

Summary management report

for fiscal year 2017/18

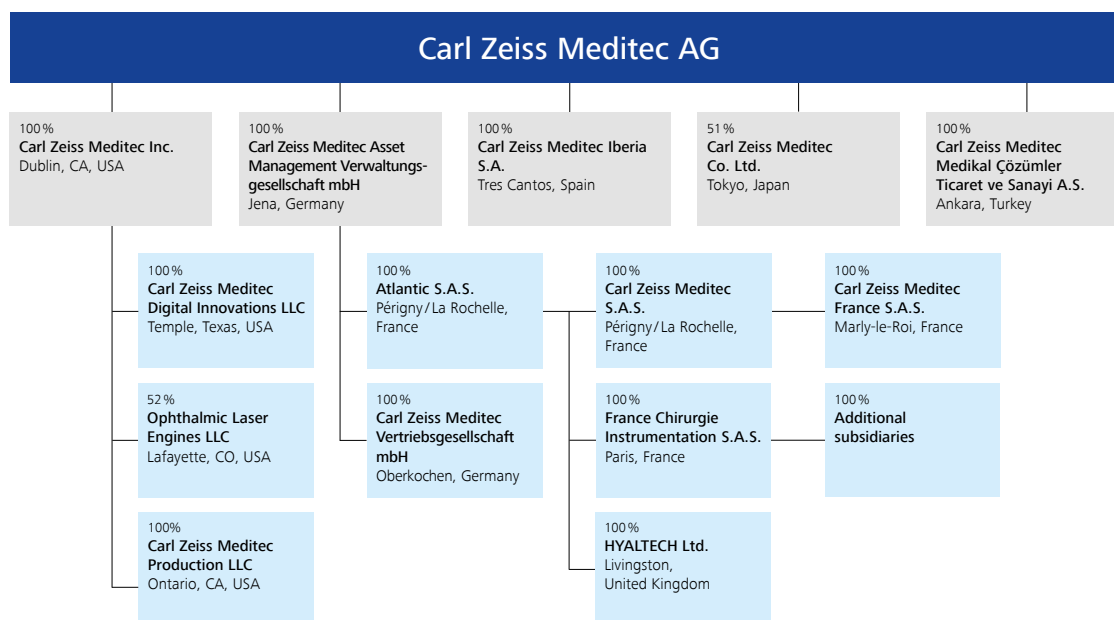
CARL ZEISS MEDITEC GROUP

Group structure

The Carl Zeiss Meditec Group (hereinafter the Group, the Company) is a global company headquartered in Jena, Germany, with additional subsidiaries in and outside of Germany. Carl Zeiss Meditec AG is the parent company of the Carl Zeiss Meditec Group and is listed in the TecDAX and SDAX on the German Stock Exchange.

The results of Carl Zeiss Meditec AG are influenced to a large extent by its subsidiaries, and the development of its business is generally subject to the same opportunities and risks as the Carl Zeiss Meditec Group. The outlook for the Group also largely mirrors the expectations for Carl Zeiss Meditec AG, due to the links between Carl Zeiss Meditec AG and its subsidiaries and due to the importance of Carl Zeiss Meditec AG within the Group. Therefore, for the purposes of a more compact presentation, the business development of Carl Zeiss Meditec AG and the Carl Zeiss Meditec Group has been presented as a summary management report since fiscal year 2015/16. Major investments of the Carl Zeiss Meditec Group as of 30 September 2018 are presented in the chart below:

Subsidiary structure of the Carl Zeiss Meditec Group as of 30 September 2018



There were no significant changes to the reporting entity or the structure of the consolidated financial statements in fiscal year 2017/18, with the exception of the scheduled sale of the legal entity Aaren Scientific Inc., effective 1 October 2017. The assets and liabilities of this company were also transferred on 1 October 2017, ahead of the sale, to the newly founded Carl Zeiss Meditec Production LLC. In addition, the subsidiary Carl Zeiss Meditec Digital Innovations LLC, which was not yet of any material significance for the consolidated financial statements in the prior year, was incorporated into the reporting entity in fiscal year 2017/18.

Markets

The Carl Zeiss Meditec Group has operations all over the world. With its headquarters in Jena (Germany) and additional plants and subsidiaries in Germany, France, Spain, the USA and Japan, the Company has a direct presence in the world's most important medical technology markets. In addition, the Carl Zeiss Meditec Group utilizes the strong global distribution network of the ZEISS Group, with around 60 sales and service locations, thus ensuring itself customer proximity and a crucial advantage over international rivals. Aside from its own research and development locations, the Carl Zeiss Meditec Group also has access to the expertise of the ZEISS Group. Of the around 25 research and development locations of the ZEISS Group worldwide, China and India, in particular, are important research centers for the Carl Zeiss Meditec Group. They offer the possibility of working with the customers on site, in order to gain a comprehensive understanding of the market and develop specific products that are tailored to market requirements.

Organization and business activity

The field of activity of the Carl Zeiss Meditec Group is essentially divided into two main areas in which the Company operates: Ophthalmology and Microsurgery. In order to ensure a strong customer focus, as well as one-stop end-to-end solutions, this distinction is also reflected in our strategic business units (SBUs). Business operations are summarized according to similar areas of application and customer groups in both the **Ophthalmic Devices** (OPT) SBU and the **Microsurgery** (MCS) SBU.

Ophthalmic Devices

Conditions such as ametropia (refraction), cataracts, glaucoma and other retinal disorders, the incidence of which particularly increases with age and can become chronic in many cases (glaucoma, retinal diseases), are treated in ophthalmology.

In the **Ophthalmic Devices** SBU, the Carl Zeiss Meditec Group offers a comprehensive portfolio of products and solutions for the diagnosis and treatment of eye diseases, as well as systems and consumables for cataract, retinal and refractive surgery. Customers here are both practicing ophthalmologists and optometrists, as well as physicians and surgeons in hospitals and outpatient surgery centers.

In the area of ophthalmic diagnostics, the Carl Zeiss Meditec Group offers an almost comprehensive range of products for investigating all clinical conditions. In the field of diagnostics, these are devices for general ophthalmological examinations (slit lamps, refractometers, tonometers), devices for examining the retina (optical coherence tomography (OCT), fundus cameras), as well as functional diagnostics equipment (perimeters). Digital products for the efficient organization of clinical workflows and for the storage and evaluation of clinical data complement the product range. The offering for surgical therapy (particularly for cataracts) includes, among other things, ophthalmic surgery microscopes, biometers and phacoemulsification/vitreectomy devices. The broadly diversified portfolio of microincision-capable intraocular lenses (IOL) extends from the standard (monofocal lenses) to the premium segment (e.g. toric multifocal lenses). The OR workstation is further completed by software-based assistance systems such as CALLISTO eye®, to assist with the implantation of toric intraocular lenses. Surgeons can further increase their efficiency with systems that are precisely tailored to the surgeon's workflow and integrated with each other. One example of this is the ZEISS Cataract Suite

markerless. The product portfolio in the area of refractive surgery primarily includes systems and consumables for refractive surgery. This includes the ReLEx® SMILE solution, a unique treatment method using a minimally invasive procedure.

Microsurgery

In the **Microsurgery** strategic business unit ZEISS provides visualization solutions for minimally invasive surgical treatments. The state-of-the-art surgical microscopes for neurosurgery are essential tools that are used, for example, in the surgical treatment of tumors or vascular conditions, such as aneurysms. KINEVO® 900, a robotic visualization system for neurosurgeons, is one good example of how physicians are supported by ZEISS when streamlining their workflows. Other key areas include ear, nose and throat (ENT), plastic and reconstructive (P&R) and dental surgery, as well as spinal surgery. Innovative add-on functions, such as cutting-edge video technologies, 3D imaging or intraoperative fluorescence options, offer the physician support for complex treatments. During the procedure, diagnostic data and information can be provided to the physician in the eyepiece or on monitors.

Group strategy

The Carl Zeiss Meditec Group's strategy is to achieve sustainable and profitable growth as market and technology leader in the field of ophthalmology and microsurgery. The product range improves the treatment result and reduces treatment costs through efficient and effective approaches, and thus contributes to medical progress. Key success factors are: customer focus, innovation and integrated solutions for diagnosis and treatment.

Customer focus

Customers of the Carl Zeiss Meditec Group are facing major challenges in managing rising patient numbers, limited public funding and more demanding expectations with regard to the treatment outcome. Integrated products and solutions can help customers to streamline workflows and cut costs. One example of this is the provision of clinical decision-making aids to the physician and possibilities to easily outsource routine tasks to medical support staff. Digitalization provides major opportunities in this respect, including in the area of data management solutions. A key prerequisite for the long-term success of the Carl Zeiss Meditec Group is a deep understanding of the challenges facing doctors and a service offering that is tailored to overcoming these challenges.

Innovation

The Carl Zeiss Meditec Group strives to make cutting-edge technology in medical application accessible for practitioners and patients and to establish new benchmarks (gold standards) in diagnostics and therapy. Close collaboration with customers and continuously high investments in research and development (R&D) secure the Group's technological leadership.

Integrated solutions

The logical networking of devices and systems in the practice or clinic plays an important role giving customers the opportunity to make their workflows more efficient, and to improve clinical outcomes through integrated availability and evaluation of the data. Comprehensive system integration, including IT-assisted analysis functions, is a key prerequisite for this.

Corporate governance

The central governing bodies within the Carl Zeiss Meditec Group are the Management Board and the Executive Committee. The Executive Committee is formed from the members of the Management Board of Carl Zeiss Meditec AG, the heads of the two strategic business units Ophthalmic Devices and Microsurgery and the Head of Digital Transformation & Digital Innovation. The management levels below the Executive Committee perform their management responsibilities in accordance with the organizational structure across regions and company locations. Cross-organizational functions, such as Finance, Communications or Human Resources, for example, are managed centrally. The strategies and projects are implemented locally at the country organizations in accordance with the respective prevailing laws, rules of procedure and bylaws, and the applicable corporate values and principles.

As a company of the ZEISS Group, the Carl Zeiss Meditec Group is also subject to the global Code of Conduct. This stipulates the general rules of good and fair conduct in competition and when dealing with our employees and customers. This Code of Conduct sets out the fundamental ethical principles of good conduct and values which govern the actions of both management and employees in their day-to-day work at the Company.

Corporate management

The consistent implementation of the Group strategy ensures a long-term increase in value. A comprehensive system of indicators serves as an instrument for the financial management of the Carl Zeiss Meditec Group. The greatest importance is attached to Economic Value Added® (EVA®)¹¹, Free Cash Flow (FCF)¹², the EBIT margin and revenue growth. These control ratios define the balance between growth, profitability and financial power, upon which sustainable growth of the Company is built. These characteristics are therefore defined as control variables. These are supplemented by strategic measures and projects in the areas of customer excellence, people/performance culture and operational excellence.

BUSINESS REPORT

Underlying conditions for business development

Macroeconomic environment¹³

Growth of the global economy continued in the reporting period. The market growth of the industrialized nations in fiscal year 2017/18 was more dynamic than initially forecast. The USA, in particular, provided significant impetus for growth. The growth markets of Asia once again recorded an above-average performance. Growth in China remained at a high level, and only marginally decreased compared with the prior year. In Latin America, there was a slight economic recovery in Brazil; the Mexican economy once again exhibited a positive trend.

¹¹ Calculation: EVA® = operating result (EBIT) after taxes minus capital costs of €63.8m for 2017/18 (calculation of capital costs: average committed business assets 2017/18 (€619.6m) multiplied by capital cost rate 2017/18 (10.3%)).

¹² Calculation Free Cash Flow: FCF = EBIT +/- changes in trade receivables +/- changes in inventories, including advance payments +/- changes in provisions (excluding provisions for pensions and tax provisions) +/- changes in current accrued liabilities +/- changes in trade payables + change in advance payments received - increase in investments in property, plant and equipment and intangible assets + write down of investments in property, plant and equipment and intangible assets.

¹³ International Monetary Fund, "World Economic Outlook", July 2018, Washington D.C.

Future situation in the medical technology industry

The Company sees medical technology as a steadily growing industry in the medium to long term. Growth drivers are medical progress, the aging population due to demographic development and global population growth. A distinction should be made here between western industrialized nations and growth markets. While rising per capita income is increasing the demand for basic medical care in rapidly growing economies, the willingness of people in the western regions to take advantage of better-quality services is also increasing. Furthermore, the Company expects the number of patients suffering from age-related illnesses to rise continuously. At the same time, it is anticipated that the need for comprehensive, high-quality health care will also increase. This is due to ever-growing patient demands and an increasing willingness to use premium services as a self-paying patient. At the same time, the cost pressure in the health care systems is providing for price-driven competition. In terms of product development and licensing, increasing regulation and varying regional regulatory requirements are posing growing challenges. Equally high are the requirements for manufacturers and for products and solutions that both increase workflow efficiency for customers and offer more effective treatment methods for patients.

