiscal year 2006/07, Carl Zeiss advertised a trainee program and employed six trainees for the first time. Over a period totaling 15 months, the young graduates with excellent degrees are familiarized with the company and simultaneously prepared for their subsequent jobs by means of specialist seminars and foreign assignments.

In the future, the company will offer ten to twelve top traineeships every year, therefore allowing highly qualified young people with major potential to take the first step into their future careers.



“The Carl Zeiss Top Trainee Program is the best thing that could have happened to me after I finished my studies. I get to know the company in a very short time and am optimally prepared for my future job. There’s no better way to start my career.”

Sabrina Sellmann is one of the first top trainees of Carl Zeiss AG.



Carl Zeiss recruits young talent primarily from inside the company itself. An initiative called the Junior Leadership Program was introduced over two years ago. During the year under review, this was also offered to employees of our foreign subsidiaries for the first time. Over 60 employees have now successfully completed the program around the globe.

Recognizing and Promoting Potential

Continuously developing the abilities of employees and executives is a core element of the human resources policy operated by Carl Zeiss. In fiscal year 2006/07 the company introduced a process (nextSTEPS; Steps for Turning Employees' Potential into Success) to systematically record employee potential. This is aimed at determining and pro-

moting the development potential of employees in line with a uniform standard.

This enables a targeted approach to training and education. It also facilitates successor planning for key positions.

Ongoing Executive Development

Carl Zeiss has developed the Executive Development Forum for this purpose. The goal of the annual training is to develop executives in subjects which are specific to Carl Zeiss. During the reporting year, for example, 150 managers from Germany and abroad were trained in value-oriented corporate leadership.

The 270° feedback initiative was also launched at the beginning of fiscal year 2007/08. In this initiative, managers will receive feedback on their management skills from their superiors, colleagues and staff. This will enhance the leadership culture of Carl Zeiss.

Careers for Experts

311 employees have already been accepted to the Carl Zeiss "Technical Ladder", a career model specially designed for experts from the research and development areas. The company's technological future heavily depends on the know-how and initiative of top specialists. For these experts – scientists, engineers and other specialists – the technical ladder is an alternative to the traditional management career with disciplinary responsibility for employees.



"I moved with my family from Tokyo to Oberkochen and now work at Carl Zeiss headquarters. We did not have to deal with any of the usual formalities – the Global Mobility Program took care of everything for us. This made it much easier for us to adapt to the new environment."

Product Manager Fumio Takanashi from Tokyo now works for Carl Zeiss in Oberkochen.



“Achieving the growth targets of Carl Zeiss is strongly dependent on finding the best employees for key positions in the company. An important component in this process is the nextSTEPS initiative with which we develop the potential of our employees on an ongoing basis.”

Bernhard Just, Senior Vice President, Human Resources, Carl Zeiss AG

Among other things, employees in the technical ladder receive time budgets for their scientific work. The career model for experts complies with the highest international standards: for example, all ladder titles, e.g. “Fellow Scientist”, are commonly used and internationally recognized.

International Assignments

The rising internationalization of business life is increasing the importance of international assignments. Sending employees on assignments all over the world for a defined period promotes their intercultural awareness and understanding. The active

exchange of knowledge within the company is intensified at the same time.

In order to use the opportunities and rise to the challenges posed by internationalization, Carl Zeiss introduced the Global Mobility Program in fiscal year 2005/06. It standardizes and simplifies the international assignment process, particularly for the employees involved. Last fiscal year, 28 employees embarked on international assignments within the Carl Zeiss Group around the globe.

Attractive Employer

The reputation of Carl Zeiss as an attractive employer is an important factor for the company’s success. The ratings achieved in various magazines, e.g. the top 100 employer ranking of the German “manager magazin”, show that Carl Zeiss is on the right track with its personnel marketing and development strategies: in fiscal year 2006/07 Carl Zeiss clearly increased its attractiveness for engineers and improved from 40th to 23rd place.

Comprehensive Environmental Management

At Carl Zeiss, environmental protection and economic efficiency are not contradictions. Ecology is an important element of our economic orientation. Therefore, Carl Zeiss pursues a strategy of avoiding pollution from the outset.

The production methods and materials used by Carl Zeiss have a very limited impact on the environment. Nonetheless, the company continually strives to further optimize processes, procedures and the selection of materials in order to avoid any possible environmental pollution or reduce it to the greatest possible extent. A key aspect in this is the integration of systems and processes to ensure that energy is efficiently used – from the initial product idea to production, sales and actual utilization by the customer.

Investments in Environmental Protection

Carl Zeiss invested around eleven million euros (last year: eight million euros) in environmental protection at its German locations during fiscal year 2006/07. This includes construction measures that help sustainably improve the energy consumption of buildings. This reduces the impact on the environment and energy costs.

Sparing Use of Energy

Carl Zeiss is constantly working to achieve maximum energy efficiency – from both an ecological and economical point of view. During the reporting year, the company succeeded in keeping its energy consumption – this includes electricity, gas and district heating in Jena and Wetzlar – practically constant at its German locations despite increasing utilization of production capacities.

Over the past ten years, energy consumption at the company's German sites has increased by a total of around 26 percent. This is due in part to the increasing amount of production in clean rooms. Many of the high-tech products made by the Carl Zeiss Group can only be manufactured under special conditions. Climatization of the clean rooms – this also includes the complex processing of air – is very energy-intensive. Therefore, with every new development, the company precisely checks the climate conditions required to manufacture a product to ensure that only as much energy is used as required to climatize the production rooms. Ecological and economical aspects are also taken into consideration when making a decision on the purchase of new production and supply systems.





Networked: Central controls ensure the need-based use of energy.

Heat from the Cold

The company also deploys heat exchangers and utilizes excess thermal energy that is created, for example, when cooling water for certain stages of production. The energy thus obtained is fed into the heating system, providing both ecological and economical benefits.

Furthermore, specific production processes are cooled via circulation systems. These play a key role in the efficient use and reuse of water as a valuable natural resource, in particular.

The factory in Oberkochen employs a network system to centrally control the pressurized air needed in production. This ensures that only the currently required amount of pressurized air is produced. This need-based supply reduces energy consumption.

Water instead of Oil

Carl Zeiss uses coolants, lubricants and abrasives for machining processes on metal or glass materials. In recent years, the company has continually replaced these oil-based with water-based emulsions that are considerably more friendly to the environment. The oil and water constituents of used coolants, lubricants and abrasives are completely recycled.

Water Consumption Practically Unchanged

Carl Zeiss requires water for many stages in the manufacturing process. Improvements to processes and procedures have led to a reduction in the quantity of water used every year despite constantly increasing production volumes. Overall, the company has reduced its water consumption at its German locations by approximately 40 percent over the past ten years.





During the reporting year, the company used 337,000 cubic meters of water – the same as the year before. Closed circulation systems in production, clean room and cooling systems kept consumption constant despite increased production.

Other water consumption at the German locations of the Carl Zeiss Group, however, increased slightly during fiscal year 2006/07: a total of 145,000 m³ of drinking water was used (last year: 124,000 m³).

Other Influences on the Environment

As part of environmental management, Carl Zeiss also takes into consideration the route a product takes on its way to a customer: experts look for the best solutions for environmentally friendly packaging and transport routes to keep possible pollution to an absolute minimum.

An example of this can be found in the shipping of surgical microscopes. Approximately two years ago, a special packaging concept was developed: the instruments are transported in completely recyclable packaging. Additionally, practically all systems are delivered to the customer in only one package, thus reducing the transport volume. This cuts down on packaging material, saving around EUR 900,000 annually.



Recyclable: Surgical microscopes are delivered to customers in environmentally friendly packaging.

Highlights during the Fiscal Year

October



Science Prize for Carl Zeiss

The Association of Sponsors of the Fraunhofer Gesellschaft honored Carl Zeiss with the 2006 Science Prize. The company received the award for its “Compact LED Light Sources” project on which it has been working with the Fraunhofer Institute for Applied Optics and Precision Engineering in Jena, OSRAM Opto Semiconductors and Siemens VDO Automotive. The objective was to open up new applications for compact, high-performance LEDs.

PrimoStar Wins Award

The PrimoStar microscope was honored with the 2006 Good Design Award. The internationally renowned prize is presented annually in Tokyo by the Japanese Industrial Design Promotion Organization for innovatively designed products. The PrimoStar training microscope is suitable for use in universities, medical training centers and schools, and for routine biomedical laboratory applications.

November



160 Years of Carl Zeiss

Carl Zeiss looked back on an important milestone in its history in November: the company whose products have played a key role in the progress made in many areas of science has existed for 160 years. The success story began on November 17, 1846: in Jena, Carl Zeiss founded a mechanical workshop for highly precise instruments that were used for research by scientists at the University of Jena. Just a few years later, together with Ernst Abbe, Carl Zeiss began the industrial production of microscopes with unparalleled image quality. Today, as then, the name Carl Zeiss is synonymous with leading-edge technologies, innovative ideas, quality and precision.



2007
January

Innovation Award of German Industry

Carl Zeiss won the Innovation Award of German Industry in the Large Companies category. The prize honored the development of immersion optics for the fabrication of the latest generation of microchips. Carl Zeiss also received the "Decade Award" as the finalist with the largest number of submitted innovations over the past ten years. German Federal Minister of Economic Affairs and Technology, Michael Glos, the patron of the Innovation Award of German Industry (center), congratulated Dr. Dieter Kurz, President and CEO of Carl Zeiss AG (left) and Dr. Hermann Gerlinger, Member of the Executive Board of Carl Zeiss AG and President and CEO of Carl Zeiss SMT AG.



February

Ten years of "Jugend Forscht" at Carl Zeiss

The targeted advancement of young talents is a tradition at Carl Zeiss: the company has been a sponsor of the "Jugend Forscht" (Young Researchers) competition, Europe's largest competition for science and technology, since 1997. The company has already hosted the competition for the East Wuerttemberg region for the tenth time. In the ten years of the regional competition, four winners from Oberkochen have produced two 2nd place finishes and a 3rd place in the national competition.



March



Carl Zeiss Supports Jena, the City of Science

Jena is Germany's 2008 City of Science. The city impressed the Joint Initiative of German Industries to Promote Science and Higher Education with its "Knowledge and Growth – Made in Jena" program. Carl Zeiss supported Jena's application and is a premium sponsor. Dr. Albrecht Schröter, Mayor of Jena (left) and Dr. Dieter Kurz, President and CEO of Carl Zeiss AG, made the announcement. Carl Zeiss has planned numerous events and projects in 2008 for the City of Science program.

Carl Zeiss Vision Receives Wal*Mart Supplier Award

Carl Zeiss Vision was honored in the USA with the Wal*Mart Supplier Award during the first quarter of 2007. This renowned award is presented by the US chain to suppliers that continually deliver peak performance in the key areas of product quality, delivery reliability, training and support. Wal*Mart achieved its strongest growth and highest profits during the first quarter with products from Carl Zeiss Vision.

Carl Zeiss in TecDax

Listed company Carl Zeiss Meditec AG was included in the TecDax index of the German Stock Exchange in March 2007. In addition to the clear growth posted by the company in recent years and the internationalization of stockholders, this is attributable to the transparent and intensive communication with the capital market. Carl Zeiss Meditec is now therefore one of the most important technology stocks in Germany.