Growth can be anticipated in the long term, both in microsurgery and in ophthalmology, as the demand for diagnostic and therapeutic devices and systems and for implants and consumables will increase further.

a) Market for ophthalmic products

The market for ophthalmic products in the broader sense includes devices and systems for the diagnosis, treatment and post-treatment of eye diseases, implants for ophthalmic surgery and ophthalmic pharmaceuticals, contact lenses, contact lens care products, consumables – with the exception of glasses and glasses frames. According to the Company's estimates, the market had a global volume of around US\$40.6b (about €36.7b)¹⁴ in 2017. The Group's product range includes devices and systems, implants, consumables and instruments for ophthalmology and ophthalmic surgery. According to the Group's estimates, these sub-markets had a volume of around US\$10.7b (around €9.6b¹⁴) in 2017. Based on this, the Company estimates its market share in 2017 at around 9%, and considers itself to be the third-largest supplier worldwide in this market, after ophthalmic surgery businesses Alcon and Johnson & Johnson Vision, according to its own estimates.

The Carl Zeiss Meditec Group expects the market for ophthalmic products to continue to grow in the medium term, irrespective of year-to-year fluctuations.

Overall, based on the information at hand, the Group calculates an increase in its market share in the product segments it addresses compared with the prior year.

b) Market for microsurgery products

Besides ophthalmology, the Company also operates in the market for microsurgery, particularly in the field of neuro/ENT surgery. The overall neuro/ENT surgery market is divided into three product segments: "Implants", "Surgical instruments" and "Visualization". In the "Visualization" product segment served by the Company, a distinction can be made between the sub-segments "Surgical Microscopes" and "Other Visualization". According to the Group's estimates, this product segment had a total volume of around US\$1.8b in 2017 (around €1.6b¹⁴). With a market share that it estimates to be good 20%, the Carl Zeiss Meditec Group is therefore one of the largest providers in this Area and the clear market leader in the "Surgical microscopes" sub-segment.

The Carl Zeiss Meditec Group expects the market for microsurgery products to continue to grow in the medium term, irrespective of year-to-year fluctuations.

¹⁴ At average rate for fiscal year 2016/17 (€1 = US\$1.1046)

Overall assertion on the financial position of the Group at the end of the fiscal year

With revenue of €1,280.9m and growth of 7.6%, the Carl Zeiss Meditec Group achieved its forecast range of €1,250m to €1,300m for fiscal year 2017/18. Both business units contributed to this positive development of revenue, as did all regions, although the highest contributions came from the Americas and APAC regions.

The **Ophthalmic Devices** SBU achieved revenue of €933.3m and thus a growth of 6.0% (adjusted for currency effects: 9.3%), thus exceeding market growth, which is estimated to be in the low to mid-single-digit percentage range. This increase is primarily attributable to a strong refractive lasers business, the ophthalmic diagnostics segment, and to a continued solid demand for premium and standard intraocular lenses. Nevertheless, the situation in Ophthalmic Diagnostics remains tense due to the strong competitive pressure.

The **Microsurgery** SBU achieved revenue of €347.6m at a growth rate of 12.3% (adjusted for currency effects: 16.5%) compared with the prior year, thus significantly exceeding market growth, which is estimated to be in the low-single-digit percentage range. The business unit therefore further increased its leading market position. This was mainly due to growth in the area of visualization as a result of the launch of new products.

Earnings before interest and taxes (EBIT) increased to €197.1m (prior year: €180.8m). Relative to revenue, the Group achieved an EBIT margin of 15.4% (prior year: 15.2%). It should be noted, that this result in the prior year also included a positive effect arising from the sale of assets that were not part of core business at the Ontario location, USA, in the amount of €7.5m. The EBIT margin in fiscal year 2017/18 thus remained within the forecast range of 14 - 16%. The increase in the EBIT margin is mainly attributable to a more favorable product mix.

In the **Ophthalmic Devices** SBU, the EBIT margin remained stable compared with the prior year, and was slightly below the Group average, as expected. The EBIT margin of the **Microsurgery** SBU decreased slightly year-on-year – due, among other things, to a lower gross margin. As expected, however, the EBIT margin was significantly higher than the Group average.

At €187.2m in fiscal year 2017/18, the Group's cash flows from operating activities was significantly higher than in the prior year (prior year: €37.7m).

Free cash flow amounted to €195.6m (prior year: €112.4m). EVA® rose to €74.4m, compared with €69.9m in the prior year.

In order to maintain its innovative strength and ensure future growth, the Company has up to now invested around 11% to 12% of its revenue each year in research and development, as budgeted. In the fiscal year under review, the ratio of R&D expenditure to revenue was 12.5% and thus remained stable compared with the prior year (prior year: 12.3%).

The Carl Zeiss Meditec Group's financial position remained stable. This is also contributing towards the achievement of the Company's objectives, which are geared to sustainable growth, and gives the Group additional stability.

Comparison of actual business development with forecast development in fiscal year 2017/18

	Results 2017/18	Forecast 2016/17
Group revenue	€1,280.9m	€1,250 - 1,300m
Ophthalmic Devices	6.0%	Growth in low to mid-single-digit percentage range
Microsurgery	12.3%	Growth in low-single-digit percentage range
EBIT margin	15.4%	14% - 16%
Cash flows from operating activities	€187.2m	Amount in high double-digit millions
Research and development expenses/revenue	12.5%	11% - 12%
Free cash flow (FCF)	€195.6m	Amount in high double-digit millions
Economic Value Added® (EVA®)	€74.49m	similar to prior year (prior year: €69.9m)

Results of operations**Presentation of results of operations****Summary of key ratios in the consolidated income statement**

Figures in €m, unless otherwise stated

	2017/18	2016/17	Change
	€m	€m	in %
Revenue	1,280.9	1,189.9	+7.6%
Gross margin	55.5%	55.2%	+0.3% pts
EBITDA	228.4	205.1	+11.4%
EBITDA margin	17.8%	17.2%	+0.6% pts
EBIT	197.1	180.8	+9.0%
EBIT margin	15.4%	15.2%	+0.2% pts
Earnings before income taxes	179.2	188.6	-5.0%
Tax rate	29.6%	28.0%	+1.6% pts
Consolidated profit after non-controlling interests	126.5	134.4	-5.9%
Earnings per share after non-controlling interests	€1.41	€1.57	-10.0%

Revenue

In fiscal year 2017/18 the Carl Zeiss Meditec Group increased its revenue by 7.6%, to €1,280.9m (prior year: €1,189.9m), thus achieving its forecast range of €1,250m - €1,300m. Adjusted for currency effects, this growth amounted to 11.1%. Both strategic business units contributed, as did all regions, although the strongest growth rates were achieved in the Americas and APAC regions.

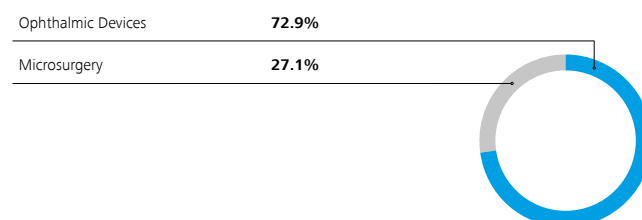
Consolidated revenue in €m/Growth in %

2017/18	1,280.9/7.6%	
2016/17	1,189.9/9.3%	
2015/16	1,088.4/4.6%	

a) Consolidated revenue by strategic business unit

The **Ophthalmic Devices** strategic business unit generated 72.9% of total revenue in the past fiscal year (prior year: 74.0%). The **Microsurgery** strategic business unit contributed 27.1% (prior year: 26.0%) of consolidated revenue.

Share of strategic business units in consolidated revenue in fiscal year 2017/18



Revenue growth in the **Ophthalmic Devices** strategic business unit amounted to 6.0% for fiscal year 2017/18. Adjusted for currency effects, growth amounted to 9.3%. Revenue amounted to €993.3m (prior year: €880.5m).

The refractive laser business once again proved to be the growth driver, benefiting in particular from high procedure-dependent revenue. The segment for devices and systems for diagnostics also contributed to growth. There was also continued strong demand for intraocular lenses.

With growth of 12.3%, business development in the **Microsurgery** strategic business unit was also positive (adjusted for currency effects: 16.5%). Revenue amounted to €347.6m (prior year: €309.4m). The Visualization segment, in particular, contributed to this.

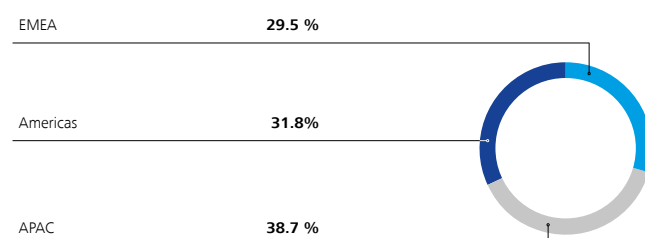
Revenue by strategic business unit

	2017/18	2016/17	Change in %	
	€m	€m		Adjusted for currency effects
Ophthalmic Devices	933.3	880.5	6.0	9.3
Microsurgery	347.6	309.4	12.3	16.5
Carl Zeiss Meditec Group	1,280.9	1,189.9	7.6	11.1

b) Consolidated revenue by region

The Carl Zeiss Meditec Group has a very balanced range of business activities worldwide. In the past fiscal year, the region **Europe, Middle East and Africa (EMEA)** accounted for 29.5% (prior year: 30.5%) of consolidated revenue; the **Americas** region accounted for 31.8% (prior year: 31.8%) and the **Asia/Pacific (APAC)** region accounted for 38.7% (prior year: 37.7%).

Share of regions in consolidated revenue in fiscal year 2017/18



At €378.1m, revenue in the **EMEA** region was 4.0% (adjusted for currency effects: 5.4%) higher than the prior year (€363.4m). The stable development in Germany contributed to this growth, as well as continued solid growth in the UK and Southern Europe.

Business in the **Americas** region grew by 7.5%, or 14.4% after adjustment for currency effects, which accelerated growth compared with the prior year. Revenue amounted to €406.5m (prior year: €378.2m). This is primarily due to a continued positive trend in the U.S. market.

The **APAC** region made a substantial contribution to growth within the Group, increasing revenue, to €496.3m (prior year: €448.2m) and an increase of 10.7%. Adjusted for currency effects, growth was of a similar magnitude of 13.2% as in the prior year. Once again, the largest contributions to growth came from China and South Korea.

Consolidated revenue by region

	2017/18	2016/17	Change in %	
	€m	€m		Adjusted for currency effects
EMEA	378.1	363.4	4.0	5.4
Americas	406.5	378.2	7.5	14.4
APAC	496.3	448.2	10.7	13.2
Carl Zeiss Meditec Group	1,280.9	1,189.9	7.6	11.1

Gross profit

In fiscal year 2017/18, gross profit on sales increased from €656.7m to €710.4m. The gross margin for the reporting period was 55.5% (prior year: 55.2%). This was primarily attributable to a more favorable product mix with a higher proportion of case-number-dependent business, in particular the strategic business unit Ophthalmic Devices, as well as a strong demand for the products newly launched in the Microsurgery SBU in the past fiscal year.

Functional costs

Functional costs for the reporting year amounted to €513.5m (prior year: €483.4m), thus increasing at a slightly lower rate than revenue, by 6.2%. The proportion of revenue decreased slightly year-on-year, from 40.6% to 40.1%.

- » **Selling and marketing expenses:** In the fiscal year under review, selling and marketing expenses increased by 4.9%, from €289.6m to €303.8m. Relative to revenue, however, selling and marketing expenses were 0.6 percentage points lower than in the prior year, at 23.7% (prior year: 24.3%) of consolidated revenue.
- » **General administrative expenses:** Expenses in this area increased by 3.6%, to €49.8m (prior year: €48.1m). In relation to revenue, the cost share of 3.9% remained largely stable compared with the prior year (prior year: 4.0%).
- » **Research and development expenses:** The Carl Zeiss Meditec Group continuously invests in R&D, in order to further develop its product portfolio and ensure further growth. R&D expenses increased by 9.5% in the reporting period, to €159.6m (prior year: €145.8m). The R&D ratio of 12.5% also remained largely stable compared with the same period last year (prior year: 12.3%).

Development of earnings

The Carl Zeiss Meditec Group uses earnings before interest and taxes (EBIT = operating result) as a key performance indicator. EBIT for the reporting period amounted to €197.1m (prior year: €180.8m). This corresponds to an EBIT margin of 15.4% (prior year: 15.2%).

EBIT in €m/EBIT margin in %

2017/18	197.1/15.4%	
2016/17	180.8/15.2%	
2015/16	154.3/14.2%	

EBIT in fiscal year 2017/18 included negative effects arising from acquisitions, to the volume of €3.6m. This item primarily consists of write-downs from purchase price allocations.

Overview of effects from purchase price allocations and similar effects from acquisitions included in EBIT

	2017/18	2016/17	Change
	€m	€m	in %
EBIT	197.1	180.8	+9.0
Effects from purchase price allocations and similar effects from acquisitions ¹⁵	-3.6	+4.6	
Total effects	-3.6	+4.6	

¹⁵ The sale of non-strategic assets at the site in Ontario, California, which was taken over in fiscal year 2013/14 in the course of the acquisition of Aaren Scientific Inc., gave rise to a positive special effect of around €7.5m in fiscal year 2016/17. A negative effect, on the other hand, was had by effects from the purchase price allocation (PPA), also mainly in connection with the acquisition of Aaren Scientific Inc. in fiscal year 2013/14.

The EBIT margin within the **Ophthalmic Devices** SBU remained stable. The EBIT margin in the **Microsurgery** SBU fell slightly, which is largely due to a lower gross margin.

Earnings before interest, taxes, depreciation and amortization (**EBITDA**) amounted to €228.4m for the past fiscal year (prior year: €205.1m). The **EBITDA margin** therefore increased to 17.8% compared with the prior year's level (prior year: 17.2%).

The balance of **interest income and interest expenses** amounted to €-1.1m in the reporting period (prior year: €-0.7m).

Currency effects arose within the financial result as of 30 September 2018 as a result of hedges in the amount of €-19.4m (prior year: foreign currency gains of €9.0m).

The **tax rate** for the reporting period was 29.6% (prior year: 28.0%). As a general rule, an average annual tax rate of slightly above 30% is assumed.

Consolidated profit attributable to shareholders of the parent company for fiscal year 2017/18 amounted to €126.5m, thus decreasing by 5.9% (prior year: €134.4m). Non-controlling interests accounted for €-0.2m (prior year: €1.3m). In fiscal year 2017/18, basic **earnings per share of the parent company** amount to €1.41 (prior year: €1.57).

Financial position

Objectives and principles of financial management

Securing the Carl Zeiss Meditec Group's liquidity and increasing it efficiently throughout the Group is one of the key objectives of financial management.

For the Group, operative business is the main source of liquidity for the individual business units, which is also reflected in its strategic orientation and financial activities. The Company therefore operates a global financial management system that encompasses all of its subsidiaries and is centrally organized at Group level. The Company also strives to continuously improve its financial power and reduce financial risks by keeping a constant check on the solvency of its debtors, which also involves the use of financial instruments.

The Company deposits any liquidity it does not require at normal market conditions with the treasury of ZEISS Group. When investing surplus liquidity, short-term availability generally comes before the goal of maximizing earnings, so that funds can be accessed quickly if, for example, acquisition opportunities arise. The Group has production plants in the USA and Europe. This means that the influence of exchange rate fluctuations can be reduced. The remaining currency risk is hedged by simple futures trading. Details on this can be found in the notes to the consolidated financial statements under "(2) (h) Financial instruments", "(27) Additional disclosures on financial instruments", "(36) Financial risk management", "(2) (t)" and "(34) Related party disclosures" and in the annual financial statements of Carl Zeiss Meditec AG under 5 "Information and explanatory notes on accounting and valuation principles", paragraph "Derivative financial instruments" and 9 "Receivables from affiliated companies".

Financial management

The ratio of borrowed capital to equity amounts to 26.4% as of 30 September 2017 (prior year: 30.7%).

The Group's dynamic gearing ratio was -1.7 years for fiscal year 2017/18 (prior year: -6.7 years)¹⁶.

The interest coverage ratio, i.e., the coverage of interest income by the operating result before depreciation and amortization (EBITDA), amounted to 136.0 (prior year: 116.6).

Cash inflows generated from operating activities provide another important source of financing for the Carl Zeiss Meditec Group. Furthermore, the Company has the option to assume loans, either from treasury of ZEISS Group or from banks.

For further information on the financial liabilities of the Carl Zeiss Meditec Group please refer to note "(24) Non-current financial liabilities", "(25) Current accrued liabilities" and "(26) Other current non-financial liabilities" in the accompanying notes to the consolidated financial statements and in the annual financial statements of Carl Zeiss Meditec AG in sections 9 "Receivables from affiliated companies" and 17 "Liabilities".

As the Group possesses sufficient cash funds to finance its operating and strategic objectives, changes in credit conditions do not currently have any material effect on its financial position.

Separate reporting on financial instruments

The Carl Zeiss Meditec Group is exposed to currency fluctuation risks, due to its international business activities in numerous different currencies. Significant currency risks are hedged against with hedging transactions, based on a rolling business plan.

Hedges are mainly transacted centrally by Carl Zeiss Financial Services GmbH. The services provided by Carl Zeiss Financial Services GmbH to Carl Zeiss Meditec AG and its subsidiaries are regulated by corresponding general agreements. The hedges are processed by Carl Zeiss Financial Services GmbH with external business banks. Hedges are entered into solely via banks with high credit ratings given by leading agencies. The business transactions are executed with strict separation of functions between the front office (trade), middle office (financial risk management, controlling) and back office (processing, documentation).

Value-at-risk analyses, together with scenario, sensitivity and stress test analyses, are implemented in risk control and monitoring, to quantify the currency risks. Hedging rates are specified for operative control of all relevant currencies. Limits were defined to limit risks relating to contracting parties and transaction types. Derivative financial instruments are not used for speculative purposes.

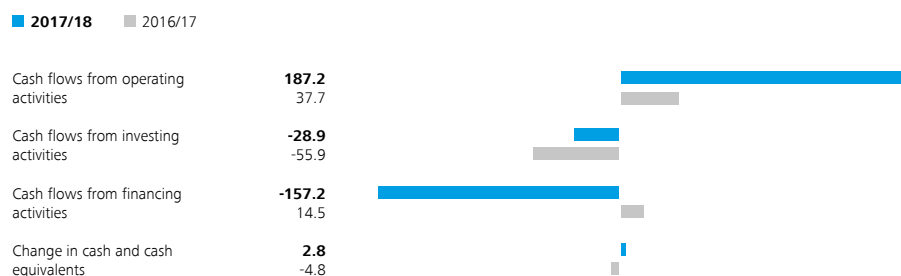
Statement of cash flows

The Carl Zeiss Meditec Group's statement of cash flows shows the origin and utilization of the cash flows within a fiscal year. A distinction is made between cash flows from operating activities and cash flows from investing and financing activities.

¹⁶ Calculation: borrowings excluding non-controlling interests, less cash and cash equivalents and less treasury receivables/cash flows from operating activities.

Changes in individual items in the income statement and the statement of financial position are recorded in the statement of cash flows. In contrast, the consolidated statement of financial position presents the figures as they stood at the end of the reporting period on 30 September 2018. As a result, the statements in the analysis of the financial position may differ from the presentation of net assets based on the consolidated statement of financial position.

Summary of key ratios in the statement of cash flows in €m



Cash flow from operating activities amounted to €+187.2m in the reporting period (prior year: €+37.7m). In addition to the higher operating result, the significant increase is also attributable to a stable development of trade receivables despite higher sales compared with the prior year and less stockpiling of inventories.

Cash flow from investing activities was negative in fiscal year 2017/18, amounting to €-28.9m (prior year: €-55.9m). The prior year's figure was mainly determined by the acquisition of shares in Ophthalmic Laser Engines LLC, Lafayette, USA (OLE) and the acquisition of Carl Zeiss Meditec Digital Innovations LLC¹⁷, Temple, Texas, USA.

Cash flow from financing activities in the past fiscal year amounts to €-157.2m (prior year: €+14.5m). This amount is largely due to the increase in receivables and the decrease in treasury payables.

Free cash flow amounted to €195.6m (prior year: €112.4m). As a result, net cash¹⁸ in the past fiscal year increased to €670.0m (prior year: €565.0m).

Investment and depreciation policy

Continuous investments are required to further consolidate the Company's market position in the medical technology sector and strengthen its leading market position. A distinction is made between two types of investment: capacity expansions and replacement investments. These investments are primarily financed from cash flow from operating activities.

¹⁷ Until 3 Oct 2017: Veracity Innovations LLC

¹⁸ Includes receivables from and liabilities to the treasury of the ZEISS Group, as defined on page 41.

The production of devices and systems at Carl Zeiss Meditec is generally restricted to the integration of individual components to create system solutions. For this reason, investments in property, plant and equipment are comparatively low. One exception, however, is the production of intraocular lenses, which generally demands higher investments due to a larger vertical range of manufacture.

Nevertheless, the required investment of capital in real assets is limited within the Group, which is evident from the development of the capex ratio – the ratio of total investments¹⁹ in property, plant and equipment (cash) to consolidated revenue. In fiscal year 2017/18, it was 1.3% (prior year: 1.1%).

At Carl Zeiss Meditec AG and its subsidiaries intangible assets and property, plant and equipment are subject to scheduled, straight-line amortization and depreciation, respectively, over their estimated useful lives. Further details on this can be found in note "(2) (f) Other intangible assets" and "(2) (g) Property, plant and equipment" in the accompanying notes to the consolidated financial statements and in note 6 "Fixed assets" in the annual financial statements of Carl Zeiss Meditec AG.

Key ratios relating to financial position

Key ratios relating to financial position

Key ratio	Definition	30 Sep. 2018	30 Sep. 2017	Change
		€m	€m	in %
Cash and cash equivalents	Cash-in-hand and bank balances	6.7	3.9	+70.1
Net cash	Cash-in-hand and bank balances + treasury receivables from the Group treasury of Carl Zeiss AG ./. treasury payables to Group treasury of Carl Zeiss AG	670.0	565.0	+18.6
Net working capital	Current assets including financial investments ./. cash and cash equivalents ./. treasury receivables from Group treasury of Carl Zeiss AG/. current liabilities excl. treasury payables to Group treasury of Carl Zeiss AG	300.9	326.8	-7.9
Working capital	Current assets ./. current liabilities	970.9	891.8	+8.9

Key ratio	Definition	2017/18	2016/17	Change
Cash flow per share	Cash flows from operating activities Weighted average of shares outstanding	€ 2.09	€ 0.44	+374.8%
Capex ratio	Investment (cash) in property, plant and equipment Consolidated revenue	1.3%	1.1%	+0.2% pts

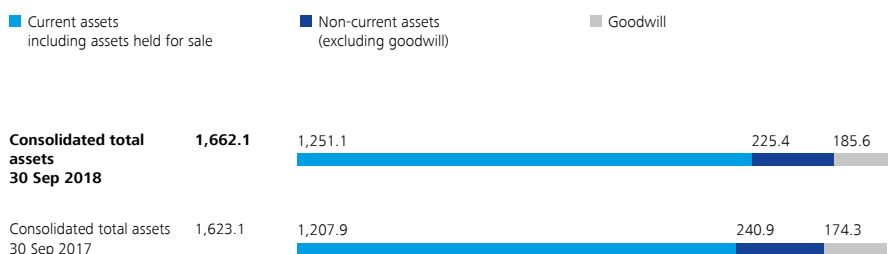
¹⁹ In fiscal year 2017/18, investments in property, plant and equipment (cash) totaled €16.5m, compared with €13.7m the prior year.

Net assets

Presentation of net assets

Total assets slightly increased to €1,662.1m as of 30 September 2018 (prior year: €1,623.1m).

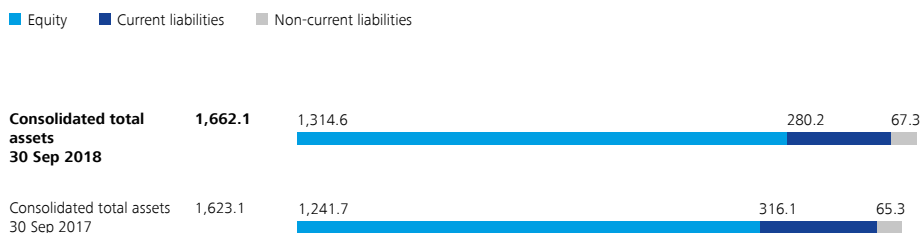
Structure of statement of financial position – assets in €m



Non-current assets to the amount of €411.0m as of 30 September 2018 (prior year: €415.2M) were stable.

Current assets (€1,251.1m; prior year: €1,207.9m) increased slightly, due, among other things, to the increase in inventories to ensure delivery capacity for a number of high-revenue products, and to the increase in treasury receivables.

Structure of statement of financial position – liabilities in €m



The **equity** recognized in the Carl Zeiss Meditec Group's statement of financial position amounts to €1,314.6m as of 30 September 2018 (prior year: €1,241.7m). The equity ratio increased to 79.1% (prior year: 76.5%) and thus remained high.

Non-current liabilities slightly increased as of 30 September 2018 to €67.3m (prior year: €65.3m). This increase was mainly due to non-current lease liabilities, including for the use of property.

As of 30 September 2018, **current liabilities** amounted to €280.2m (prior year: €316.1). This decline was primarily due to the decrease in treasury payables.

Key ratios relating to net assets

Key ratios relating to net assets

Key ratio	Definition	30 Sep. 2018	30 Sep. 2017	Change
		in %	in %	% pts
Equity ratio	Equity (including non-controlling interests)	79.1	76.5	+2.6
	Total assets			
Inventories in % of rolling 12-month revenue	Inventories (net)	19.4	19.7	-0.3
	Rolling revenue			
Receivables in % of rolling 12-month revenue²⁰	Trade receivables at the end of the reporting period (including non-current receivables)	23.3	25.0	-1.8
	Rolling revenue			

Orders on hand

The Carl Zeiss Meditec Group's orders on hand decreased by 7.5%, amounting to €152.9m as of 30 September 2018 (prior year: €165.3m).

Events of particular significance

There were no other events of particular significance during fiscal year 2017/18.

NON-FINANCIAL PERFORMANCE INDICATORS

Responsibility

Traditionally, the Carl Zeiss Meditec Group attaches great importance to commitment to the common good and the environment. Social responsibility does not just shape the corporate culture internally, but also plays an important role externally.

The sustainability management system of the Carl Zeiss Meditec Group is integrated in the sustainability strategy of the ZEISS Group.