April

ZEISS Microscopes for the Green Classroom

Carl Zeiss donated eight Stemi DV 4 stereomicroscopes for the Green Classroom project in the Brenz Park in Heidenheim (Germany). Carl Zeiss supported the Regional Garden Show in Heidenheim the year before and is now continuing this commitment. Around 12,000 students worked with ZEISS microscopes in the Green Classroom during the event.

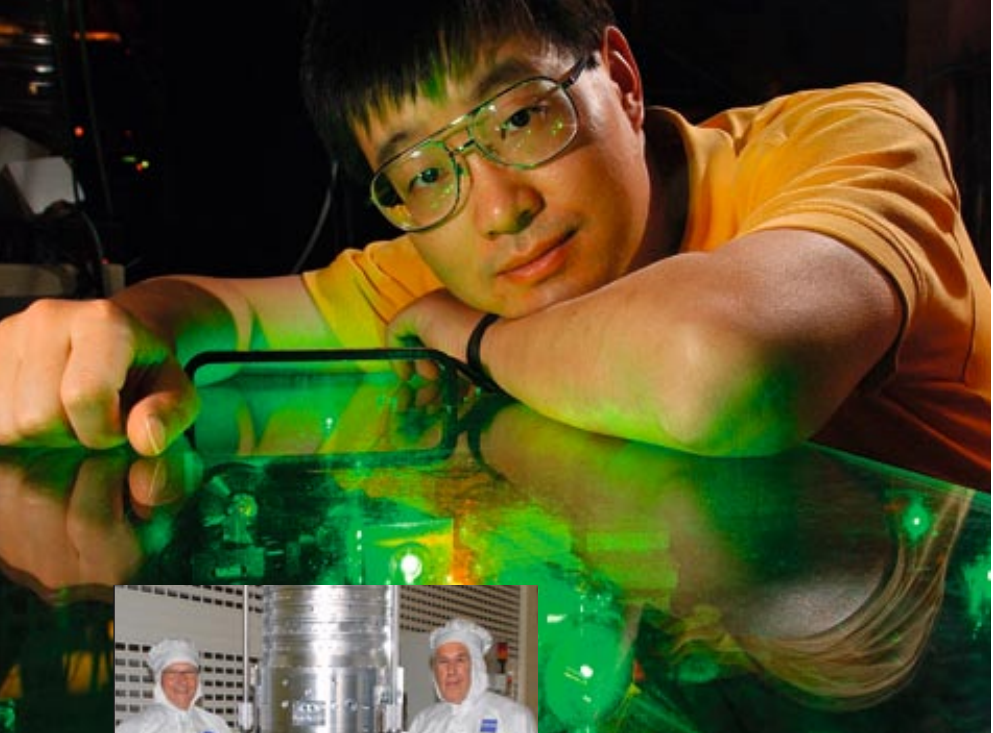
Nanotechnology Demo Center Opens in Japan

Carl Zeiss SMT AG and SII Nano Technology (SIINT), a subsidiary of Seiko Instruments Inc., opened a new demonstration center for nanotechnology in Yokohama in April. The demo center is a further step in the implementation of the strategic partnership established in March 2006. Both companies use the new facility to present their electron and ion-beam systems.

June

CRISP – Unique Electron Microscope

During an official inauguration ceremony, Carl Zeiss SMT AG handed over a totally unique transmission electron microscope (TEM) to the caesar Research Center (center of advanced European studies and research) in Bonn (Germany). The CRISP system was developed and manufactured by the Nano Technology Systems Division (NTS). The latest technologies in image capture using electrons enable scientists to better examine the properties of materials. The system is used in materials research and in the field of the life sciences.



German Federal Minister of Economic Affairs and Technology Visits Carl Zeiss

Michael Glos (right), German Federal Minister of Economic Affairs and Technology, was impressed by the innovative power of Carl Zeiss during a visit to Oberkochen. Together with Dr. Dieter Kurz, President and CEO of Carl Zeiss AG, he visited the clean rooms in which lithography lenses are assembled. Glos emphasized that "Carl Zeiss has demonstrated that systematic investment in leading technologies is the best method of surviving on global markets and also creating highly skilled jobs in Germany."

2007 Carl Zeiss Research Award

Jun Ye received the 2007 Carl Zeiss Research Award. Shanghai-born American Jun Ye, who performs research at the JILA joint institute of the University of Colorado and the National Institute of Standards and Technology (NIST) (both in Boulder, Colorado, USA), was honored for his work in the field of femtosecond lasers and frequency combs. The Carl Zeiss Research Award is one of the most renowned honors in the field of optics. This award, to which the sum of EUR 25,000 has been allocated, is presented by the Ernst Abbe Fund in the Stifterverband für die Deutsche Wissenschaft (a joint initiative of German industries to promote science and higher education) every two years in recognition of outstanding achievements in optical research.

A School Year Abroad

Ten children of Carl Zeiss employees were given the opportunity to head out into the great wide open: they received scholarships from Carl Zeiss for a year abroad. Their destinations included Australia, Thailand, China (Hong Kong) and the USA. With the scholarship, Carl Zeiss aims to prepare young people for the challenges of global developments to ensure that they can face the future with self-confidence and better meet the challenges of their professional careers.

July



Bosch Supplier Award for Industrial Metrology

Carl Zeiss has won its third consecutive Bosch Supplier Award. This award honored the outstanding performance of the Carl Zeiss Industrial Metrology Group regarding quality, costs and delivery reliability as well as its commitment to ongoing development, technology potential and dedication to continuous improvement. Bosch honors its suppliers every two years and has now presented the globally advertised Supplier Award for the eleventh time.

Foundation Professorship for University of Jena

Carl Zeiss AG and the Ernst Abbe Foundation are supporting a junior professorship in the field of optical technologies for the next five years. The newly created Advanced Computational Photonics junior professorship is financed with a total of EUR 500,000. It is linked to the Institute of Solid Body Theory and Optics and is integrated into the the photonics area of the Physical-Astronomy Faculty. The focus of the teaching activity is in the international master's course "Optics in Science and Technology".

Training Center in Indonesia Opens

Dr. Michael Kaschke (second from left), Member of the Executive Board, opened the first training center for ophthalmology in Bandung, Indonesia in July 2007. Carl Zeiss supports the center with medical devices for the diagnosis, treatment and aftercare of diseases of the eye. Furthermore, the company financed employee training. The training center is part of the Vision 2020 initiative aimed at eliminating preventable blindness around the world by the year 2020. Carl Zeiss will support the initiative for the next five years. Ophthalmology training centers are being set up in various regions of the world.





September

October

German Minister of Education and Research Opens Nanosolutions Center

German Federal Minister of Education and Research Dr. Annette Schavan visited Carl Zeiss in September and opened the Nanosolutions Center, the largest and most advanced demo center for cutting-edge high resolution microscopy in Germany. During her address, she emphasized the value of optical technologies for the competitiveness of the location: "These technologies drive important innovations and are among the future technologies of the 21st century. They provide key impulses for Germany as an industrial site." Further-more, she gathered information on girls who are receiving technical training at Carl Zeiss.

Joining Forces in the Fight against Cancer, Heart Attacks and Alzheimer's

Carl Zeiss is part of the Molecular Imaging Technology initiative started by the German Federal Minister of Education and Research. The goal of the initiative is to develop new procedures for molecular imaging. In the future, these will help detect diseases such as cancer, Alzheimer's or cardiovascular diseases at an early stage, and develop more effective treatments. With innovative microscope systems which are capable of visualizing cellular processes never visible before, Carl Zeiss is playing its part in driving progress in molecular imaging. In addition to Carl Zeiss, Bayer Schering Pharma, Boehringer Ingelheim Pharma, Siemens Medical Solutions and Karl Storz are involved in the initiative.

Carl Zeiss Nominated for German Future Prize

A team from Carl Zeiss was nominated for the German Future Prize – the Prize awarded for technology and innovation by the German Federal President – for the development of EUV lithography. Using extremely shortwave ultraviolet radiation, this technology will significantly increase the performance of microchips in the near future. Developers and engineers at Carl Zeiss have been working on this technology for more than ten years – more than 100 million euros have already been invested. In 2007, Carl Zeiss was nominated for this award for the third consecutive year.

Long-term Perspective

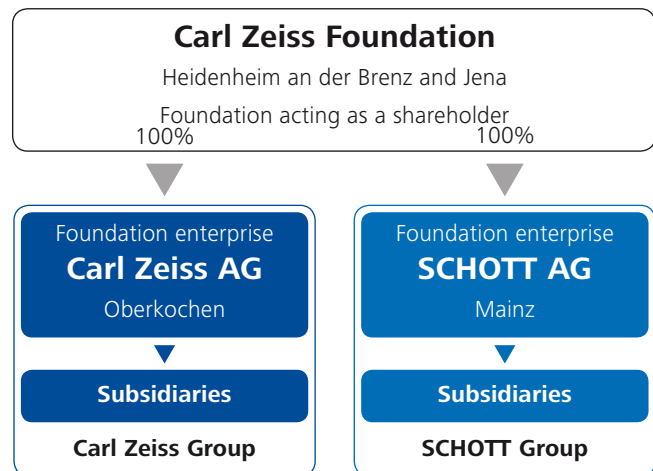
The Carl Zeiss Foundation is the sole owner of Carl Zeiss AG, Oberkochen, and Schott AG, Mainz. The foundation gives the two companies independence and a long-term perspective. The Carl Zeiss Foundation (Carl-Zeiss-Stiftung) was created by Ernst Abbe in 1889. Today it is committed in particular to research and teaching in the fields in which its member enterprises operate.

In 2004 – 115 years after its creation by the physicist Ernst Abbe – the Carl Zeiss Foundation (Carl-Zeiss-Stiftung) revised its organizational structure. The foundation constitution was adapted to the changed conditions, and the operating enterprises Carl Zeiss and SCHOTT were transformed into stock corporations.

As the sole owner, the Carl Zeiss Foundation gives its companies the security of long-term ownership stability: the flotation of the enterprises is prohibited by the constitution. This enables the Executive Boards to gear the companies toward sustained, strategic development.

The main goal of the Carl Zeiss Foundation is the promotion of science and research. The focus of this promotional activity lies on research and teaching in the fields in which Carl Zeiss, SCHOTT and their subsidiaries operate. The Carl Zeiss Foundation also promotes the general interests of the optical and precision engineering industries. In accordance with the foundation's constitution, the promotional activity is limited to the German federal states of Baden-Wuerttemberg,

Rhineland-Palatinate and Thuringia, where the foundation and its operating enterprises are based. The promotional activity is concentrated on the natural and engineering sciences, and therefore on the areas with which the business of the enterprises come into contact.



In June 2007 the Carl Zeiss Foundation launched a promotional program for up-and-coming scientists, in which 14 doctoral and four postdoctoral students are being supported. In addition, the foundation is financing four junior professorships at the Universities of Ulm, Jena, Mainz and the Technical University of Kaiserslautern, all in Germany, for a period of four years. A total of around EUR 2.7 million is being invested in this program. At the end of 2007 the foundation once again advertised a promotional program for talented young scientists.

It also announced a second promotional initiative aimed at strengthening research structures at universities with a sum totaling around three million euros. Research areas which are already working successfully on an interdisciplinary basis and are pursuing promising strategies from both the innovative and scientific viewpoints, will be assisted in their endeavors to close the gap with top performers in their respective field of research.

The funds provided by the foundation for this purpose are financed from dividend payments of the enterprises Carl Zeiss and SCHOTT. The amount depends on the equity ratio and the net annual income of the companies.

When in the spring of 2008 the annual shareholders' meeting passes a resolution on the dividend for fiscal year 2006/07 as proposed, Carl Zeiss will have made dividend payments totaling over EUR 19 million to the Carl Zeiss Foundation in the space of three years.

The foundation operates through its three main bodies: the Foundation Administration, the Shareholder Council and the Management Advisory Board. The Foundation Administration comprising the Ministers of Science from the federal states of Baden-Wuerttemberg and Thuringia is responsible for allocating funds, appointing the members of the Shareholder Council and implementing amendments to the foundation constitution. The Shareholder Council attends to the economic interests of the foundation as the sole shareholder of Carl Zeiss AG and Schott AG. The Chairman of the Shareholder Council – to which two other leading personalities also belong – is simultaneously Chairman of the Supervisory Boards of the two operating enterprises. The third body is the Management Advisory Board, comprising the Members of the Executive Boards of the two companies, which advises and supports the Foundation Administration and the Shareholder Council in the performance of their duties.

Carl Zeiss AG

Executive Board

Supervisory Board

Executive Board and Supervisory Board of Carl Zeiss AG

Executive Board of Carl Zeiss AG

Dr. rer. nat. Dieter Kurz

Aalen

President and Chief Executive Officer and Labor Director

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

Dr. rer. nat. Hermann Gerlinger

Aalen

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

Dr. sc. nat. Michael Kaschke

Oberkochen

Member of the Executive Board responsible for Medical Systems, Microscopy, Corporate Finance, Controlling and Taxes and Corporate Information Technology

Supervisory Board of Carl Zeiss AG**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 ¹⁾

Jena

Deputy Chairman

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

PD Dr. Martin Allespach ¹⁾

Kelkheim-Fischbach

Divisional Manager

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

Dr. Michael Claus ¹⁾

Aalen

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

Prof. (em.) Dr. Dres. h.c.**Adolf G. Coenenberg**

Stadtbergen

Chair of Auditing and Controlling, Faculty of Business Administration, University of Augsburg

Wolfgang Grothe ^{1) 2)}

Aalen

Corporate Finance/Controlling, Carl Zeiss AG, Oberkochen

Dr. Winfried Scherle ^{1) 3)}

Aalen

Head of the Camera Lens Division, Carl Zeiss AG, Oberkochen

Roland Hamm ¹⁾

Aalen

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

Hans-Jürgen Heinicke ¹⁾

Aalen

Technical Services Management, Carl Zeiss Optronics GmbH, Oberkochen

Hermann-Josef Lamberti

Königstein im 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 of Carl Zeiss AG

Chairman's Committee	Tilman Todenhöfer (Chairman), Jürgen Dömel, Roland Hamm, Dr. Michael Rogowski
Auditing Committee	Prof. (em.) Dr. Dres. h.c. Adolf G. Coenenberg (Chairman) Dr. Michael Claus, Wolfgang Grothe (up to December 31, 2006) Dr. Winfried Scherle (from February 8, 2007 onwards) Tilman Todenhöfer
Mediation Committee	Tilman Todenhöfer (Chairman), Jürgen Dömel, Hans-Jürgen Heinicke, Hermann-Josef Lamberti

¹⁾ Employee representatives²⁾ Up to December 31, 2006³⁾ From February 8, 2007, onwards

Business Structure of the Carl Zeiss Group by Strategic Business Units

Europe

● 7 production sites in 5 countries

● 25 sales locations in 18 countries



Corporate Management

Corporate functions

Service and infrastructure divisions

• Carl Zeiss AG, Oberkochen

- Carl Zeiss Jena GmbH, Jena
- Carl Zeiss Financial Services GmbH, Oberkochen

Medical and Research Solutions

Medical Systems

Ophthalmology

Surgical Ophthalmology

Neuro/ Ear, Nose and Throat surgery

Carl Zeiss Meditec AG, Jena

Carl Zeiss Surgical GmbH, Oberkochen

Microscopy

Bio Sciences

Clinical

Industrial

Carl Zeiss MicroImaging GmbH, Jena

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

America

- 4 production sites in 2 countries
- 6 sales locations in 4 countries



Asia/ Australia

- 2 production sites in 1 country
- 10 sales locations in 9 countries



Africa

- 1 production site
- 1 sales location



Lifestyle Products

Industrial Metrology

Industrial Metrology

Carl Zeiss Industrielle Mess-technik GmbH, Oberkochen

Consumer Optics/Optronics

Optronics

Carl Zeiss Optronics GmbH, Oberkochen

Camera Lenses

Carl Zeiss AG, Oberkochen
Camera Lens Division

Sports Optics

Carl Zeiss Sports Optics GmbH, Wetzlar

Planetariums

Carl Zeiss Jena GmbH, Jena
Planetarium Business Unit

Subsidiary

Carl Zeiss Vision

Carl Zeiss Vision

Carl Zeiss Vision Holding GmbH¹⁾, 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 AG²⁾ , Jena (listed) 65.1 % Germany	Carl Zeiss Surgical GmbH²⁾ , Oberkochen 65.1 % Germany	Carl Zeiss Meditec S.A.S.²⁾ , La Rochelle 65.1 % France	Carl Zeiss Meditec Inc.²⁾ , Dublin 65.1 % USA
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Sales organizations

Carl Zeiss Meditec Sales organizations mbH , Jena 65.1 % Germany	Carl Zeiss Meditec France S.A.S. , Le Pecq 65.1 % France	Carl Zeiss Meditec Iberia SA , Tres Cantos (Madrid) 65.1 % Spain	Carl Zeiss Meditec Co., Ltd. , Tokyo 82.2 % Japan
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Microscopy

Carl Zeiss MicroImaging GmbH²⁾ , Jena 100 % Germany	Carl Zeiss Imaging Solutions GmbH , Hallbergmoos 100 % Germany	Carl Zeiss MicroImaging AIS Inc.²⁾ , Aliso Viejo (Los Angeles) 100 % USA	Carl Zeiss MicroImaging (Suzhou) Co. Ltd.²⁾ , Suzhou 100 % People's Republic of China
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Sales organizations

Carl Zeiss MicroImaging S.L. , Sant Just Desvern (Barcelona) 100 % Spain	Carl Zeiss MicroImaging Inc. , Thornwood 100 % USA	Carl Zeiss MicroImaging Co., Ltd. , Tokyo 100 % Japan
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¹⁾ Not consolidated

²⁾ Production unit (generally has own sales area)

Industrial Solutions

Semiconductor Technology

Carl Zeiss SMT AG²⁾,
Oberkochen
100 %
Germany

**Carl Zeiss
Laser Optics GmbH²⁾,**
Oberkochen
100 %
Germany

Carl Zeiss SMS GmbH²⁾,
Jena
100 %
Germany

Carl Zeiss NTS GmbH²⁾,
Oberkochen
100 %
Germany

NaWoTec GmbH,
Jena
100 %
Germany

Carl Zeiss SMT Ltd.²⁾,
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.,
Peabody (MA)
100 %
USA

Carl Zeiss Pte. Ltd.
Singapore
100 %
Singapore

Industrial Metrology

**Carl Zeiss Industrielle
Messtechnik GmbH²⁾,**
Oberkochen
100 %
Germany

**Carl Zeiss IMT
Corporation²⁾,**
Minneapolis
100 %
USA

**Carl Zeiss IMT
(Shanghai) Co. Ltd.²⁾,**
Shanghai
100 %
People's Republic of China

**Carl Zeiss IMT
Co., Ltd.,**
Tokyo
100 %
Japan

Sales organizations

**Carl Zeiss 3D Metrology
Services GmbH,**
Aalen
100 %
Germany

Dr. Wolf & Beck GmbH¹⁾,
Wangen
75 %
Germany

**Carl Zeiss Innovations-
zentrum für
Messtechnik GmbH¹⁾,**
Dresden
51 %
Germany

**Carl Zeiss
Quality Services s.r.l.¹⁾,**
Novara
100 %
Italy

**Carl Zeiss Industrielle
Messtechnik
Austria GmbH,**
Graz
100 %
Austria

Carl Zeiss IMT Iberia S.L.,
Tres Cantos (Madrid)
100 %
Spain

Optoelectronic Systems

**Carl Zeiss
Optronics GmbH²⁾,**
Oberkochen
100 %
Germany

**Carl Zeiss Optronics
Wetzlar GmbH²⁾,**
Wetzlar
100 %
Germany

**Carl Zeiss Optronics
(Pty.) Ltd.²⁾,**
Centurion
70 %
South Africa

Major Affiliated and Associated Companies (2)

(Share percentage relative to entire Group)

Lifestyle Products

Additional product areas

Carl Zeiss Sports Optics GmbH²⁾, Wetzlar 100 % Germany	Carl Zeiss Sport Optikai Hungaria Kft.²⁾, Mátészalka 100 % Hungary	Carl Zeiss Vision Holding GmbH¹⁾, Aalen 50 % ³⁾ Germany
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Sales organizations

Carl Zeiss Optical Inc., Chester 100 % USA
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¹⁾ Not consolidated
²⁾ Production unit (generally has own sales area)
³⁾ Proportion of voting rights

Other affiliated companies

Carl Zeiss Jena GmbH²⁾ , Jena 100 % Germany	Carl Zeiss Financial Services GmbH , Oberkochen 100 % Germany	Carl Zeiss Mobile Optics GmbH^{1) 2)} , Oberkochen 100 % Germany	Zeiss-BelOMO OOO^{1) 2)} , Minsk 60 % Belarus	Carl Zeiss Inc. , Thornwood 100 % USA
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Carl Zeiss de México S.A. de C.V.²⁾ , 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 d.o.o.¹⁾ , Zagreb 100 % Croatia
Carl Zeiss B.V. , Sliedrecht 100 % Netherlands	Carl Zeiss AS , Oslo 100 % Norway	Carl Zeiss GmbH , Vienna 100 % Austria	Carl Zeiss Sp. z o. o. , Posen 100 % Poland	Carl Zeiss Instruments s.r.l.¹⁾ , Bucharest 100 % Romania
Carl Zeiss OOO¹⁾ , Moscow 100 % Russia	Carl Zeiss AB , Stockholm 100 % Sweden	Carl Zeiss AG , Feldbach 100 % Switzerland	Carl Zeiss s.r.o. , Prague 100 % Czech Republic	Carl Zeiss TOV¹⁾ , Kiev 100 % Ukraine
Carl Zeiss Technika Kft.¹⁾ , Budapest 100 % Hungary	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	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. , Singapore 100 % Singapore (Branch in India)
Carl Zeiss Co. Ltd. , Seoul 100 % South Korea	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