Carl Zeiss Meditec AG therefore makes use of the option, pursuant to Section 289b (2) HGB and Section 315b (2) HGB, to exempt itself from issuing a non-financial statement and the non-financial consolidated statement, and refers to the separate summary non-financial report of the parent company, Carl Zeiss AG, into which Carl Zeiss Meditec AG has been incorporated. This separate, non-financial report, which applies for the entire ZEISS Group shall be available for inspection, in German and English, from 31 January 2019 at www.zeiss.com/responsibility.

The ZEISS Group provides information on its further progress in the area of sustainability based on the reporting standard of the Global Reporting Initiative (GRI) and on the pages on sustainability online at www.zeiss.com/responsibility.

²⁰ Revenue of the past twelve months as of the end of the reporting period (30 September 2018)

Social commitment

An integral part of the corporate culture of ZEISS is social responsibility. The aim is to give people in underprivileged regions access to state-of-the-art medical care. It is for this reason that the Company supports many local initiatives for the community and is involved worldwide in scientific and technological research and sustainable activities.

Helping people to help themselves

As sustainability is an important aspect of social commitment, the global commitment to good vision is therefore a focal point of the Company's social activities. One of the largest global charities working in the area of eyesight is the Christoffel-Blindenmission (CBM), which is one of our partners. The CBM helps to improve the lives of those with visual impairments, helps to prevent visual impairments, and breaks down barriers for people living with visual impairments. Over the past few years, ZEISS has supported a total of five diagnostic, therapy and training centers for ophthalmology in Indonesia, Nigeria, Tanzania, Paraguay and Sudan in cooperation with CBM and as part of the VISION 2020 Initiative of the International Agency for the Prevention of Blindness (IAPB), with the aim of improving medical care, also for people in underserved regions. Besides treating patients, these centers are about creating places where training is given on how to use modern medical technology and put it into practice from there.

In line with the motto "Helping people to help themselves", ZEISS also supports the ICO Fellowship Program as a partner of the international umbrella organization for ophthalmology (International Council of Ophthalmology, ICO).

New models for patient care

Using various business models, ZEISS Medical Technology would like to help provide eye care to remote regions, such as rural areas of India and Brazil, for example, thus giving more people access to state-of-the-art eye examinations.

With its VisuHealth remote health solution, ZEISS networks three eye clinics with more than forty screening centers in India using digital technologies. This enables the early detection of diseases such as diabetic retinopathy for people in remote regions.

Telemedical solutions also play a role in providing medical care to sections of the population in remote areas. In Brazil, telemedicine enables ophthalmic care to be provided in the Rio Grande do Sul region in southern Brazil, with the help of ZEISS Professional IT Services. Six smaller practices there are networked with two large diagnostic centers in the region's capital. Telemedicine can be used to detect and treat severe ametropia, among other things. To date, more than 4,000 people have taken advantage of this offering.

Environment

Responsible and modern handling of natural resources goes without saying for the ZEISS Group and the Carl Zeiss Meditec Group.

ZEISS participated in CDP (Carbon Disclosure Project) for the first time in fiscal year 2017/18 and made the answers to the questionnaire on climate change publicly visible. In addition, major manufacturing sites worldwide work to the international environmental management standard ISO 14001.

Good examples of sustainable and careful handling of resources and the environment are a company building in Oberkochen that is particularly sustainable to run, and the more than 4,000 solar panels on the roof of Carl Zeiss Meditec Inc. in Dublin, USA. Since 2012, the latter have been converting solar energy into around 1.7 million kilowatt hours of electricity per year thus ensuring that the location produces the majority of the power it requires itself.

In December 2014 the company building in Oberkochen became the first building to be certified by the German Sustainable Building Council (Deutsche Gesellschaft für Nachhaltiges Bauen e.V., DGNB) in the category "Administrative and Production Building" and awarded the gold seal. The new building was ranked among the top ten of all buildings built in Germany and certified by the DGNB.

Employees

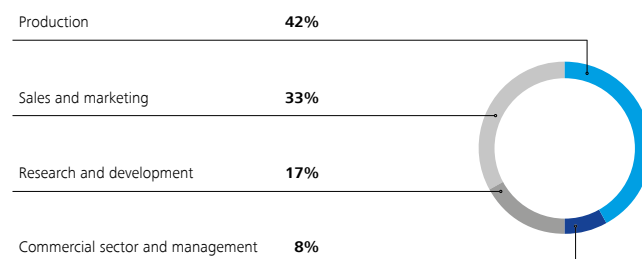
Highly qualified and motivated employees are a necessity for ensuring the long-term success of a company. Responsible human resources development and continuous improvement play a crucial role in this. As of 30 September 2018, the Carl Zeiss Meditec Group had 3,048 employees worldwide (prior year: 2,958).

Employees as of 30 September 2018



At 42% and 33%, respectively, the majority of employees were working in production or sales and marketing as of 30 September 2018. The percentage of employees working in research and development was 17% at the end of the reporting period. The percentage of employees working in the commercial area as of 30 September 2018 was 8%. This includes a total of 548 service employees, who are spread across various areas.

Employees by function²¹ 30 September 2018



At 68%, the majority of the Carl Zeiss Meditec Group's employees were working in the **EMEA** region as of 30 September 2018. A total of 28% of all the Group's employees were working in the **Americas** region and 4% in the **APAC** region.

²¹ Including Service employees

In the APAC region the Carl Zeiss Meditec Group mostly relies on the sales network of the ZEISS Group.

Employees by region as of 30 September 2018



The global success of the Carl Zeiss Meditec Group is based on the expertise and achievements of the Company's employees. The core task of human resources management is therefore sustainable development and targeted support of potential. The focus is particularly on the further training and education of employees, as well as management development. There are also various courses to choose from as part of the internal ZEISS qualification program, as well as secondary training and qualification opportunities to take advantage of. The Company sees this as a solid foundation for long-term economic success and aims to increase its attractiveness as an employer.

Compliance

As a company of the ZEISS Group, integrity and compliance are of paramount importance for the global reputation of the Carl Zeiss Meditec Group. A basic requirement for growth and success is having the trust of external stakeholders and competitors in responsible, law-abiding and ethical conduct. As a company of the ZEISS Group, Carl Zeiss Meditec AG has joined the compliance management system of Carl Zeiss AG. The compliance management system ensures compliance with laws and regulations and adherence to internal policies by stipulating processes and guidelines. A centralized and a decentralized approach is taken for this. Guidelines and training documents are developed at the level of Carl Zeiss AG, which are applied at the level of the subsidiaries (i.e., also at Carl Zeiss Meditec AG). ZEISS employees are encouraged to report any breach of the compliance requirement, or any grounds for suspicion of a breach. The notification management system for compliance incidents guarantees the anonymity of each informant and regulates the review, documentation and intervention in substantiated allegations. In addition, since 2007, the globally applicable ZEISS Code of Conduct has defined the basic rules of good and fair conduct in competition and in dealing with our employees and customers. This Code of Conduct sets out the fundamental ethical principles of good conduct and values which govern the actions of both management and employees in their day-to-day work at the Company. Compliance was defined as an essential component of ZEISS Policy, which every business activity must conform to.

Production

Production plants

The Carl Zeiss Meditec Group manufactures its products in Jena, Oberkochen and Berlin in Germany, Dublin, Ontario in the USA and La Rochelle in France. The Group also has a number of smaller sites in Besançon, France, Livingston, Scotland, and Goodlands, Mauritius. Systems and devices for ophthalmology are manufactured in Jena and Dublin. The Group manufactures microsurgical visualization solutions and phacoemulsification systems in Oberkochen; intraocular lenses are manufactured in La Rochelle, Berlin and Ontario. Certain product groups are manufactured by partners, who either have favorable cost structures or special production processes, or technologies that can realize economies of scale in purchasing.

Production concept

In production, the Carl Zeiss Meditec Group focuses on the integration of modules and system components, which are largely procured from external partners. In the case of intraocular lenses, however, there is a higher vertical range of manufacture. Production of these largely takes place in-house at the Company. Only a few specific production steps are undertaken by external companies. In order to reduce dependency on individual suppliers, the Carl Zeiss Meditec Group continuously strives to qualify additional suppliers for key components or product groups when selecting suppliers.

The main focus with regard to production processes is primarily on responding quickly to customer inquiries and requirements by using short decision paths and bringing innovations quickly and efficiently into production. Shorter throughput times and reducing inventories, while simultaneously optimizing Cost of revenues and improving product quality and delivery performance play a major role in this.

Production planning

Production planning in Jena, Oberkochen and Dublin is based on the rolling forecast method. This is done mostly on a monthly or quarterly basis. This sales forecast is then translated into a demand forecast for production units, taking inventory changes into account. In order to keep stocks to a minimum, system integration is generally on a make-to-order basis.

In order to ensure uninterrupted supplies for customers in the area of refractive lasers, stocks are maintained for consumables to cover the planned sales volume for at least three months. This is particularly important as customers cannot use their equipment without consumables. They are therefore served from existing stocks in accordance with the first-in-first-out principle.

The rolling forecast method described above is also applied for the manufacture of intraocular lenses. As customers expect very short delivery times for implants, limited quantities of the finished products are stockpiled. For this purpose, replacement orders from customers are serviced from a central distribution center. Replenishment orders are then triggered directly to these production sites, so that other customers can be served as quickly as possible. The Carl Zeiss Meditec Group also operates consignment warehouses in clinics and hospitals, which – depending on consumption – are continuously restocked.

Research and development

Objectives and focus of research and development

Innovations are a key driver of future growth. Research and development has therefore traditionally played a crucial role within the Carl Zeiss Meditec Group.

The Company is committed to continuously expanding its product range and to improving products that are already on the market. In doing so, the Group strives to establish products as new gold standards in medical diagnostics and therapy. The focus is to make the customer's workflows more efficient by integrating solutions, and to improve clinical results. A key element of the Company's research and development work is close collaboration with its customers right from the early stages of product development.

In fiscal year 2017/18, research and development expenses increased by 9.5%, to €159.6m (prior year: €145.8m). The R&D ratio also increased compared with the prior year, to 12.5% (prior year: 12.3%), which is slightly above the medium to long-term target range of 11% to 12%. The ratio of capitalized development costs to total research and development expenses was 6.9% Further information can be found in Appendix.

R&D expenses in €m/ratio of R&D to consolidated revenue in %

2017/18	159.6/12.5%	
2016/17	145.8/12.3%	
2015/16	123.4/11.3%	

In the reporting period, 17.1% (prior year: 16.0%) of the Carl Zeiss Meditec Group's entire workforce were working in Research and Development. To a certain extent, research and development services are procured from Carl Zeiss AG, Oberkochen and its subsidiaries. In fiscal year 2017/18, the expenses incurred for this amounted to around 9.5% of total research and development expenses.

Focus of research and development activities in the reporting period

Research and development at the Company mainly focuses on:

- » examining new technological concepts in terms of their clinical relevance and effectiveness;
- » the continuous development of the existing product portfolio;
- » the development of new products and product platforms based on the available basic technologies and
- » digital networking of systems and equipment to increase diagnostic and treatment efficiency and improve treatment outcomes for patients.

Customer service

Maximum reliability and trusting cooperation at all times are the foundation of sustainable customer relationships, and especially in Service.

Carl Zeiss Meditec AG strives to create added value for customers and patients with innovative products and solutions in the medical technology field, combined with smooth and reliable customer service.

Professional customer service requires fast and easy accessibility, short response times, efficient and competent execution of service assignments, consistently demand-driven supply of replacement parts and, not least, professional follow-up.

A high standard in technical service ensures reliable availability of ZEISS devices at the customer, so that the medical workflow is not disrupted and optimum use can be made of resources. Digitalization offers tremendous opportunities to improve service quality and efficiency, for example via remote connectivity. This is the basis for ZEISS Smart Services. ZEISS Smart Services include the remote transmission and preventive monitoring of important device parameters. In the event of a malfunction, technical assistance can be provided quickly via an online connection. In future, automated remote monitoring will make it possible to fix technical faults before the user even notices them.

Particularly in the context of remote monitoring and remote intervention, cyber security plays a vital role in ensuring both the functional safety of the medical device and the protection of patient data at all times.

Carl Zeiss Meditec AG works continuously on further developing its customer services, in order to provide customers with the best possible support and according to their individual requirements. Customer satisfaction and the operative performance of the Service organization are continuously measured and optimized for this purpose.

Customer focus

Innovative and differentiated solutions in ophthalmology and microsurgery are made possible by the global positioning of the Group, as well as its capacity for innovation and customer proximity.

Customer solutions in ophthalmology

All segments within the SBU Ophthalmic Devices reported a growth in demand in fiscal year 2017/18.

In Diagnostics, this positive development is attributable, among other things, to the product CLARUS™ 500, which has been on the market since October 2017. This fundus camera enables ultra-wide-angle imaging and records highly detailed, precise images of the retina, from the macula to the periphery. The ZEISS CLARUS generates true-color images of the fundus, which match the natural coloring of the fundus, as it is perceived during a clinical examination. This enables ophthalmologists to identify early signs of eye diseases faster and more reliably.

In June 2018, ZEISS introduced a new therapeutic laser, with the launch of VISULAS® green. This retinal photocoagulation laser is used to treat various eye diseases, such as diabetic retinopathy, glaucoma and age-related macular degeneration. The device provides physicians with a seamless workflow. The most important parameters required by the physician during a laser treatment are displayed directly in the slit lamp aperture.