Carl Zeiss Group

Consolidated Financial Statements

Consolidated Income Statement

October 1, 2006 to September 30, 2007

	Notes	2006/07	2005/06
		EUR thou	EUR thou
Sales revenues	7	2,603,605	2,432,944
Increase in finished goods and work in progress		31,296	25,983
Own work capitalized		67,483	52,662
Total operating performance		2,702,384	2,511,589
Other operating income	8	181,902	153,155
Cost of materials	9	982,459	930,739
Personnel expenses	10	828,606	794,458
Depreciation of property, plant and equipment and amortization of intangible assets	11	145,834	124,482
Other operating expenses	12	527,682	497,373
Other taxes	13	5,393	4,700
Earnings before interest and taxes (Ebit)		394,312	312,992
Result from investments accounted for using the equity method	14	-21,244	-17,784
Interest income	14	46,014	31,719
Interest expenses	14	82,091	81,912
Other financial result	14	38,399	11,261
Financial result		-18,922	-56,716
Earnings before taxes		375,390	256,276
Income taxes	15	142,192	89,474
Consolidated net income		233,198	166,802
<i>Minority interests in income</i>		<i>15,429</i>	<i>10,527</i>
<i>Interests of the parent company's shareholder in income</i>		<i>217,769</i>	<i>156,275</i>

Consolidated Balance Sheet as of September 30, 2007

Assets	Notes	Sept. 30, 2007	Sept. 30, 2006
		EUR thou	EUR thou
Noncurrent assets			
Intangible assets	16	269,634	265,718
Property, plant and equipment	17	527,783	551,466
Investments accounted for using the equity method	18	46,601	67,597
Other noncurrent financial assets	19	97,632	105,857
		941,650	990,638
Deferred taxes	15	145,978	162,911
Other noncurrent non-financial assets	20	16,303	13,207
		1,103,931	1,166,756
Current assets			
Inventories	21	717,982	634,936
Trade receivables	22	517,655	473,352
Tax refund claims		5,559	3,422
Other current assets	23	392,321	100,867
Securities	24	234,661	153,214
Cash/cash equivalents	25	461,005	483,999
		2,329,183	1,849,790
		3,433,114	3,016,546

Equity Liabilities	Notes	Sept. 30, 2007	Sept. 30, 2006
		EUR thou	EUR thou
Equity	26		
Common stock		120,000	120,000
Additional paid-in capital		52,770	52,770
Consolidated retained earnings		762,751	446,708
Cumulative other reserves		-31,396	-9,174
Minority interests		136,684	49,771
		1,040,809	660,075
Noncurrent liabilities			
Provisions for pensions and similar obligations	27	876,430	984,190
Other noncurrent provisions	28	72,102	72,836
Noncurrent financial liabilities	29	362,417	383,592
Noncurrent liabilities from income taxes		–	104
Other noncurrent non-financial liabilities	31	17,381	19,154
		1,328,330	1,459,876
Deferred taxes	15	73,631	51,944
		1,401,961	1,511,820
Current liabilities			
Current provisions	28	305,039	255,857
Current financial liabilities	29	25,107	26,099
Trade payables	30	153,053	115,200
Current liabilities from income tax		8,476	11,262
Other current liabilities	31	498,669	436,233
		990,344	844,651
		3,433,114	3,016,546

Statement of Changes in Consolidated Equity during the 2006/07 Fiscal Year

	Common stock	Additional paid-in capital	Consolidated retained earnings
	EUR thou	EUR thou	EUR thou
October 1, 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
Dividends	–	–	–6,251
Capital increase CZ Meditec AG	–	–	91,869
Change in scope of consolidation	–	–	17,603
Other changes	–	–	–4,947
Consolidated net income	–	–	217,769
Other reserves	–	–	–
Consolidated comprehensive income	–	–	217,769
September 30, 2007	120,000	52,770	762,751

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

	Cumulative other reserves	Results of measurement of financial instruments IAS 39 ¹⁾	Equity	Minority interests	Consolidated equity
Foreign exchange translation					
EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou
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	
–	–	–6,251	–4,009	–10,260	
–	–	91,869	78,685	170,554	
–	–	17,603	552	18,155	
–	–	–4,947	–1,232	–6,179	
–	–	217,769	15,429	233,198	
–26,522	4,300	–22,222	–2,512	–24,734	
–26,522	4,300	195,547	12,917	208,464	
–35,555	4,159	904,125	136,684	1,040,809	

Consolidated Cash Flow Statement

October 1, 2006 to September 30, 2007

	2006/07	2005/06
	EUR thou	EUR thou
Consolidated net income	233,198	166,802
Depreciation/amortization of fixed assets net of write-ups	145,160	120,438
Increase of provisions for pensions and similar obligations	5,870	15,104
Increase in other provisions	35,183	469
Result from investments accounted for using the equity method	21,244	17,784
Loss from the disposal of fixed assets (net)	3,080	1,015
Income from the disposal of current securities (net)	-1,112	-10,624
Increase in inventories	-86,626	-47,712
Increase in receivables	-42,735	-93,723
Change in deferred taxes	33,872	-3,023
Increase (last year: decrease) in other assets	-49,645	14,275
Increase in payables	37,865	14,518
Increase in other liabilities	50,227	69,461
Cash flows from operating activities	385,581	264,784
Proceeds from the disposal of property, plant and equipment and intangible assets	7,441	17,549
Purchases of property, plant and equipment and intangible assets	-132,866	-119,074
Proceeds from the disposal of financial assets	3,739	10,497
Acquisition of financial assets including fixed-term investments and securities maturing in > 90 days	-347,144	-4,221
Net cash inflow (last year: outflow) from the acquisition of consolidated companies (net of cash acquired amounting to EUR 22,547,000; last year: EUR 0)	13,705	-63,098
Investment into Contractual Trust Arrangement and other plan assets abroad	-89,527	-145,345
Cash flows from investing activities	-544,652	-303,692
Dividend to the Carl-Zeiss-Stiftung	-6,251	-2,848
Payments to other shareholders	-4,009	-1,914
Proceeds from the capital increase of CZ Meditec AG (net)	167,948	-
Proceeds from (financial) loans acquired	2,984	6,122
Repayments of (financial) loans and bonds (last year)	-20,727	-63,017
Cash flows from financing activities	139,945	-61,657
Cash and cash equivalents provided by operating, investing and financing activities	-19,126	-100,565
Changes in cash and cash equivalents from exchange rate movements and changes in the scope of consolidation	-3,868	-4,398
Cash and cash equivalents as of October 1	483,999	588,962
Cash and cash equivalents as of September 30	461,005	483,999

	2006/07	2005/06
	EUR thou	EUR thou
Additional information on the Consolidated Cash Flow Statement		
Payments of		
Income taxes ¹⁾	110,355	92,750
Interest ¹⁾	13,664	26,901
Dividends ²⁾	10,260	4,762
Proceeds from		
Income taxes ¹⁾	7,947	4,245
Interest ¹⁾	33,048	25,882
Dividends ²⁾	3,257	1,330

¹⁾ considered in cash flows from operating activities

²⁾ considered in cash flows from financing activities

Notes to the Consolidated Financial Statements for the 2006/07 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 Section 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 regulation of July 19, 2002.

The consolidated financial statements of Carl Zeiss AG, Oberkochen, comprising the Consolidated Income Statement, the Consolidated Balance Sheet, the Statement of Changes in Consolidated Equity, the Consolidated Cash Flow Statement and the Notes to the Consolidated Financial Statements have therefore been prepared 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 Section 315a Para. 1 HGB. All mandatory pronouncements of the International Accounting Standards Board (IASB) have been observed.

Carl Zeiss AG has applied the amendments to IAS 19 *Employee Benefits* for the first time in this reporting period. The resulting changes refer solely to additional disclosures in the Notes. Consequently, this first-time application has no effect on the net assets, financial position, results of operations or cash flows of the Carl Zeiss Group.

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, 2009. The prerequisite for the application of these standards is their recognition by the European Union, which has not yet been granted in all cases. Carl Zeiss AG has opted not to voluntarily adopt these innovations early in its consolidated financial statements.

IFRS 7 *Financial Instruments: Disclosures* was adopted by the IASB in August 2006. 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 for the 2007/08 fiscal year, when application of the standard becomes mandatory.

In March 2007, the IASB published amendments to IAS 23 *Borrowing Costs* which apply to fiscal years commencing on or after January 1, 2009. The most important change relates to the with-

drawal of the option to recognize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset directly as expenses. A qualifying asset in this context is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The loss of this option will in all probability lead to an increase in purchase costs in the Carl Zeiss Group, particularly for construction projects financed by borrowing.

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

IFRIC 10: Interim Financial Reporting and Impairment (applicable to fiscal years commencing on or after November 1, 2006).

The Carl Zeiss Group does not publish interim reports. This provision is therefore irrelevant.

IFRIC 11: IFRS 2 – *Group and Treasury Share Transactions* (applicable to fiscal years commencing on or after March 1, 2007).

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 income statement and shown separately in the Notes. The consolidated income statement is prepared in accordance with the nature of expenses method.

The consolidated financial statements prepared as of September 30, 2007 and the Corporate Management Report were approved by the Executive Board on December 13, 2007 for submission to the Supervisory Board.

The list of shares held by the Group, the consolidated financial statements, the group management report and the report of the Supervisory Board will be published in the electronic *Bundesanzeiger*.

2 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 30 (last year: 31) domestic and 59 (last year: 50) 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.

As in the previous year, one domestic joint venture and one foreign investment have been accounted for using the equity method.

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

	Germany	Other countries	Total
Sept. 30, 2006	32	50	82
Additions in the reporting period	1	12	13
Disposals in the reporting period	2	3	5
Sept. 30, 2007	31	59	90

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

- Prontor GmbH, Bad Wildbad (*sold on December 1, 2006*)
- P.A.L.M. Microlaser Technologies GmbH, Bernried (*merged with CZ Microlmaging GmbH, Jena, on August 1, 2007*)
- IOLTECH Pharma S.à.r.l., La Rochelle, France (*closed on May 7, 2007*)
- IOLTECH Belgie B.V.B.A., Hasselt, Belgium (*closed on September 24, 2007*)
- Carl Zeiss Surgical Inc., Dublin (CA), USA (*merged with CZ Meditec Inc., Dublin (CA), USA, on July 1, 2007*)

The following 13 companies were included in the consolidated financial statements for the first time in the reporting period:

- Carl Zeiss Medical Software GmbH, Munich (*first inclusion*)
- Carl Zeiss Sp.zo.o., Poznan, Poland (*first inclusion*)
- Carl Zeiss s.r.o., Prague, Czech Republic (*first inclusion*)
- Carl Zeiss India Pte. Ltd., Singapore, Singapore (*first inclusion*)
- Carl Zeiss Co., Ltd., Seoul, South Korea (*first inclusion*)
- Carl Zeiss Microlmaging S.L., Barcelona, Spain (*first inclusion*)

- Carl Zeiss Microlmaging (Suzhou) Co., Ltd., Suzhou, China (*new formation*)
- Carl Zeiss Microlmaging Co., Ltd., Tokyo, Japan (*carveout*)
- Carl Zeiss IMT IBERIA S.L., Tres Cantos, Spain (*carveout*)
- Carl Zeiss Microlmaging AIS Inc., Aliso Viejo (CA), USA (*acquisition; effective March 8, 2007*)
- Carl Zeiss AS, Oslo, Norway (*new formation; effective April 1, 2007*)
- Carl Zeiss SMT Pte. Ltd., Singapore, Singapore (*acquisition; effective June 15, 2007*)
- Carl Zeiss Optronics (Pty.) Ltd., Centurion, South Africa (*acquisition; effective July 23, 2007*)

The changes to the scope of consolidation in the reporting period shown here had no material effects on the net assets, financial position, results of operations or cash flows of the Carl Zeiss Group. Any effects which appear relevant to individual items are explained at the appropriate points.

Sale of Prontor GmbH

Effective December 1, 2006, Prontor GmbH, Bad Wildbad, previously a wholly owned subsidiary of Carl Zeiss AG, was sold to VTC Industrieholding, Munich. Up to this date, the company is included in full in these consolidated financial statements. The company was removed from the scope of consolidation on December 1, 2006.

In this context, the following assets and liabilities of Prontor GmbH were removed from the consolidated balance sheet:

	EUR mill
Noncurrent assets	8.3
Current assets	23.9
Noncurrent liabilities	23.0
Current liabilities	6.8

In the reporting period, Prontor GmbH contributed the following sales revenues and results to the sales and year's net earnings of the Carl Zeiss Group for the period from October 1, 2006 to November 30, 2006:

	EUR mill
Sales revenues	1.5
Net income	0.5

3 Business Combinations

Business combinations in the 2006/07 fiscal year

The following companies were acquired in the 2006/07 fiscal year:

	Initial Consolidation	Voting shares %	Acquisition cost EUR mill
Instrument business of Clarient Inc., Aliso Viejo (CA), USA	March 8, 2007	asset deal	11.0
Leospore Pte. Ltd., Singapore, Singapore	June 15, 2007	100	3.4
DENEL Optronics (Pty.) Ltd., Centurion, South Africa	July 23, 2007	70	0.3

Carl Zeiss MicroImaging Inc., Thornwood (NY), USA, purchased the instrument business of Clariant Inc., Aliso Viejo (CA), USA, in March 2007 in an asset deal for a total price of USD 14.5 million including expenses. By doing so, it strengthened its engagement in the promising future area of clinical cancer diagnostics and research. The assets and liabilities acquired in this transaction were incorporated into the newly formed Carl Zeiss MicroImaging AIS Inc., Aliso Viejo (CA), USA.

Leospore Pte. Ltd., Singapore, Singapore, was previously a Carl Zeiss sales partner

for the Nano Technology Systems division (NTS), and will in future ensure direct sales and service in the Southeast Asia region. The company has now been renamed and was trading as of the balance sheet date as Carl Zeiss SMT Pte. Ltd.

The Carl Zeiss Group has enjoyed close cooperation with DENEL Optronics (Pty.) Ltd. in the technical field for some years now.

DENEL Optronics belonged to the state-owned group DENEL (Pty.) Ltd., which focuses mainly on the field of defense

engineering. DENEL Optronics' product line includes innovative products for the areas of civil security and defense which are an ideal fit with the product portfolio of Carl Zeiss Optronics GmbH, Oberkochen. The acquisition was realized in the context of partial privatization of individual divisions of DENEL (Pty.) Ltd. The company now trades as Carl Zeiss Optronics (Pty.) Ltd.

The acquisitions made in the 2006/07 fiscal year had the following impact on the Carl Zeiss Group's assets and liabilities at the time of the initial consolidation:

	EUR mill
Goodwill	4.9
Other intangible assets	7.4
Property, plant and equipment	1.1
Other noncurrent assets	0.1
Noncurrent assets	13.5
Current assets	41.7
Noncurrent liabilities	0.6
Current liabilities	38.6
Minority interests	0.6

The purchase price allocations conducted for the initial consolidation are based on provisional estimates by the company which could therefore change up to the final assessment and audit of the fair values of the acquired intangible assets, deferred taxes and goodwill.

The companies newly acquired in the reporting period are included in the consolidated financial statements with the following revenues and loss for the year:

	EUR mill
Sales revenues	10.8
Net loss	−3.7

Effective November 15, 2006, Carl Zeiss Meditec AG, Jena, acquired the outstanding 3.5 % of the shares in IOLTECH S.A., La Rochelle, France, at a total price of EUR 5.1 million excluding incidental expenses. The remaining minority shareholders were squeezed out against a cash compensation payment after 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. This transaction led to changes in the minority interests and in the goodwill. The Carl Zeiss Group's calculative share in the company was 65.1 % as of the balance sheet date.

Business combinations in the 2005/06 fiscal year

Carl Zeiss SMT AG, Oberkochen, acquired 100 % of the US company ALIS Corporation, Peabody (MA), USA through a subsidiary, effective July 18, 2006. The helium ion microscopy developed by the ALIS Corporation adds a further future-oriented module to the technology portfolio of the Nano Technology Systems (NTS) division. With this technology, the Semiconductor Technology business group has further expanded its global leadership as a technology and systems supplier for nanotechnology and is promoting its broad use in a wide range of industries and in research.

In the course of the year, Carl Zeiss Meditec AG, Jena, acquired a further 9.3 % of the shares in IOLTECH S.A., La Rochelle, France. This transaction raised CZ Meditec AG's stake in the company to 96.5 %. The Carl Zeiss Group's calculative share was therefore 62.8 % as of the balance sheet date.

The business combinations described above had no significant effect on the net assets, financial position or results of operations of the Carl Zeiss Group.

4 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, 2007 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 upon the initial consolidation of subsidiaries. Accordingly, the identifiable assets and liabilities are recognized at their fair values at the acquisition date. Minority interests (shares held by other stockholders) are consequently assessed at the amount of their share in the 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 income statement. 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 income statement from the time when power of control is effectively obtained.

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 common control within the meaning 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 the equity method in accordance with IAS 28 *Investments in Associates* is used, the shares are recognized at purchase cost in the balance sheet upon initial assessment. These costs are adjusted in subsequent valuations for changes in the Group's share in the equity capital (net assets) after the acquisition date and for losses due to impairment.

Receivables and payables between consolidated companies are eliminated. Any resulting currency differences are included in cumulative other reserves. 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 income statement, intercompany sales and other internal gains have been offset against corresponding expenses or have been reclassified as changes in inventory or own work capitalized.

5 Foreign Exchange Translation

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 income statement under financial results.

The annual financial statements of consolidated subsidiaries prepared in foreign currencies are translated 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 translated into euros 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 income statement are converted at annual average rates of exchange.

Differences arising from the foreign exchange translation are included under cumulative other reserves within equity,

outside profit or loss. In accordance with the alternative treatment 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, 2007 and 2006 were based on the following exchange rates for foreign currencies with a material influence:

	EUR 1 =	Rates as of balance sheet date		Average rates	
		Sept. 30, 2007	Sept. 30, 2006	2006/07	2005/06
United Kingdom	GBP	0.6983	0.6775	0.6756	0.6836
Japan	JPY	163.5800	149.4500	158.2402	142.9679
USA	USD	1.4187	1.2669	1.3307	1.2306

6 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 purchase 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 income statement 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 cost (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 alternative treatment of Section 309 Para. 1 HGB was applied, 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 completion of the intangible asset in question must be technically feasible 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 the self-created intangible asset. An economic benefit to the company must also arise from this.

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 reasonable development-related overhead, are recognized as manufacturing costs. Capitalized development costs are amortized by the straight-line method from the time at which the developments are ready for use over the expected product life cycle (as a rule, between 3 and 7 years), or in relation to the unit volumes laid down in the relevant business plans. 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 reasonable overhead costs for materials and production. Borrowing costs are not included. The assets are depreciated by the straight-line method over their economic useful lives.

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

	Useful life
Buildings	3 to 40 years
Technical equipment and machinery	2 to 21 years
Other equipment, plant and office equipment	1 to 23 years

Impairment of intangible assets and property, plant and equipment

IAS 36 *Impairment of Assets* demands a review as of 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 individual asset's or cash generating unit'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 from 8.8 % to 12.4 %. The discount rates are determined by the Weighted Average Cost of Capital (WACC) method. The detailed planning period for the future cash flows is five 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 income statement.

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 write-up 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. Write-ups 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 classified 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 income statement. For operating leases, the lease payments are recognized as expenses 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 income statement. 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 holdings 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 investments 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 probably permanent impairment of market value to a level below cost, the changes in market value are recorded as a profit or 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 income statement.

Held-to-maturity investments, loans and receivables and current and noncurrent 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 reasonable factory overhead costs for materials and production, production-related depreciation and production-related administrative costs. Borrowing costs are not capitalized. An allowance is made for impairment on inventories if the cost is higher than the expected net realizable 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 plan 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 defined contribution-based commitments 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 provisions for pensions 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 October 1, 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.

Deferred compensation

The Group allows permanent employees to use untaxed earnings towards old age provisions. On the basis of individual contracts, every employee can convert a maximum of three months' salary. The amounts converted are paid into a pension liability insurance policy and the associated benefits are pledged to the employees. The claim against the insurance policy matures at the same time as the obligation towards the employees. Should the future benefits from the pension liability insurance be higher than the agreed benefits, the employees receive the surplus.

The amount of the benefit depends on the age of the employee at the time the income is converted and on the employee's decision as to whether he wishes to have the deferred compensation paid out as a lump sum or as a pension. In addition to the simple conversion of income, the deferred income system includes entitlements to invalidity benefit or surviving dependents' pension, depending on the model selected.

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 material impact on the amount of the provision and the remaining period of the obligations can be determined with certainty, noncurrent provisions are recognized at their 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 or the economic necessity of such a program exists before the balance sheet date, 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 provision 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 contractual terms 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 from either 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 as of 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 those deferred tax assets to be utilized. Any such reduction is also reviewed annually and 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 differences 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 income statement.

Deferred tax assets and deferred tax liabilities are netted off in 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 netted off within the combined tax returns.

Liabilities

Liabilities are recognized in 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. Appropriate provisions for warranties are recorded under other operating expenses at the time when the revenue from the sales is recognized.

Notes to the Consolidated Income Statement

7 Sales Revenues

Sums invoiced to customers for goods and services are reported under sales.

Deductions such as discounts are offset against these sales.

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

	2006/07		2005/06	
	EUR thou	%	EUR thou	%
Germany	432,496	17	380,499	16
Rest of Europe	1,285,630	49	1,138,538	47
America	529,862	20	569,045	23
Other regions	355,617	14	344,862	14
	2,603,605	100	2,432,944	100

8 Other Operating Income

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

Other operating income also includes:

	2006/07	2005/06
	EUR thou	EUR thou
Income from license agreements	40,901	29,006
Insurance compensation	36,245	1,902
Release of other provisions	26,610	18,353
Gains from the disposal of noncurrent assets	393	901
Write-ups of noncurrent assets	674	4,043
Release of value adjustments on receivables	2,073	2,516

Insurance compensation mainly comprises payments in connection with the fire damage at the Oberkochen production facilities in October 2005, which were recognized as profit in the reporting period after completion of the investigation and subsequent confirmation of the loss by the loss adjuster.