The demand for software solutions increased again significantly in fiscal year 2017/18. One example of this is FORUM®, a scalable and flexible data management system, which can be used to centrally manage the relevant examination data. This enables fast and reliable access to clinically relevant patient data, which simplifies the daily work of physicians and significantly increases the efficiency of ophthalmic practices. ZEISS is continuously expanding its range of digital products. The Integrated Diagnostic Imaging (IDI) platform presented at the ESCRS Congress in September combines data from diagnostic devices so that physicians can make their decisions faster and more efficiently, to ensure optimum treatment.

New milestones were also reached in the area of refractive surgery. The number of procedures carried out using the minimally invasive ReLex® SMILE technique, which was launched worldwide in 2011, reached the 1.5 million mark of eyes treated. This minimally invasive technology allows for a gentler surgical procedure in laser vision correction. At the beginning of October 2018, Carl Zeiss Meditec was granted regulatory approval in the U.S. market for the treatment of patients with astigmatism, which means the ReLex® SMILE treatment can now be offered to additional customer groups in fiscal year 2018/19 and beyond. The acquisition of U.S. Company IamTECH, Inc. in October 2018 also broadened the technology base for cataract surgery and further enhanced the range of consumables.

Demand continued to develop positively for intraocular lenses, both in the standard and in the premium segment. In particular the multifocal lenses AT LISA® tri and AT LISA® tri toric are very popular.

Customer solutions in Microsurgery

In Microsurgery, the Carl Zeiss Meditec Group offers innovative solutions, such as state-of-the-art surgical microscopes for neurosurgery, ear, nose and throat (ENT) surgery, plastic and reconstructive (P&R) surgery, as well as spinal and dental surgery.

During the past fiscal year and at the beginning of the current fiscal year, significant innovations were launched on the market. The KINEVO® 900, which was first unveiled in 2017, enjoyed a steady increase in demand over the past fiscal year. This is a robotic visualization system for use in neurosurgery. The device includes innovative technology that avoids the need for frequent manual repositioning and significantly broadens the surgeon's line of sight. Digital visualization means the doctor avoids having to adopt an uncomfortable working posture during surgery. The digital, high-resolution image can be transmitted to assistant doctors, OR staff and doctors in training for learning and training purposes.

EXTARO® 300, a dental microscope that combines optical magnification with a fluorescence-based technology for identifying tooth decay, also made an encouraging contribution to growth in fiscal year 2017/18. This system, which was launched in October 2017, simplifies the tooth restoration process considerably. In October 2018, the EXTARO® 300 was also presented for use in ENT surgery. An innovative robotic visualization technology – the TIVATO® 700 – was launched toward the end of the fiscal year under review in the field of spinal surgery. The product was developed with the input of experts from all over the world, to better meet their needs and requirements. Workflow-optimizing visualization makes it possible to assess vessel patency using fluorescence options. In addition, both surgeons and assistant physicians, OR staff and doctors in training can benefit from the outstanding image quality and can follow the procedure. Another advantage of the TIVATO® 700 is its range: an extended working distance makes it easier to use long instruments. The system also offers greater flexibility, due to excellent headroom. Potential applications of the TIVATO® 700 in ENT surgery were presented at the AAO-HNSF trade fair in October 2018.

Customer solutions in growth markets

Product requirements in established markets are often very different to the requirements in rapidly developing economies such as India or China. Therefore, the Carl Zeiss Meditec Group has a market-specific product range. Given the particularly high numbers of patients, ease of use and versatility of the devices and systems, as well as cost, play a crucial role. Determining customer needs requires a strong on-site presence. The presence of the ZEISS-run Center of Application and Research in India (CARIn) means that targeted investments are being made in research and development projects in the immediate vicinity of our customers.

Brands and patents

The Company invests in innovations and solutions and protects its innovative edge with patents. The Carl Zeiss Meditec Group currently owns more than 850 patent families worldwide. An average of two patents a week were granted for the Carl Zeiss Meditec Group in fiscal year 2017/18. Although the protection for a patent

varies from country to country, the Company still strives to protect products in the various markets as comprehensively as possible with patents. As a number of products have already been on the market for some time, patent protection does not always extend to the basic functionality of these products, but also to specific features and enhancements that protect beneficial solutions. As a result, the Group is able to successfully and permanently maintain its position in the market.

The Company also has more than 530 registered trademarks and trademark applications (as of 30 September 2018). These include, among others, product names, slogans, images, logos and other specific characteristics of the Company.

ANNUAL FINANCIAL STATEMENTS OF CARL ZEISS MEDITEC AG

Carl Zeiss Meditec AG is the parent company of the Carl Zeiss Meditec Group. Its results are influenced to a large extent by its subsidiaries. The development of its business is generally subject to the same opportunities and risks as those relevant for the Carl Zeiss Meditec ZEISS Group. The outlook for the Group also largely mirrors the expectations for Carl Zeiss Meditec AG, due to the links between Carl Zeiss Meditec AG and its subsidiaries and due to the importance of Carl Zeiss Meditec AG within the Group. The foregoing explanations for the Carl Zeiss Meditec Group therefore also apply for Carl Zeiss Meditec AG.

Carl Zeiss Meditec AG's ultimate goal is to secure the Company's long-term and successful development and to ensure the necessary liquidity. A key benchmark for this is the management of profitable growth at Group level.

Preparation of the financial statements

Contrary to the consolidated financial statements, which are prepared in accordance with the International Financial Reporting Standards (IFRSs), the following annual financial statements of Carl Zeiss Meditec AG have been prepared in accordance with the German Commercial Code (Handelsgesetzbuch, HGB).

Summary of business development

Carl Zeiss Meditec AG has brought fiscal year 2017/18 to a successful close, thus continuing its growth trend of the previous fiscal years.

Sales increased by 4.2% year-on-year (adjusted for currency effects: 8.4%). The increase in currency-adjusted sales is therefore slightly higher than the forecast for market growth in the low to mid-single-digit percentage range. The EBIT margin increased from 15.6% in the prior year, to 17.8%.

Income statement according to HGB

	Appendix	2017/18		2016/17		Change
		€k	€k	€k	€k	in %
Revenue	(21)		798,538		766,162	4.2%
Cost of sales			(374,488)		(368,701)	1.6%
Gross profit on sales			424,050		397,461	6.7%
Sales and marketing expenses			(125,936)		(118,620)	6.2%
General and administrative expenses			(34,379)		(34,657)	-0.8%
R&D costs		(129,618)		(120,603)		
minus subsidies received		10	(129,608)	-	(120,603)	7.5%
Other operating income	(24)		50,135		43,504	15.2%
Other operating expenses	(25)		(42,053)		(46,336)	-9.2%
Income from investments	(26)		5,778		27,335	-78.9%
thereof from affiliated companies			5,778		27,335	-78.9%
Income from profit transfer	(27)		4,432		5,888	-24.7%
Income from investments and long-term loans			1,400		2,388	-41.4%
thereof from affiliated companies			1,400		2,388	-41.4%
Other interest and similar income			1,275		751	69.8%
thereof from affiliated companies			1,252		702	78.3%
Interest and similar expenses	(29)		(11,403)		(3,278)	247.9%
thereof from affiliated companies			-		-	
Earnings before income taxes			143,691		153,833	-6.6%
Income taxes	(30)		(46,484)		(43,060)	8.0%
Profit after tax			97,207		110,773	-12.2%
Other taxes	(31)		(280)		(306)	-8.5%
Net income for the year			96,927		110,467	-12.3%
Retained profits brought forward from prior year			188,466		115,564	63.1%
Dividend			(49,192)		(37,565)	31.0%
Net retained profits			236,201		188,466	25.3%

Results of operations

Sales increased by 4.2% compared with the prior year (€766.2m), to €798.5m. It should be noted that currency translations had an adverse effect on the increase in sales; adjusted for currency effects, sales would have increased by 8.4%. Sales include €3.9m in service revenue pursuant to Section 277 (1) HGB.

In fiscal year 2017/18, gross profit on sales increased from €397.5m to €424.1m. The corresponding margin increased to 53.1%, due to a more favorable product and regional mix (prior year: 51.9%).

Sales expenses in the fiscal year amounted to €125.9m; general and administrative expenses amount to €34.4m. Compared with sales, therefore, sales and general administrative expenses remained on the level of a year ago. Research and development costs of Carl Zeiss Meditec AG amounted to €129.6m in fiscal year 2017/18 (prior year: €120.6m). Detailed information on the Carl Zeiss Meditec Group's research and development activities can be found on pages 47 et seqq.

The increase in other operating income is primarily attributable to higher foreign currency gains and an increase in write-ups on receivables from affiliated companies, due to the partial repayment of a loan to the subsidiary Carl Zeiss Meditec Iberia S.A., which was written down in fiscal year 2015/16. Income from investments decreased significantly due to a substantially lower dividend payment from the subsidiary Carl Zeiss

Meditec Co. Ltd., Tokyo, Japan. The increase in interest and similar expenses within the financial result is mainly due to the interest expense on pensions.

Earnings before income taxes were thus significantly lower, at €143.7m, compared with the prior-year figure of €153.8m. Net income for the fiscal year under review amounted to €96.9m (prior year: €110.5m).

Balance sheet

	30 Sep 2018	30 Sep 2017	Change	
	€k	€k	in €k	in %
ASSETS				
A. Fixed assets	495,602	496,526	(924)	-0.2%
I. Intangible assets	115,849	131,245	(15,396)	-11.7%
II. Property, plant and equipment	20,183	19,067	1,116	5.9%
III. Financial assets	359,570	346,214	13,356	3.9%
B. Current assets	940,319	864,715	75,604	8.7%
I. Inventories	126,050	115,134	10,916	9.5%
II. Receivables and other assets	814,198	749,512	64,686	8.6%
III. Cash-in-hand and bank balances	71	69	2	2.9%
C. Deferred income	835	808	27	3.3%
D. Asset-side difference arising from asset offsetting	9,996	18,627	(8,631)	-46.3%
Total assets	1,446,752	1,380,676	66,076	4.8%
EQUITY AND LIABILITIES				
A. Equity	1,283,524	1,235,789	47,735	3.9%
I. Share capital	89,441	89,441	-	0.0%
II. Capital reserve	954,942	954,942	-	0.0%
III. Retained earnings	2,940	2,940	-	0.0%
IV. Net retained profits	236,201	188,466	47,735	25.3%
B. Special reserve for investment subsidies	16	48	(32)	-66.7%
C. Provisions	63,324	47,529	15,795	33.2%
D. Liabilities	97,850	95,164	2,686	2.8%
E. Deferred income	2,038	2,146	(108)	-5.0%
F. Deferred tax liabilities	-	-	-	-
Total liabilities	1,446,752	1,380,676	66,076	4.8%

Net assets and results of operations

Pursuant to German commercial law (HGB), the total assets of Carl Zeiss Meditec AG amounted to €1,446.8m as of 30 September 2018. This corresponds to an increase of 4.8% compared with the prior year (€1,380.7m).

Inventories increased from €115.1m in the prior year, to €126.1m, due in particular to the increase in the inventory of existing products to ensure delivery capacity and stockpiling for new products. The increase in receivables and other assets is mainly due to an increase in short-term loans to affiliated companies and trade receivables from affiliated companies.

Cash and cash equivalents consist exclusively of bank balances. Term deposits are lodged with the treasury of the ZEISS Group and are recognized as receivables from affiliated companies.

Net retained profits increased by the net income for the fiscal year of €96.9m, less the dividend paid of €49.2m.

Provisions increased compared with the prior year, to €63.3m (prior year: €47.5m). This is mainly due to higher tax provisions and other provisions, particularly for foreign exchange transactions carried as liabilities, and for outstanding invoices. Further information can be found in the notes to the annual financial statements of Carl Zeiss Meditec AG in the section entitled "Provisions".

The debt ratio (ratio of borrowed capital to equity) increased to 12.6% as of 30 September 2018 (30 September 2017: 11.5%).

Cash inflows generated from operating activities provide an important source of financing for Carl Zeiss Meditec AG. The Company can also create additional liquidity by issuing new shares on the capital market. Furthermore, the Company has the option to assume loans, either from the treasury of Carl Zeiss AG or from banks. As Carl Zeiss Meditec has enough cash funds at its disposal to finance its operating and strategic objectives, changes in interest rates and credit conditions are not currently having any material effect on the Company's financial position.

The Carl Zeiss Meditec AG's net assets and financial position remained stable. This is also contributing toward the achievement of the Company's objectives, which are focused on sustainable growth.

Employees

As of 30 September 2018, Carl Zeiss Meditec AG had 1,320 employees. This number does not include Management Board members.

Appropriation of profits

Fiscal year 2017/18 closes with net income for the year of €96,927,377.34. The Management Board proposes utilizing the net retained profits of €236,200,976.74 for fiscal year 2017/18 as follows:

- » Payment of a dividend of €0.55 per no-par value share for 89,440,570 no-par-value shares:
€49,192,313.50.
- » Carryforward of residual profit to new account: €187,008,663.24.

Declaration on corporate governance (pursuant to Section 289f HGB, 315d HGB) and corporate governance report

The declaration on corporate governance (pursuant to Section 289f HGB and 315d HGB) includes the declaration of conformity pursuant to Section 161 AktG, relevant information on corporate governance practices applied which go beyond the statutory requirements, in addition to information of where these are publicly accessible and a description of how the Management and Supervisory Boards work, as well as the composition and mode of working of their committees. You will find this information on our website at www.zeiss.com/meditec-ag/investor-relations/corporate-governance.html.

The sustainability management system of the Carl Zeiss Meditec Group is integrated in the sustainability strategy of the ZEISS Group.

Carl Zeiss Meditec AG therefore makes use of the option, pursuant to Section 289b (2) HGB and Section 315b (2) HGB, to exempt itself from issuing a non-financial statement and the non-financial consolidated statement, and refers to the separate summary non-financial report of the parent company, Carl Zeiss AG,

into which Carl Zeiss Meditec AG has been incorporated. This separate, non-financial report, which applies for the entire ZEISS Group shall be available for inspection, in German and English, from 31 January 2019 at www.zeiss.com/responsibility.

The ZEISS Group provides information on its further progress in the area of sustainability based on the reporting standard of the Global Reporting Initiative (GRI) and on the pages on sustainability online at www.zeiss.com/responsibility.

REMUNERATION REPORT

Remuneration of the Management Board

The members of the Management Board are remunerated based on Section 87 German Stock Corporation Act (Aktengesetz). According to this, the Supervisory Board determines the remuneration, which comprises fixed and variable components, and payments in kind. The Supervisory Board's General Committee proposes the amount and structure of the remuneration to be paid to the Management Board, and these are then approved by the Supervisory Board as a whole. The appropriateness of the Management Board remuneration is based on the duties and the personal contribution of the individual members of the Management Board, as well as the Company's overall financial position and market environment.

At its meeting on 7 December 2017, the Supervisory Board also addressed the achievement of objectives by the Management Board members for fiscal year 2016/17, and stipulated the relevant variable remunerations. This meeting also reviewed the remuneration of the members of the Management Board, based on the salary situation compared with the market, general price and salary trends, as well as past and expected future performances, and found it to be appropriate, taking the remuneration adjustments resolved in previous years into account.

Following the departure of Dr. Christian Müller from the Management Board of Carl Zeiss Meditec AG on 30 September 2018, the Supervisory Board of Carl Zeiss Meditec AG appointed Justus Felix Wehmer as the new Chief Financial Officer, effective 1 October 2018. The Management Board of Carl Zeiss Meditec AG was expanded at the same time, from two to three members, with the appointment of Jan Willem de Cler, also effective from 1 October 2018.

Structure and amount of remuneration paid to the Management Board

The remuneration paid to the Management Board of Carl Zeiss Meditec AG consists of a fixed and a variable portion. The variable portion is split into two components: the first component is contingent upon the achievement of certain targets for the respective current fiscal year and the second bears a long-term incentive effect.

The **fixed portion** of the remuneration paid to the Management Board is not contingent upon the achievement of certain targets. It is paid monthly.

The **variable portion of the remuneration**, which relates to targets set for the respective fiscal year, is contingent upon the achievement of certain quantitative targets. The main quantitative targets are Economic Value Added® (EVA®) and free cash flow. This portion of the remuneration is paid after the end of the respective fiscal year. The amount is contingent upon the degree of target fulfillment.

In addition to the two components of Management Board remuneration described above, there is also a so-called Long Term Incentive Program (LTI), which was redesigned and published in 2011.

This program offers a remuneration component with a long-term incentive, which allows the members of the Management Board to earn an additional annual income after a three-year period. This amounts to 50% of the individual short-term variable remuneration for the fiscal year that precedes the beginning of the term of an LTI tranche, plus interest. This is based on the ZEISS Group's profit-participation certificate model. A precondition for payment of this remuneration is that the members of the Management Board have not handed in their notice at the end of the applicable three-year period per tranche, and the equity ratio of the ZEISS Group is higher than 20% at this point. The first payment was made in December 2014. The next payment is forecast for December 2018.

Contrary to the general LTI regulation, a different regulation applies for the Chairman of the Management Board with respect to the long-term variable remuneration. Pursuant to this regulation, it shall be possible, after a three-year period, for Dr. Monz to attain an additional annual income amounting to no more than a basic salary, depending on the achievement of certain financial and personal objectives at the end of this three-year period.

Itemized breakdown of the remuneration paid to the members of the Management Board of Carl Zeiss Meditec AG in €k

	Fiscal year	Management Board remuneration					Total remuneration pursuant to Section 314 (1) No. 6a) HGB
		Fixed remuneration	Remuneration in kind and other remuneration ²²	Variable remuneration ²³	Total remuneration paid directly	LTIP	
Dr. Ludwin Monz	2017/18	400.0	16.3	303.3	719.6	264.6	984.2
	2016/17	375.0	16.3	387.5	778.8	305.0	1,083.8
Dr. Christian Müller	2017/18	372.0	19.5	419.5	811.0	80.3	891.3
	2016/17	324.0	18.5	235.2	577.7	130.0	707.7

Directors & Officers (D&O) liability insurance has been taken out for the members of the Management Board of Carl Zeiss Meditec AG, which provides for an excess that is also specified in the Management Board contracts. This complies with the excess that has been prescribed by the German Stock Corporation Act (AktG) since 5 August 2009 of at least 10% of the damages up to at least one-and-a-half times the fixed annual remuneration.

Pension scheme for members of the Management Board

The appropriation to the pension provisions or pension funds should be stated annually with respect to the retirement benefit commitments for the members of the Management Board. The expenses relating to pension commitments attributable to the individual members of the Management Board – or, in the case of Dr. Monz, the proportionate oncharged service cost – are presented in the following overview.

²² Remuneration in kind and other remuneration include e.g. non-cash benefits like the provision of a company car and the reimbursement of employer contributions to the statutory pension and unemployment insurance schemes, as well as contributions to group accident insurance.

²³ Variable remuneration corresponds to the amounts paid in the respective fiscal year.

Itemized breakdown of the pension commitments to the members of the Management Board of Carl Zeiss Meditec AG in €k

	Fiscal year	Current service cost	Present value of pension commitment, total
Dr. Ludwin Monz ²⁴	2017/18	318.4	-
	2016/17	277.1	-
Dr. Christian Müller	2017/18	46.3	717.0
	2016/17	42.6	639.2

In connection with the appointment of Dr. Monz as a member of the Group Management Board of Carl Zeiss AG, effective 1 January 2014, Carl Zeiss AG became responsible for the pension commitment to Dr. Monz, both for the past and for the future. The pension provision previously set up at Carl Zeiss Meditec AG has accordingly been transferred to Carl Zeiss AG. The proportionate service cost arising from the annual appropriation to the pension provision for Dr. Monz's function as President and CEO of Carl Zeiss Meditec AG shall be passed on to Carl Zeiss Meditec AG, effective from 1 January 2014.

Projected unit credits for pensions for other former members of the Management Board of Carl Zeiss Meditec AG amounted to €1,167.4k (prior year: €1,139.8k).

Value of benefits granted for fiscal year 2017/18 and allocation amount

The value of the benefits granted for the fiscal year under review, including single-year and multi-year variable components of remuneration, shall continue to be presented and compared with the actual allocation amount. The minimum compensation for the reporting year, as well as the maximum attainable remuneration shall also be stated.

Value of benefits granted and tendered for the fiscal year Dr. Ludwin Monz
Dr. Ludwin Monz

President and CEO

Member of the Management Board since 8 October 2007

			Minimum achievable value	Maximum achievable value
	2017/18	2016/17	2017/18	2017/18
Value of benefits granted	€k	€k	€k	€k
1. Fixed remuneration	400.0	375.0	400.0	400.0
2. Fringe benefits	16.3	16.3	16.3	16.3
3. Total	416.3	391.3	416.3	416.3
4. Single-year variable compensation (VCS)	303.3	292.5	-	585.0
5. Multi-year variable compensation (LTI)	803.7	860.1	-	1,450.2
2016/17	-	305.0	-	-
2017/18	264.6	203.5	-	372.1
2018/19	168.8	168.8	-	337.5
2019/20	182.8	182.8	-	365.6
2020/21	187.5	-	-	375.0
6. Pension cost	318.4	277.1	318.4	318.4

²⁴ Proportionate oncharged service cost of the pension commitment to Dr. Monz

Allocation amount in fiscal year Dr. Ludwin Monz**Dr. Ludwin Monz**

President and CEO

Member of the Management Board since 8 October 2007

	2017/18	2016/17
Allocation amount for the fiscal year	€k	€k
1. Fixed remuneration	400.0	375.0
2. Fringe benefits	16.3	16.3
3. Total	416.3	391.3
4. Single-year variable compensation (VCS)	303.3	387.5
5. Multi-year variable compensation (LTI)	264.6	305.0
6. Total	984.2	1,083.8
7. Pension cost	318.4	277.1
8. Total remuneration	1,302.6	1,360.9

Value of benefits granted and tendered for the fiscal year Dr. Christian Müller**Dr. Christian Müller**

CFO

Member of the Management Board since 15 December 2009

			Minimum achievable value	Maximum achievable value
	2017/18	2016/17	2017/18	2017/18
Value of benefits granted	€k	€k	€k	€k
1. Fixed remuneration	372.0	324.0	372.0	372.0
2. Fringe benefits	19.5	18.5	19.5	19.5
3. Total	391.5	342.5	391.5	391.5
4. Single-year variable compensation (VCS)	240.0	216.0	-	720.0
5. Multi-year variable compensation (LTI)	488.9	428.6	-	654.7
2016/17	-	130.0	-	-
2017/18	80.3	76.6	-	94.3
2018/19	121.8	104.4	-	139.2
2019/20	141.1	117.6	-	188.2
2020/21	145.7	-	-	233.0
6. Pension cost	46.3	42.6	46.3	46.3

Allocation amount in fiscal year Dr. Christian Müller**Dr. Christian Müller**

CFO

Member of the Management Board since 15 December 2009

	2017/18	2016/17
Allocation amount for the fiscal year	€k	€k
1. Fixed remuneration	372.0	324.0
2. Fringe benefits	19.5	18.5
3. Total	391.5	342.5
4. Single-year variable compensation (VCS)	419.5	235.2
5. Multi-year variable compensation (LTI)	80.3	130.0
6. Total	891.3	707.7
7. Pension cost	46.3	42.6
8. Total remuneration	937.6	750.3

Departure of members of the Management Board

In the event of premature termination of the employment relationship, the contracts for members of the Management Board do not contain any explicit promise of a severance payment. A severance payment may, however, ensue from a severance agreement concluded on an individual basis.

The departure of Dr. Christian Müller from the Management Board on 30 September 2018 was not associated with any severance payments.

Remuneration of the Supervisory Board

The remuneration of the Supervisory Board is composed of a fixed basic remuneration and remuneration for work on the committees. The basic remuneration for each member of the Supervisory Board amounts to €30k. The Chairman of the Supervisory Board shall receive double this amount; the Deputy Chairman and the Chairman of the Audit Committee shall receive one-and-a-half times this amount. With the exception of the members of the Nominating Committee and the Chairman and Deputy Chairman of the General Committee, members of committees receive an additional, fixed remuneration of €5,000.

The following overview provides an itemized breakdown of the total remuneration paid to each Supervisory Board member:

Itemized breakdown of remuneration paid to the Supervisory Board of Carl Zeiss Meditec AG pursuant to Art. 19 of the Articles of Association of Carl Zeiss Meditec AG (figures in €k)

	Fiscal year	Basic remuneration	Committees	Total remuneration
Prof. Dr. Michael Kaschke (Chairman)	2017/18	60.0	-	60.0
	2016/17	60.0	-	60.0
Dr. Carla Kriwet (Deputy Chairwoman) (until 31 Dec 2017)	2017/18	11.3	-	11.3
	2016/17	45.0	-	45.0
Tania von der Goltz (Deputy Chairwoman) (since 10 April 2018)	2017/18	21.5	-	21.5
	2016/17	-	-	-
Dr. Markus Guthoff	2017/18	45.0	5.0	50.0
	2016/17	45.0	5.0	50.0
Thomas Spitzenpfel ²⁵ (Deputy Chairman) (from 22 Jan 2018 to 10 Apr 2018)	2017/18	33.2	5.0	38.2
	2016/17	30.0	5.0	35.0
Cornelia Grandy	2017/18	30.0	-	30.0
	2016/17	30.0	-	30.0
Jörg Heinrich	2017/18	30.0	5.0	35.0
	2016/17	30.0	5.0	35.0

The Company did not pay members of the Supervisory Board any additional remunerations or benefits for personally rendered services (in particular consultancy and agency services) in fiscal year 2017/18.

Directors & Officers (D&O) liability insurance has been taken out for the members of the Supervisory Board of Carl Zeiss Meditec AG, which provides for an excess that is also specified in the Company's Articles of Association. This corresponds to at least 10% of the damages up to at least one-and-a-half times the fixed annual remuneration.

²⁵ Mr. Thomas Spitzenpfel waived his entitlement to remuneration for fiscal year 2017/18 by way of a waiver declaration as in the prior year.