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. Last year's accounts also included a gain from the sale of real estate not required for the business by one Group company in Germany.

In addition, the gain from the sale of Prontor GmbH, which earned EUR 1,346,000 for the Group, is recognized in other operating income.

The excess of the Carl Zeiss Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities over cost of the business combination remaining after the purchase price allocation in the initial consolidation of DENEL Optronics (Pty.) Ltd. in the amount of EUR 991,000, which has to be recognized as a gain in accordance with IFRS 3.56b, is also reported here.

The income statement recognizes government grants for the year in the amount of EUR 12,057,000 (last year: EUR 6,959,000).

9 Cost of Materials

	2006/07	2005/06
	EUR thou	EUR thou
Cost of raw materials, consumables and supplies, and of purchased materials	926,574	887,482
Allowances for impairment on inventories	8,258	–911
Cost of purchased services	47,627	44,168
	982,459	930,739

10 Personnel Expenses

	2006/07	2005/06
	EUR thou	EUR thou
Wages and salaries	682,013	637,992
Social security costs	113,563	121,835
Pension costs	32,054	34,346
Other benefits	976	285
	828,606	794,458

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

	2006/07	2005/06
	EUR thou	EUR thou
Amortization of intangible assets	31,561	24,523
Depreciation of property, plant and equipment	114,273	99,959
	145,834	124,482
of which impairments in accordance with IAS 36	11,048	1,411

Of the impairments, EUR 188,000 relates to unusable software at two foreign subsidiaries. In addition, impairments were made in Germany on technical equipment and plant in the area of production and on an empty building. The reasons for the impairments arose from a

use of assets that is already known to be of limited duration, closures and the technical obsolescence of technical equipment and plant. Part of the impairments in the amount of EUR 322,000 in last year's accounts related to an intangible asset at a foreign subsidiary.

12 Other Operating Expenses

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

Also included are:

	2006/07	2005/06
	EUR thou	EUR thou
Losses from the disposal of noncurrent assets	3,473	1,916
Maintenance	43,181	45,642
Representatives' commissions	41,930	54,756
License fees	10,989	8,324
Warranty costs	17,017	18,968

13 Other Taxes

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

14 Financial Result

Result from investments accounted for using the equity method

The notes on this subject are to be found in section 18 "Investments Accounted for using the Equity Method".

Net Interest Income

	2006/07	2005/06
	EUR thou	EUR thou
Other interest and similar income	46,014	31,719
attributable to subsidiaries	177	352
Interest and similar expenses	82,091	81,912
attributable to subsidiaries	79	92
interest costs (pensions)	60,371	56,221
	-36,077	-50,193

The interest costs for pensions have to be viewed in connection with the expected return on plan assets shown below in other financial results. The balance of these two figures represents the Carl Zeiss Group's net financing expenses for pensions.

Other financial results

Results from investments

	2006/07	2005/06
	EUR thou	EUR thou
Investment income	3,458	4,316
Income from profit transfer agreements	90	464
Expenses from loss absorption	935	1,825
Taxes charged to subsidiaries	40	254
	2,653	3,209

Investment income includes income of EUR 2,975,000 (last year: EUR 1,731,000) attributable to subsidiaries.

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

	2006/07	2005/06
	EUR thou	EUR thou
Income from exchange rate differences	38,133	16,630
Expenses from exchange rate differences	24,866	17,570
Income from changes in market value	58	845
Expenses from changes in market value	953	2,074
Expected return on plan assets (pensions)	23,348	7,236
Depreciation of financial assets	268	1,850
Income from the disposal of current securities	1,112	10,624

The income from the disposal of current securities in the previous year mainly recognized price gains from available-for-

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

15 Income Taxes

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

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

	2006/07	2005/06
	EUR thou	EUR thou
Current tax expenses less tax refunds and release of tax provisions	109,390	90,660
Deferred tax expenses	32,802	–
Deferred tax income	–	1,186
Income taxes	142,192	89,474

Deferred taxes are calculated on the basis of the statutory rates of tax that apply or that will very probably apply in the individual countries at the expected time of realization. The current corporate income tax rate in Germany is 25.0 %. Taking into account the solidarity surcharge and the different trade tax rates, the tax rates for domestic companies ranged from 37.1 % to 40.9 % (last year: 36.9 % to 39.4 %). These rates form the basis for calculating the current tax.

Tax rates ranging from 25.9 % to 33.0 % have to be used to assess the deferred tax for the German companies in accordance with IAS 12.47, taking into account the impact of the corporate tax reforms which will come into effect as of January 1, 2008.

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 15.0 % and 44.2 % (last year: 7.5 % to 42.1 %).

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, 2007		Sept. 30, 2006	
	Assets	Liabilities	Assets	Liabilities
	EUR thou	EUR thou	EUR thou	EUR thou
Intangible assets	469	29,719	3,736	34,326
Property, plant and equipment	6,434	69,154	3,914	99,893
Other noncurrent assets	10,336	1,917	20,851	4,050
Inventories	19,347	3,485	18,878	2,302
Receivables and other current assets	4,177	37,783	3,990	2,819
Noncurrent liabilities	153,366	333	227,090	22,889
Current liabilities	30,533	9,589	28,007	31,152
Tax loss carryforwards	6,691	–	5,055	–
Total deferred taxes	231,353	151,980	311,521	197,431
Impairment	7,026	–	3,123	–
Netting	78,349	78,349	145,487	145,487
Deferred taxes (net)	145,978	73,631	162,911	51,944

As of 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 6,691,000 (last year: EUR 5,055,000) as of the balance sheet date will be formed for the usable tax loss carryforwards. These concern Germany, France, Austria and Japan (last year: Germany, Austria and the USA). The increase in the

deferred tax assets for loss carryforwards is attributable to two contrary effects: a reduction was caused by the use of tax loss carryforwards in the reporting period, primarily in Germany and the USA. A reassessment of the usability of loss carryforwards on the grounds of improved profitability at the companies concerned led to the recognition of further deferred tax assets.

Loss carryforwards in the amount of EUR 39,021,000 (last year: EUR 24,733,000) 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 probably unusable as of the balance sheet date.

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, in the amount of EUR 145,651,000 (last year: EUR 99,435,000), and the actual tax expenses shown in the income statement is as follows:

Consolidation has resulted in EUR 11,650,000 of deferred tax assets (last year: EUR 8,931,000) and EUR 54,290,000 of deferred tax liabilities (last year: EUR 33,814,000).

	2006/07	2005/06
	EUR thou	EUR thou
Earnings before income taxes	375,390	256,276
Expected income tax expenses (= 38.8 % x earnings before income taxes)	145,651	99,435
Differences arising from different tax rates	–8,358	–4,710
Effects of changes in tax rates	9,421	–1,063
Effects of results from investments accounted for using the equity method	8,243	6,900
Effects of non-deductible expenses	5,749	4,348
Effects of tax-free income	–11,983	–6,692
Effects unrelated to the accounting period	–5,297	–10,989
Other	–1,234	2,245
Actual income tax expenses	142,192	89,474

Notes to the Consolidated Balance Sheet

16 Intangible Assets

Goodwill in the amount of EUR 132,434,000 (last year: EUR 128,795,000) is subjected to an impairment test every year at the level of the cash generating units. The cash flows used for the calculation are 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 % (8.8 % to 12.4 % before taxes), depending on the cash generating unit.

Like last year's, the impairment tests in the reporting period did not lead to any allowances against the goodwill on the balance sheet.

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

Transaction	Sept. 30, 2007	Goodwill Sept. 30, 2006	Segment
	EUR mill	EUR mill	
Reverse acquisition of CZ Meditec AG	10.4	10.4	Medical and Research Solutions
Acquisition of LDT	6.9	7.3	Medical and Research Solutions
Acquisition of P.A.L.M.	7.8	7.8	Medical and Research Solutions
Acquisition of IOLTECH	49.5	47.2	Medical and Research Solutions
Acquisition of CZ Microlmaging AIS Inc.	2.5	–	Medical and Research Solutions
Acquisition of CZ 3D Aalen	5.7	5.7	Industrial Solutions
Acquisition of NaWoTec	22.2	22.2	Industrial Solutions
Acquisition of ALIS Corp.	20.8	23.2	Industrial Solutions
Acquisition of SMT Pte. Ltd.	2.1	–	Industrial Solutions

The reduction in goodwill from the acquisitions of ALIS Corp. and LDT Inc. results from the valuation of foreign currency in accordance with IAS 21.47.

this total, EUR 18,102,000 was capitalized (last year: EUR 6,093,000), because the criteria of IAS 38 were met for these development expenses.

with IAS 17, with economic ownership of the asset being assigned to the lessee. Software with a net book value of EUR 779,000 (last year: EUR 1,039,000) is carried under intangible assets in the consolidated balance sheet as a result of these leases.

In the reporting period, a total of EUR 290 million (last year: EUR 254 million) was invested in research and development. Of

One domestic subsidiary uses software under leasing agreements that are classified as finance leases in accordance

	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, 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
Purchase / manufacturing costs					
Oct. 1, 2006	169,485	131,949	22,650	9,651	333,735
Changes in scope of consolidation	–24	4,844	–	551	5,371
Additions	5,314	2,263	18,102	8,408	34,087
Disposals	1,883	–	14	403	2,300
Transfers	–521	–	–	2,292	1,771
Currency differences	–505	–3,659	–	–1,110	–5,274
Sept. 30, 2007	171,866	135,397	40,738	19,389	367,390
Amortization / impairment					
Oct. 1, 2006	47,398	3,154	12,669	4,796	68,017
Change in scope of consolidation	–63	–	–	2	–61
Additions	23,015	–	5,422	3,124	31,561
Disposals	1,546	–	–	394	1,940
Write-ups	–	–	–	–	–
Transfers	–540	–	–	1,514	974
Currency differences	–318	–191	–	–286	–795
Sept. 30, 2007	67,946	2,963	18,091	8,756	97,756
Book values Sept. 30, 2007	103,920	132,434	22,647	10,633	269,634

17 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, 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
Purchase / manufacturing costs					
Oct. 1, 2006	411,220	408,406	494,260	24,336	1,338,222
Change in scope of consolidation	–8,167	–19,692	–1,572	–7	–29,438
Additions	4,386	31,416	51,763	20,142	107,707
Disposals	1,099	14,043	25,047	1,723	41,912
Transfers	1,165	2,960	15,191	–21,087	–1,771
Currency differences	–4,509	–1,219	–2,865	–73	–8,666
Sept. 30, 2007	402,996	407,828	531,730	21,588	1,364,142
Depreciation / impairment					
Oct. 1, 2006	151,665	284,591	350,500	–	786,756
Change in scope of consolidation	–6,578	–16,532	–2,946	–	–26,056
Additions	11,264	35,190	67,819	–	114,273
Disposals	660	12,248	19,442	–	32,350
Write-ups	34	–	–	–	34
Transfers	209	–1,065	–118	–	–974
Currency differences	–2,182	–1,097	–1,977	–	–5,256
Sept. 30, 2007	153,684	288,839	393,836	–	836,359
Book values Sept. 30, 2007	249,312	118,989	137,894	21,588	527,783

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

	Sept. 30, 2007	Sept. 30, 2006
	EUR thou	EUR thou
Land and buildings	114,155	119,031
Technical equipment and machinery	22,715	25,615
Other equipment, plant and office equipment	1,259	1,410
Construction in progress	1,261	–

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 as of the balance sheet date with a book value of EUR 126,846,000 (last year: EUR 131,348,000). 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 depreciated there. They are carried at a book value of EUR 8,100,000 (last year: EUR 10,191,000).