OPPORTUNITY AND RISK REPORT

Groups with global operations face a large number of entrepreneurial risks and opportunities that can have a sustained impact on business success. The assessment of opportunities and risks and conscientious handling of entrepreneurial uncertainty are an important part of corporate governance at Carl Zeiss Meditec.

Risk management

The central risk management system of the Carl Zeiss Meditec Group stipulates uniform regulations and processes for the early detection, assessment and management of risks. In the subsidiaries and on Group level, risk management coordinators are responsible for applying the policies and procedures. The management of the subsidiaries detects and manages operating and strategic risks. Overall responsibility lies with the Management Board, which regularly assesses risks and their management at Group level together with the Group Risk Manager. The Management Board and Supervisory Board review the appropriateness and monitoring of the risk management system.

Risk management is an integral part of corporate governance within the Carl Zeiss Meditec Group, and is based on the following two key components: a **risk reporting system** and an **internal control system**.

Risk reporting system

This is a clearly structured, traceable feedback loop which encompasses all of the Company's activities, is integrated in its organizational structure and its control and reporting processes, and comprises a systematic and ongoing process for the identification, assessment, management/control, as well as the documentation and communication of any risks. Any relevant information can therefore be immediately passed on to the responsible decision makers. The main features of this system are as follows:

- » The risk management system exclusively records risks. It integrates all fully consolidated subsidiaries.
- » The business risks are assessed and categorized according to their potential implications over the period of their existence, and according to their probability of occurrence and damage potential. The period of assessment is a maximum of five years.
- » Regular risk reports are provided to the Management Board, the management of the subsidiaries and other decision-makers within the Company on the basis of specified thresholds. Significant risks arising at very short notice are reported to this responsible group immediately.
- » On this basis, appropriate steps are taken and evaluated to avoid identified risks or reduce the probability of their occurrence, and to minimize the potential financial losses. The measures to reduce risks, the early warning indicators and the residual risks derived from these are regularly updated and documented.

Internal control system

The internal control system of the Carl Zeiss Meditec Group is based on the COSO Enterprise Risk Management Model (COSO ERM model). The Group's integrated enterprise risk management system covers strategic and operational risks, i.e., risk assessment goes beyond mere financial risks. For central processes, there are key risks and defined control mechanisms, which are regularly evaluated with regard to their effectiveness. The Group's Management Board ensures that an adequate and effective internal control system is in place and that it is continuously enhanced. The Supervisory Board's Audit Committee monitors the effectiveness of internal auditing, risk management and the internal control system, as well as the financial reporting process. The accounting-related part of the internal control system is a system structured within the sphere of responsibility of and under the supervision of the CFO, which ensures that the preparation of the consolidated annual financial statements is in line with the International Financial Reporting Standards (IFRSs), and that external financial reporting is reliable.

Significant risks

The Carl Zeiss Meditec Group analyzes and assesses risks systematically. Special emphasis is placed on potential economic effects and on probability of occurrence. In this way, the risks are quantified and classified. Due to the broad portfolio and the Group's global presence, the strategic and operational risks are widely spread.

Quantitative data is based on a net perspective after application of measures, and relates to the risk assessment period.

Innovation risks

The business success and reputation of the Group are heavily dependent on the rapid development of innovative products and solutions. New trends and current scientific and research findings can trigger technology shifts and new customer requirements, and make new business models necessary. Should the Group lose touch with technological developments on the market, react too late to trends or technological advancements, this could weaken its competitive position. There is also a risk of the Group's products being completely superseded by alternative technologies, procedures or treatment methods, thus reducing demand for certain products, which could result in losses in sales and earnings. The potential impact these risks could have on earnings equates to an amount in the mid-single digit million euro range.

In order to exploit opportunities in this area early and keep the probability of occurrence and the economic impact of this risk low in all segments, the Group invests heavily in research and development and upstream areas of products with a technological edge and unique selling points.

Personnel risks

Demographic change and the shortage of skilled staff for technical jobs as well as the differing training and qualifications standards around the globe are creating new challenges when it comes to filling job vacancies. Unfilled positions could limit the technological advancement and sale of the products and services it offers in all segments. The Group is countering this with a global recruitment strategy and active employee development and successor planning, thus keeping the probability of occurrence low. In order to retain skilled employees in the long term, the Group offers various employee benefits depending on the location – these include, for example, offers for health promotion or child care. At the current time, the management does not expect these risks to have any material effects on the Group's net assets, financial position or results of operations.

Risks in procurement and production

ZEISS ensures conformity with national and international standards, guidelines and statutory provisions by means of an integrated management system that addresses the issues of quality, the environment, and occupational health and safety.

To a very large extent Carl Zeiss Meditec Group uses components from external suppliers to manufacture its products in all business segments. The increase in the prices of commodities, energy and materials, the growing complexity of purchased parts and the limited number of suppliers (single source) for certain technologies could have negative implications for the production, sale and quality of the Company's products. The Group continues to work on stabilizing supply chains and reducing the dependence on individual suppliers in order to minimize the associated economic impact, among other things. The Company systematically leverages opportunities that arise from bundling procurement activities. Furthermore, the Carl Zeiss Meditec Group selects its suppliers carefully. By implementing consistent supply chain measures, such as qualifying its suppliers, identifying secondary suppliers and preparing a strategic inventory plan, the Carl Zeiss Meditec Group protects itself as best it can against supplier dependencies and changes on the commodities market.

The Carl Zeiss Meditec Group and the ZEISS Group have close contractual relationships in some areas. This relates in particular to the procurement of information technology (IT) services, the licensed use of the "ZEISS" brand and agreements with distribution companies of the ZEISS Group. This distribution network provides major opportunities, which are rooted particularly in the close-meshed coverage worldwide, a high level of professional distribution expertise, and an efficient market development approach.

The potential effect of supplier risks on earnings is in the higher single-digit million euro range.

Risks of information technology

The Carl Zeiss Meditec Group continuously reviews and exploits the opportunities of digitalization. This creates many new possibilities to offer customers additional services. At the same time, the Group constantly updates its existing IT systems, as well as its IT protection and security systems. Functioning and adequately documented IT systems are also a prerequisite for obtaining product approvals in certain countries. Risks that, in the event of damage, could result in an interruption of business processes due to IT system failures or the loss or falsification of data, are therefore identified and evaluated across the entire life cycle of the applications and IT systems. Measures were taken in this area in particular during the fiscal year under review, to prevent damage from cyber attacks and virus attacks to the IT infrastructure and medical devices at the customer. Some of the Group's IT systems are operated by external partners. The Group has defined high standards for these service providers with regard to the hardware and software used, as well as data security. The Group continuously monitors the implementation of and compliance with these standards. The management does not expect this to have any material effects on the Group's net assets, financial position or results of operations.

Risks from acquisitions

Acquisitions or investments offer the Carl Zeiss Meditec Group the opportunity to expand its portfolio of expertise and technology, or to increase its access to regional markets. Acquisitions bear the entrepreneurial risk of the acquired company not performing as well economically as expected in the market, or of the sales and earnings targets being pursued with its acquisition not being reached, or of intended synergy effects with the Carl Zeiss Meditec Group not being achievable. The Group systematically reviews the associated risks and opportunities. A key element prior to execution of a transaction is a standardized process for mergers & acquisitions, including a due diligence review to assess the business development that can be expected. The economic impact and probability of occurrence are therefore small.

Goodwill totaling €185.6m from acquisitions is shown in the consolidated statement of financial position. This goodwill is tested annually for impairment in accordance with IAS 36. A total of €184.4m of this goodwill is attributable to the Ophthalmic Devices SBU, and €1.2m to the Microsurgery SBU. The impairment tests carried out during the fiscal year under review did not give any indication of impairment of the goodwill-bearing cash-generating units (CGUs). Based on the development of business, the Group also anticipates positive results from subsequent tests. Due to changes in general economic conditions or changes in business models, impairment losses cannot be ruled out on goodwill recognized for individual or all companies acquired in the past.

Legal risks, patents and intellectual property

The Company's competitiveness depends on the protection of its technological innovations against exploitation by third parties. Violations of intellectual property and patent protection may compromise the Company's technological lead and thus its competitive advantage in all business segments. The expiry of property rights,

particularly patents, as well as the geographical limitation of property rights could result in new or existing competitors exploiting the inventions of the Carl Zeiss Meditec Group to enter the market or strengthen their market position. Furthermore, in spite of the measures taken, third parties may still attempt to copy or partly copy products of the Group, since the unauthorized use of intellectual property is generally difficult to monitor and copyright laws only provide for limited protection.

The Group safeguards its technologies and products with a comprehensive industrial property rights strategy. If ZEISS patent and brand rights are infringed by third parties, the Group takes legal steps to counter the associated high financial risk. Such cases tend to be rare. However, in light of the Company's high level of innovation, there is a certain probability of infringements occurring in future. When developing new products and technologies, the Group systematically checks whether the rights of a third party could be affected, develops non-protected solutions, if necessary, and acquires the requisite licenses and rights, or seeks other solutions by legal contract. Overall, the management does not expect risks in the area of patents and intellectual property to have any material effects on the Group's net assets, financial position or results of operations.

Legal risks may arise due, among other things, to changes in general legal conditions in the relevant markets and to legal disputes with competitors, business associates or customers. There is no pending litigation that poses any risk to the continued existence of the Group at present. Should it be necessary, adequate provisions will be set up as a precaution. Further details on litigation and arbitration proceedings involving the Carl Zeiss Meditec Group can be found in note "(30) Contingent liabilities and other financial commitments" in the accompanying notes to the consolidated financial statements.

As a listed medical technology company with global activities, the Carl Zeiss Meditec Group is subject, in the countries in which the Group operates, to a large number of laws, regulations and guidelines. In order to ensure compliance with these regulations, these are regularly analyzed for any changes and internal processes and guidelines are adjusted, if necessary. The Group has set out the basic principles of correct conduct in business activities in a Code of Conduct, which applies to all employees. In order to avoid breaches of compliance and minimize risks to the Group's reputation, the Group has established a corporate-wide compliance organization. Regular training measures are also in place to familiarize the employees with internal guidelines and make them aware of the negative effects breaches could have. The management does not expect this to have any material effects on the Group's net assets, financial position or results of operations.

Financial risks

As a result of the European debt crisis, there is a latent credit risk concerning business banks at which the Carl Zeiss Meditec Group holds deposits. However, the Group has taken various measures to mitigate risks. For example, it has introduced a monitoring procedure to monitor the current situation in the capital markets. The Company has categorized its financial risks as moderate. The basis for this categorization is the sound financing structure with an equity ratio of 79.1%, the large reserve of cash and cash equivalents, and a strong cash flow from operating activities. Cash and cash equivalents at the Carl Zeiss Meditec Group are kept in reserve based on a rolling monthly cash forecast within a fixed planning period, and are managed as part of a Group-wide ZEISS cash pool.

The financial risks also include liquidity risks, price fluctuation risks for financial instruments and risks associated with fluctuations in cash flows. These risks and their management are adequately described in note "(36) Financial risk management" in the accompanying notes to the consolidated financial statements.

Economic environment

As a company with global operations, the Carl Zeiss Meditec Group is particularly exposed to developments that pose a risk to the global economy. Therefore, the general global political situation, major natural disasters, macroeconomic development and market trends in individual regions of the world may have diverse effects on the Carl Zeiss Meditec Group's chances of success in all business segments.

In particular the underlying conditions in the global economy have become more volatile over the past few years, which has heightened economic risks overall. Economic development may be severely dampened by the worsening euro crisis and reduced stability of the EU, a potentially hard Brexit, as well as an economic slowdown in China. Furthermore, an increasingly protectionist economic policy is being observed in key markets in which the Group operates, such as the USA and China, the future structure of which is difficult to predict. Escalating trade tensions between China and the USA may have effects on global growth. There are also local risks and instabilities in emerging markets, such as Turkey or in South America, which may cause global chain reactions.

This trend in the overall economic situation may have an adverse effect on the economic situation of our customers and their demand for Carl Zeiss Meditec's products, which may have an adverse effect on sales and earnings. The early warning system for risks established by the company enables these risks to be recognized in good time and countermeasures initiated. In addition, the Group's international presence means it is less affected by regional crises, and the highly differentiated product and customer structure of the Company limits its sales risks. According to current estimates, there are risks in the lower double-digit million euro range in the macroeconomic environment.

Market and competition

The Carl Zeiss Meditec Group is exposed to intense competitive pressure in both segments. Besides the market entry of new competitors, there is also a risk, in the event of significant exchange rate fluctuations, of competitors from the beneficiary countries being able to offer their products at considerably lower prices in the market, and therefore improving their competitive position. Some competitors are better at dealing with competitive pressure, due to their higher total turnover and the financial resources they have at their disposal.

In addition, existing competitors may be bought up by large, financially strong companies, or form alliances with each other, which may lead to even greater competitive pressure, lower selling prices, margin pressure and/or the loss of market shares. The Company prepares itself for such risks by continuously observing and analyzing the market, in order to be able to react with the necessary foresight.

Health insurance funds, insurance companies or government health schemes reimburse the costs of certain medical treatments carried out using products of the Carl Zeiss Meditec Group. Changes in health care and reimbursement policy in Germany or abroad may lead to the denial or reduction of reimbursements, which could reduce the demand for Carl Zeiss Meditec products. In the case of new products for which reimbursement cannot yet be reliably predicted, demand may be severely dampened by the economic situation of consumers. Refractive surgery is generally an elective procedure, which patients pay for themselves. Demand therefore depends on general economic development. In addition, on the customer side, and particularly in the private healthcare sector, there is a noticeable increase in the formation of regional and national purchasing alliances, as well as clinic chains. Such a trend may lead to falling selling prices in this customer segment.