Further details of these leases are to be found in section 29 “Financial Liabilities”.

Property, plant and equipment with a net book value of EUR 5,235,000 are subject to restraints on disposal or serve as collateral for liabilities.

The Group had entered into contractual obligations of EUR 28,850,000 for the purchase of property, plant and equipment as of the balance sheet date.

18 Investments Accounted for using the Equity Method

Carl Zeiss AG has valued one associated company by 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 carried in accordance with the equity method on the basis of its consolidated financial statements using the alternative treatment permitted by IAS 31.38.

	Country	Stockholding Sept. 30, 2007	Sept. 30, 2006
Carl Zeiss Vision Holding GmbH	Germany	48 %	48 %
TCZ Pte. Ltd.	Singapore	40 %	40 %

The Carl Zeiss Group holds 50 % of the voting stock of Carl Zeiss Vision Holding GmbH.

The operational activities of TCZ GmbH, St. Gallen, Switzerland, were transferred in the previous year 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 21,244,000 (last year: EUR 17,784,000), is shown in the consolidated income statement under results from investments accounted for using the equity method.

The results of the Carl Zeiss Vision Group suffered one-off negative effects in the reporting period from refinancing and from interest hedging transactions. The Group's net operating result showed a satisfactory development. The Group's share in the losses of TCZ GmbH, St. Gallen, Switzerland, was reported in the previous year up to the time of the transition to full consolidation.

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

	Assets	Liabilities	Equity	Sales revenues	Result
	EUR mill	EUR mill	EUR mill	EUR mill	EUR mill
2006/07	1,288	1,178	110	844	-45
2005/06	1,375	1,197	178	845	-32

19 Other Noncurrent Financial Assets

	Sept. 30, 2007	Sept. 30, 2006
	EUR thou	EUR thou
Shares in subsidiaries	6,778	15,912
Loans to subsidiaries	2,235	1,225
Loans to joint ventures	–	70,000
Profit-participating certificates	70,000	–
Investments	14,773	15,571
Securities	641	714
Other noncurrent financial assets	3,205	2,435
	97,632	105,857

The fall in shares in subsidiaries is due to an increase in the scope of consolidation. The companies included in the consolidation for the first time in the reporting period were shown at their book value as investments under this item last year.

The loan to joint ventures of EUR 70,000,000 last year refers solely to a shareholder loan granted to the CZ Vision Group. This shareholder loan was converted in the reporting period into profit-participating certificates and is now

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

20 Other Noncurrent Non-financial assets

The other noncurrent non-financial assets in the amount of EUR 16,303,000 (last year: EUR 13,207,000) chiefly consist of the assets for pension liability insurance policies to cover deferred compensation.

21 Inventories

	Sept. 30, 2007	Sept. 30, 2006
	EUR thou	EUR thou
Raw materials and supplies	176,472	150,761
Unfinished goods, other work in progress	314,526	292,703
Finished goods and goods for resale	223,605	189,436
Advance payments made	3,379	2,036
Inventories	717,982	634,936

The book values include impairments of EUR 128,327,000 (last year: EUR 114,304,000). Of the total amount, inventories to the value of EUR 318,621,000 were recognized at a net realizable value below cost.

Impairments on inventory, which are recorded as an expense and shown in the consolidated income statement under cost of materials, amount to EUR 20,503,000 in the reporting period (last year: EUR 3,355,000). Write-ups of EUR 12,245,000 (last year: EUR 8,458,000) were recorded in the income statement.

Purchase obligations towards suppliers worth EUR 42,324,000 (last year: EUR 41,051,000) spread over a number of years existed as of the balance sheet date.

22 Trade Receivables

	Sept. 30, 2007	of which due after more than one year	Sept. 30, 2006	of which due after more than one year
	EUR thou	EUR thou	EUR thou	EUR thou
Trade receivables	517,655	5,760	473,352	3,679
including value adjustments of	17,567	–	17,409	–

23 Other Current Assets

	Sept. 30, 2007	of which due after more than one year	Sept. 30, 2006	of which due after more than one year
	EUR thou	EUR thou	EUR thou	EUR thou
Receivables from subsidiaries	8,648	138	13,629	–
Receivables from associated and related companies	48,694	–	34,369	772
Other current financial assets	286,655	–	9,641	–
Other current non-financial assets	48,324	–	43,228	–
	392,321	138	100,867	772

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

The other current financial assets mainly show fixed-term deposits maturing in more than 90 days and financial derivatives with a positive market value. The significant increase in the reporting period results from fixed-term investments of EUR 266,500,000.

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

24 Securities

The current securities consist of stocks and other available-for-sale securities maturing 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, 2007	Sept. 30, 2006
	EUR thou	EUR thou
Stocks	4,933	–
Other securities	229,728	153,214
	234,661	153,214

The stocks in the reporting period refer to listed stocks held by a German subsidiary, which are to be tendered in the context of a current takeover bid. The other

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

25 Cash and Cash Equivalents

	Sept. 30, 2007	Sept. 30, 2006
	EUR thou	EUR thou
Liquid assets	428,481	476,460
Securities maturing in less than 90 days from the time of acquisition	32,524	7,539
	461,005	483,999

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 4 % and 5 % (last year: between 2 % and 3 %). 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, liabilities-side differences arising from capital consolidation, the provisions from the first application of IFRS and the cumulative currency differences as of October 1, 2004, which were 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 obligation of the companies in question 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 finances defined benefit plans partly from provisions and partly from external funds.

The previous year 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.

In addition, apart from the regular investment into the service costs

(EUR 23,439,000), a further one-off investment of EUR 62,990,000 was made in the reporting period. These assets meet the criteria of IAS 19.7 for plan assets, which allows them to be netted off against the pension obligations in these consolidated financial statements. If the plan assets exceed the underlying assured benefits, the surplus is recognized under noncurrent financial assets.

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	
	2006/07	2005/06	2006/07	2005/06
	%	%	%	%
Discount rate	5.25	4.5	1.7 – 8.0	1.5 – 5.5
Trend in salaries	3.0	3.0	2.0 – 4.9	2.0 – 4.4
Trend in pensions	1.75	1.0 – 1.8	1.0 – 5.0	2.9 – 4.0
Trend in cost of medical care	–	–	8.5	10.0
Expected return on plan assets	5.0	5.0	1.7 – 8.0	7.0 – 8.5

The expected return on plan assets is derived from the portfolio structure of the plan assets in conjunction with the market returns on comparable investments.

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

	Sept. 30, 2007	Sept. 30, 2006
	EUR thou	EUR thou
Present value of defined benefit obligations not financed by a fund	745,591	857,483
Present value of defined benefit obligations wholly or partly financed by a fund	488,740	519,017
Total present value of defined benefit obligations	1,234,331	1,376,500
Fair value of plan assets	464,838	356,156
Net obligations	769,493	1,020,344
Unrecognized past service cost	–	–
Unrecognized actuarial gains / losses	106,937	–36,154
	876,430	984,190

The consolidated income statement contains the following:

	2006/07	2005/06
	EUR thou	EUR thou
Current service cost	30,375	29,917
Interest cost	60,371	56,221
Expected return on plan assets	-23,348	-7,236
Past service cost	615	692
Amortization of actuarial gains / losses	-2,189	2,659
Other	132	232
Net expenses for the fiscal year	65,956	82,485

The pension provisions have developed as follows:

	2006/07	2005/06
	EUR thou	EUR thou
Consolidated pension provisions on Oct. 1	984,190	1,212,794
Foreign exchange differences	-5,467	-3,958
Changes in scope of consolidation	-21,573	-
Net expenses for the fiscal year	65,956	82,485
Pension benefits paid	-57,149	-65,508
Investment in Contractual Trust Arrangement and other investments in plan assets outside Germany	-89,527	-241,623
Consolidated pension provisions on Sept. 30	876,430	984,190

The **plan assets** have developed as follows:

	2006/07	2005/06
	EUR thou	EUR thou
Plan assets on Oct. 1	356,156	105,677
Foreign exchange differences	-8,275	-1,850
Changes in scope of consolidation	1,539	-
Actual return on plan assets	29,922	9,158
Employers' contributions	89,527	247,877
Employees' contributions	503	170
Pension payments	-4,534	-4,876
Plan assets on Sept. 30	464,838	356,156

In addition to the annual investment into service costs, the employers' contributions also include the one-off investments into the CTA made in Germany to a total of EUR 62,990,000 (last year: EUR 241,623,000).

In addition, plan assets of EUR 684,000 exist in excess of the underlying assured pension entitlements. This amount consequently does not form part of the plan assets, but is recognized under noncurrent financial assets.

Portfolio Structure of the Plan Assets

	Sept. 30, 2007	Sept. 30, 2006
	EUR thou	EUR thou
Stocks	158,101	42,139
Securities	171,698	37,187
Cash	85,568	249,474
Others	49,471	27,356
	464,838	356,156

	Sept. 30, 2007	Sept. 30, 2006	Sept. 30, 2005
	EUR thou	EUR thou	EUR thou
Present value of defined benefit obligations	1,234,331	1,376,500	1,327,311
Fair value of plan assets	464,838	356,156	109,566
Plan deficit	-769,493	-1,020,344	-1,217,745
Empirical adjustment of plan liabilities as of the balance sheet date	-133,044	-65,380	11,645
Empirical adjustment of plan assets as of the balance sheet date	6,574	1,922	7,559

Changes in the assumed cost trends in healthcare, which relate solely to the US subsidiaries, would have the following impact:

	Increase by 1 percentage point	Reduction by 1 percentage point
	EUR thou	EUR thou
Total of the current past service cost and interest expense components of the net costs for the period of post-employment healthcare	281	-224
Cumulative obligations relating to healthcare costs for post-employment benefits	2,455	-1,947

28 Other Provisions

	Sept. 30, 2007	of which due in one year or less	Sept. 30, 2006	of which due in one year or less
	EUR thou	EUR thou	EUR thou	EUR thou
Provisions for income taxes	74,021	74,021	55,637	55,637
Provisions for personnel-related obligations	114,138	60,365	105,716	52,364
Provisions for sales-related obligations	133,674	133,674	119,468	119,468
Other provisions	55,308	36,979	47,872	28,388
	377,141	305,039	328,693	255,857

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 environmental risks, restructuring and the risk of litigation costs. They also contain provisions recognized for a purchase price allocation during initial consolidation.

	Oct. 1 2006	Change in scope of consolidation	Consumption	Release	Additions including re- classification	Accretion	Foreign exchange differences	Sept. 30, 2007
	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou
Provisions for income taxes	55,637	–	7,487	598	26,792	–	–323	74,021
Provisions for personnel-related obligations	105,716	–1,331	63,852	2,430	76,672	–	–637	114,138
Provisions for sales-related obligations	119,468	2,509	35,801	11,540	60,278	–	–1,240	133,674
Other provisions	47,872	18,332	12,629	12,711	15,704	–206	–1,054	55,308
	328,693	19,510	119,769	27,279	179,446	–206	–3,254	377,141

29 Financial Liabilities

	Sept. 30, 2007	of which due in one year or less	maturing in more than five years	Sept. 30, 2006	of which due in one year or less	maturing in more than five years
	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou
Profit-participating certificates	6,011	–	–	5,983	–	–
Liabilities to banks	349,797	20,147	33,599	362,180	18,602	211,020
Liabilities from finance leases	23,036	2,884	18,836	27,175	2,877	20,701
Other financial liabilities	8,680	2,076	–	14,353	4,620	2,488
	387,524	25,107	52,435	409,691	26,099	234,209

Profit-participating certificates

The profit-participating certificates comprise those of series 2004-D, 2005-D and 2006-D, all with a term of five years. These certificates were issued this year and in previous years 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-participating certificates are carried in the balance sheet at par value.

Promissory note loans

Under agreements dated June 16, 2005 Carl Zeiss AG took up 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 244,201,000 of this total is included in the liabilities to banks. Another EUR 4,985,000 is shown under other financial liabilities, as the lender of this amount is an insurance company.

Liabilities to banks

This item also recognizes 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 within the meaning of 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 96,624,000 as of the balance sheet date (last year: EUR 109,627,000) and bear 6 % (last year: 6 %) interest. The current portion amounts to EUR 15,143,000 (last year: EUR 14,264,000). 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 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 results from a sale-and-lease-back transaction at a US subsidiary. On September 28, 1999 the company, based in Dublin (CA), USA, sold existing land, buildings and improvements and leased them back. The lease-back transaction is classified as a finance lease according to 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, 2007	of which due in one year or less	of which due in more than five years	Sept. 30, 2006	of which due in one year or less	of which due in more than five years
	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou	EUR thou
Future minimum lease payments	34,211	4,427	27,655	41,200	4,578	32,652
Share of interest / future cost of finance	11,175	1,543	8,819	14,025	1,701	11,951
Present value of future minimum lease payments	23,036	2,884	18,836	27,175	2,877	20,701

30 Trade Payables

EUR 598,000 of the trade payables are due in more than one year (last year: EUR 819,000).

31 Other Liabilities

	Sept. 30, 2007	of which due in one year or less	Sept. 30, 2006	of which due in one year or less
	EUR thou	EUR thou	EUR thou	EUR thou
Accrued personnel liabilities	74,473	74,473	61,782	61,782
Accruals in sales	143,551	143,551	126,181	126,181
Other accruals	7,613	7,613	8,087	8,087
Liabilities to subsidiaries	11,961	11,961	17,161	17,161
Liabilities to associated and related companies	2,394	2,394	3,005	3,005
Advance payments received on orders	200,224	186,317	136,651	123,304
Tax liabilities (non-income)	11,892	11,892	12,321	11,898
Wage tax withheld	10,134	10,134	15,550	15,548
Liabilities for social security	4,984	4,984	3,386	3,386
Deferred income	31,252	28,014	32,611	27,447
Other non-financial liabilities	17,572	17,336	38,652	38,434
	516,050	498,669	455,387	436,233

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 previous year which arose in connection with the fire damage at the Oberkochen production facilities in October 2005. Together with the advance payments in the reporting period, these were recognized in the income statement after the inspection was completed and the loss confirmed by the loss adjuster at the end of April 2007.

Government grants of EUR 70,000 (last year: EUR 15,000) are recognized as deferred income for this year as of the balance sheet date.

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 cash and cash equivalents 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 consolidated net income 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 exchange 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 415,000 of the cash and cash equivalents (last year: EUR 4,858,000) is subject to a restraint on disposal or transfer.

33 Contingent Liabilities

	Sept. 30, 2007	Sept. 30, 2006
	EUR thou	EUR thou
Note liability	97	659
Contingent guarantees	1,958	1,206
attributable to subsidiaries	1,781	681
Contingencies from warranty contracts	221	225
Contingencies arising from collateral put up to secure liabilities	78	78
Other contingent liabilities	3,999	2,105

The other contingent liabilities mainly include environmental and litigation risks for which no provisions have been recognized since their use is held to be highly improbable.

One German subsidiary issued a letter of comfort to *Acri.Tec® AG, Hennigsdorf, effective September 3, 2007, in which the company undertakes to ensure that *Acri.Tec® AG will be provided with sufficient funds after the real completion of the contract of purchase and assignment (see notes in section 35 "Events after the Balance Sheet Date") to meet its obligations under a subordinated loan.

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 and more than five years. Some of them entail 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 29,270,000 (last year: EUR 25,706,000).

The future minimum rent and lease payments under non-cancelable operating leases come to:

Period	EUR thou
One year or less	17,306
Between 1 and 5 years	20,445
More than 5 years	3,682

35 Events after the Balance Sheet Date

On September 3, 2007, a purchase contract was concluded between a subsidiary of Carl Zeiss Meditec AG and *Acri.Tec® AG, Hennigsdorf (Germany), for the acquisition of 100 % of the stock of the ophthalmic surgery company *Acri.Tec® AG by Carl Zeiss Meditec. The purchase contract contained several conditions precedent with regard to the transfer of the stocks to Carl Zeiss Meditec and of the associated rights to these stocks. These conditions were met in full on October 1, 2007, making this the acquisition date and the time of initial consolidation. The acquisition costs came to EUR 24 million less the net financial liabilities on the transfer date and were also paid in cash on October 1, 2007. *Acri.Tec® AG specializes in innovative implants (intraocular lenses, IOL) and other products (viscoelastic solutions and products for vitreoretinal surgery) for ophthalmic surgery.

Effective October 1, 2007, Carl Zeiss 3D Metrology Services GmbH, Aalen, acquired 75.1 % of the equity of Junker & Partner GmbH, Tholey (Germany), at a total price of EUR 2.4 million. Junker & Partner is a partner to the automotive and aviation industries specializing in the design, development and production of sophisticated measuring devices for automotive parts. With 80 employees, the company earns annual sales of around EUR 10 million.

The purchase price allocation for the above companies acquired after the balance sheet date had not been completed by the date of publication.

In addition, immediately after the end of the fiscal year, Carl Zeiss Industrielle Messtechnik GmbH, Oberkochen, acquired the 24.9 % of the equity of the non-consolidated company Dr. Wolf & Beck GmbH, Wangen (Germany) that was still in the hands of other stockholders. The purchase costs were around

EUR 0.6 million. The core competence of Dr. Wolf & Beck GmbH lies in the development, production, integration and application of non-contact opto-electronic sensors for coordinate measuring machines as well as data capture, processing and integration software for optical measuring technology.

The Executive Board and Supervisory Board of Carl Zeiss Meditec AG propose the payment of a dividend of EUR 35,043,000 (EUR 0.43 per stock). The share of around 35 percent accruing to minority shareholders of Carl Zeiss Meditec AG will reduce the equity of the Carl Zeiss Group accordingly. The Annual General Meeting for the 2006/07 fiscal year still has to give its approval.

No other transactions of material significance to the assessment of the net assets, financial position or results of operations of the Carl Zeiss Group have occurred.

36 Average Number of Employees for the Year

	2006/07	2005/06
	Heads	Heads
Germany	7,678	7,618
Rest of Europe	1,394	1,369
America	1,608	1,497
Other regions	868	518
	11,548	11,002
Trainees/interns	388	433
	11,936	11,435

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.

The increase is mainly due to new, high-quality positions at the Oberkochen location in addition to the changes in the scope of consolidation.

37 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 instrument of another entity. According to IAS 32, these include primary 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 foreign exchange risks.

Financial assets and financial liabilities are considered 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, however, are generally accounted for on the settlement date.

The following applies to the performance relationships underlying all primary 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 historical 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 fair values of significant primary financial instruments are shown in the table below:

Balance sheet item	Sept. 30, 2007		Sept. 30, 2006	
	Book value	Fair value	Book value	Fair value
	EUR thou	EUR thou	EUR thou	EUR thou
Shares in subsidiaries	6,778	6,778	15,912	15,912
Investments	14,773	14,773	15,571	15,571
Loans	4,081	4,081	72,939	74,562
Trade receivables	517,655	517,655	473,352	473,352
Receivables from subsidiaries, associated and related companies	57,342	65,590	47,998	47,998
Other financial assets	358,014	358,881	11,388	11,434
Noncurrent and current securities	235,302	235,302	153,928	153,928
Cash/cash equivalents	461,005	461,005	483,999	483,999
Trade payables	153,053	153,053	115,200	115,200
Payables to subsidiaries, associated and related companies	14,355	14,355	20,166	20,166
Other financial liabilities	14,691	14,456	20,336	20,161
Liabilities to banks	349,797	337,677	362,180	353,363
Liabilities from finance leases	23,036	23,036	27,175	29,900

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 (underlying) financial 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, transactions in the currencies of major industrialized countries as well as the currency exposure derived from a rolling 12-month plan that is continuously updated.

The nominal values represent the total of all purchase and sales contracts for derivative financial transactions, without netting off.

The fair 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 fair values of all derivative financial instruments are as follows:

	Sept. 30, 2007			Sept. 30, 2006	
	Nominal value	Assets	Liabilities	Assets	Liabilities
	EUR mill	EUR mill	EUR mill	EUR mill	EUR mill
Foreign exchange hedging contracts	166.2	6.1	0.7	5.0	—

38 Related Party Disclosures

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, unchanged from last year), other operating income (EUR 3,800,000; last year: EUR 4,435,000) as well as receivables from associated and related companies (EUR 46,680,000; last year: EUR 27,246,000). 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.

39 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 section 161 of the German Stock Corporation Act (AktG). This declaration has been made public and is available to stockholders on the company’s website (www.meditec.zeiss.de).

40 Remuneration of the Executive Board and the Supervisory Board

The short-term benefits due to the Members of the Executive Board amounted to EUR 4,320,000 in the 2006/07 fiscal year (last year: EUR 3,123,000). The short-term benefits for the reporting period also include variable remuneration for one former Executive Board Member which was paid after he left the Executive Board of Carl Zeiss AG and which relates to the previous fiscal year.

EUR 662,000 was paid in the form of post-employment benefits (last year: EUR 680,000).

A fee of EUR 329,000 was paid to the Members of the Supervisory Board for their supervisory activities in the reporting period (last year: EUR 333,000).

As of the balance sheet date, pension obligations towards former members of the Executive Board and their surviving dependents totaled EUR 17,553,000 (last year: EUR 17,170,000). They received EUR 1,155,000 in post-employment benefits and EUR 178,000 in other long-term benefits in the reporting period.

The Members of the Executive Board and Supervisory Board are listed on pages 98 and 99.

Oberkochen, December 13, 2007

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 1 October 2006 to 30 September 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 are the responsibility of the parent company'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 [“Handelsgesetzbuch”/ „German Commercial Code”] 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 disclosures 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 Abs. 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 13, 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Held
Wirtschaftsprüfer

von Hohnhorst
Wirtschaftsprüfer

Legal information

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