Collectively, these market and competition-related risks may impact the Group's earnings by an amount in the low to mid-double-digit million euro range. On the other hand, the demographic trend in industrialized countries and economic development in the RDEs, as well as the increasing requirements placed on medical devices for diagnosing and treating age-related eye diseases, present growth opportunities for the Company.

Product approval and political environment

As the Group sells its products worldwide, statutory regulations have to be taken into consideration when manufacturing and launching products in the market, especially where explicit regulatory approvals and certifications are required. Although these requirements are incorporated into all stages of development, production and distribution, there is no guarantee that such approvals will be granted at all or in time for the planned launch in the market, or that the Group's numerous registrations will still exist or be renewed in the future. This may lead to sales losses and, in the case of delayed product launches, to competitive disadvantages. Furthermore, registration requirements could become more stringent in future.

In order to be able to identify such developments in good time and respond appropriately, the Group monitors developments and approval procedures in this area very closely as part of its quality management system. This is especially the case right now with regard to the new EU medical devices directive, which entered into force in 2017. Any residual risks that remain lie within the mid to high-single-digit million euro range.

Certified quality management

A vital part of early risk detection is the Group's certified quality management system. Clearly structured and documented quality management processes ensure not only transparency, but are now a prerequisite in most markets for obtaining regulatory approval for medical devices. The quality assurance system employed by the Carl Zeiss Meditec Group was certified by DQS GmbH Deutsche Gesellschaft zur Zertifizierung von Managementsystemen and complies with the U.S. standard for Good Manufacturing Practice (GMP), 21 C.F.R. part 820, Quality System Regulation.

Product liability risk

There is a fundamental risk with some of the medical devices and system solutions and implants manufactured by the Company that, in spite of all reasonable measures being taken by the certified quality management system and compliance with all legal requirements, malfunctions may result in injury to or adverse effects for the patient. This may be due, among other things, to components and raw materials purchased from external suppliers not meeting the specified quality requirements.

Although no significant product liability claims have been made against the Company to date, no assurance can be given that Carl Zeiss Meditec will not be faced with such claims in the future. This may damage the Group's reputation in the long term and lead to considerable legal costs, irrespective of whether a claim for damages ultimately materializes. Risk liability claims can be particularly high, especially in the USA, not to mention the costly recall campaigns that may be required.

The Company covers itself against potential product liability claims by taking out product liability insurance. The possibility cannot be completely excluded that the Carl Zeiss Meditec Group's existing insurance coverage may not be sufficient to cover potential claims. There are no significant risks in this area at the current time.

Infrastructure risks

Uncontrollable environmental influences, such as natural disasters or terrorist attacks, may result in an interruption to business operations at the affected locations, and may prevent the Company from providing regular production, distribution and other services in these regions and generating the expected earnings. All business segments could be affected by this. In addition, it could have adverse effects on the Company's customers domiciled in the affected region and on their willingness to invest, as well as the local suppliers there and their willingness to supply.

The Group's headquarters, with major research and development departments and other key Group functions, are located in Germany, a region with a low risk of natural disasters. A second major production site is located in the greater San Francisco area in the USA, a region with an increased risk of earthquakes. In order to minimize potential damage, the Carl Zeiss Meditec Group has set up a crisis management system, and has also developed local and central plans for maintaining the functionality of critical business processes (business continuity plans). For this reason the Company does not expect any material adverse effects on its net assets, financial position or results of operations.

Risks relating to the Group accounting process

The main risks in the accounting process are that the financial statements may not provide a true and fair view of the net assets, financial position and results of operations as a result of unintentional errors or willful actions, or that there is a delay in publishing these. The accounting would not present a true and fair view of the Company in this case. Deviations are classified as significant if they could individually or collectively influence the economic decisions taken by the recipients of the financial statements based on the financial statements.

In the area of accounting and Group accounting, processes ensure the completeness and accuracy of the financial statements with regularly reviewed, integrated, preventive and detective controls. All of the Group's internal accounting and valuation guidelines are collated in an accounting manual, which is available via the Group's intranet to all of the relevant organizational units and all of the Company's employees, along with the Group-wide financial reporting calendar. In addition, supplementary procedures, standardized reporting formats, IT systems and IT-assisted reporting and consolidation processes support the process for uniform and proper consolidated accounting.

The operative, timely implementation of the systemic requirements is effected by the affected areas of Carl Zeiss Meditec AG and its subsidiaries. These are supported and monitored by Carl Zeiss Meditec's Finance department. The Group Finance department is responsible for consolidated reporting, including Group-wide financial and management information, forecasts, budgets and risk reporting. Acts of law, accounting standards and other pronouncements are continuously analyzed with regard to their relevance for and impact on the consolidated and annual financial statements.

Additional disclosures pursuant to Section 289 (2) No. 1 HGB, Section 315 (2) No. 1 HGB

In principle, price fluctuation risks cannot be ruled out. However, the Carl Zeiss Meditec Group counters these risks by focusing on product innovations and optimizing its production costs through cost-cutting and efficiency-enhancing measures. Potential risks of default on trade receivables – particularly given the euro and debt crisis and the generally greater risk of bad debt losses that comes with it – are minimized by means of an active credit control system. The Group also regularly sets up adequate provisions to cover such risks. On the whole, however, we consider this to be a limited risk. The ratio of value adjustments of trade receivables to consolidated revenue was 0.8% in the year under review (prior year: 0.9%).

The Carl Zeiss Meditec Group's financial situation can be considered sound. Cash and cash equivalents amounted to €6.7m as of the balance sheet date 30 September 2018. Added to this are credit balances recognized as receivables from the treasury of the ZEISS Group, in the amount of €665.0m. The Group also generated cash flows from operating activities of €187.2m in the year under review. From a current perspective there are therefore no significant liquidity risks.

All cash and cash equivalents, including the balances with the Group treasury of the ZEISS Group, are deposited at banks. Should it come to a loss of individual banks – due in particular to the euro and debt crisis – the balances held there may be endangered. The Carl Zeiss Meditec Group counters this risk by continuously monitoring the solvency of the banks with which it has a business relationship and by spreading its assets among several banks via the treasury of the ZEISS Group.

As a company with global operations, the Carl Zeiss Meditec Group is exposed to the effects of exchange rate fluctuations. In order to hedge against this currency risk, the Carl Zeiss Meditec Group concludes currency forward contracts based on planned transactions in foreign currency. These contracts generally span a period of up to one year. Based on current exchange rate fluctuations, currency effects may continue to impact the financial result depending on the extent of the fluctuations. The notes to the financial statements contain further details on forward exchange contracts.

Overall assessment of the Company's risk situation

At the time of preparation of this report, there were no discernible risks that could jeopardize the continued existence of the Carl Zeiss Meditec Group. There are no significant differences in the overall assessment compared with the prior year. The Management Board sees a solid foundation for further development of the Group and uses a systematic strategy and planning process to provide the necessary resources to exploit any opportunities that arise.

DISCLOSURES PURSUANT TO SECTION 289A AND 315A HGB

Carl Zeiss Meditec AG's subscribed capital amounts to € 89,440,570 and is composed of 89,440,570 no-par value ordinary bearer shares (no-par value shares), each with a theoretical interest in the share capital of €1 per no-par value share. Each share entitles the bearer to one voting right and an equal share in Company profits.

Other shares or shares with special rights that grant supervisory powers do not exist. Nor are there restrictions on the part of Carl Zeiss Meditec AG concerning the voting rights or transfer of shares. Furthermore, the Management Board is not aware of any other agreements concluded, for example, between individual shareholders.

Carl Zeiss Meditec AG is aware of the following direct and indirect holdings in the capital of Carl Zeiss Meditec AG that exceed ten percent of the voting rights. Carl Zeiss AG, Oberkochen, Germany, holds, both directly and indirectly, a total of 59.1% of the voting rights in Carl Zeiss Meditec AG. This corresponds to 52,893,270 no-par value shares. These include 6.8% of the voting rights or 6,074,256 no-par value shares in Carl Zeiss Meditec AG, which Carl Zeiss AG holds indirectly via its wholly owned subsidiary Carl Zeiss Inc., Thornwood, USA.

Employees of Carl Zeiss Meditec AG or its affiliated companies pursuant to Section 15 et seqq. AktG, who participated in the Company via employee share plans concerning the share capital of Carl Zeiss Meditec AG in prior years, exercise their control rights directly like all other shareholders of the Company.

Pursuant to Section 179 and Section 133 AktG, an amendment to the Articles of Association requires a resolution by the General Meeting which, in turn, requires a simple majority of the votes cast and a majority comprising at least three quarters of the share capital represented at the time the resolution is passed. The Articles of Association may specify a different capital majority; in the case of an amendment to the purpose of the Company, however, only a larger capital majority may be specified. Art. 25 of Carl Zeiss Meditec AG's Articles of Association states that in cases for which the law requires a majority of the share capital represented at the time of resolution, a simple majority of the share capital represented is sufficient, provided that a greater majority is not mandatory by law. Pursuant to Art. 28 of the Articles of Association of Carl Zeiss Meditec AG, the Supervisory Board is authorized to resolve amendments to the Articles of Association that only affect the version. This complies with Section 179 (1) Sentence 2 AktG.

The legal provisions concerning the appointment and dismissal of members of the Management Board are set forth in Section 84 and Section 85 AktG. In compliance with this, Art. 6 (2) of the Articles of Association of Carl Zeiss Meditec AG stipulates that the Supervisory Board shall be responsible for appointing and dismissing the members of the Management Board. Pursuant to statutory provisions, a member of the Management Board may only be dismissed for compelling reasons.

Pursuant to Art. 4 (5) of the Articles of Association of Carl Zeiss Meditec AG, the Company has an Authorized Capital. Accordingly, the Management Board is authorized, subject to the approval of the Supervisory Board, to increase the share capital, on one or several occasions in the period until 5 April 2021, by up to €40,654,805.00 (Authorized capital 2016). New no-par value bearer shares may be issued against cash and/or contributions in kind for this. The Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the statutory subscription right of shareholders in the following cases:

- » to balance out fractional amounts;
- » if the capital increase is effected against cash contributions and the new shares, for which statutory subscription rights are excluded, are equivalent to no more than 10% of the share capital, neither on the date the increase becomes effective, nor on the date this authorization is exercised, and the issuing price of the new shares is not significantly lower than the market price of shares of the same type and structure already publicly quoted. Sales of treasury shares on the basis of other authorizations pursuant to Section 186 (3) sentence 4 AktG must be taken into account in the restriction to 10% of the share capital;
- » for capital increases against contributions in kind to grant shares for the purpose of acquiring companies, parts thereof or interests in a company.

The existing authorized capital pursuant to Art. 4 (5) of the Articles of Association was utilized in March 2017 in the amount of €8,130,960.00, with the exclusion of shareholders' statutory subscription rights.

The Management Board is authorized, with the consent of the Supervisory Board, to specify the further details of capital increases from Authorized Capital.

The Management Board is authorized, with the consent of the Supervisory Board, to increase the share capital on one or several occasions up until 29 May 2022, by issuing new no-par value shares against cash and/or contributions in kind, up to a total value of €12,196,440.00 (Authorized Capital 2017). Shareholders shall be granted a subscription right, with the following restrictions. The Management Board shall be authorized, with the consent of the Supervisory Board, to exclude fractional amounts from the shareholders' subscription

right and also to exclude the subscription right to the extent necessary to grant the bearers of warrants and convertible bonds issued by Carl Zeiss Meditec AG or its subsidiaries a subscription right to new shares in the scope to which they would be entitled after exercising such warrant or convertible bond. The Management Board shall furthermore be authorized, with the consent of the Supervisory Board, to exclude the subscription right, in the case of a capital increase against cash contributions, for an amount of up to 10% of the share capital existing at the time the Authorized Capital 2017 enters into effect or – if lower – the share capital existing at the time of the resolution on the appropriation of the Authorized Capital 2017, if the issuing amount of the new shares is not significantly lower than the market price of the Company shares already listed at the date of final specification of the issue amount, which should occur as close as possible to the date of placement of the shares. This upper limit of 10% of the share capital shall take into account the pro rata amount of the share capital that is attributable to shares issued from Authorized Capital 2017 since granting of this authorization up until utilization of this authorization pursuant to Section 186 (3), sentence 4 AktG, with the exclusion of subscription rights, either on the basis of an authorization of the Management Board to exclude subscription rights in direct or analogous application of Section 186 (3), Sentence 4 AktG, or sold as acquired treasury shares in accordance with Section 186 (3), sentence 4 AktG, as well that pro rata amount of the share capital attributable to shares to which conversion and/or option rights or conversion obligations arising from bonds apply, which are issued up until utilization of this authorization, with the exclusion of subscription rights, pursuant to Section 186 (3), sentence 4 AktG. The Management Board shall also be authorized, with the consent of the Supervisory Board, to exclude the subscription right for a capital increase against contributions in kind to grant shares for the purpose of acquiring companies, parts of companies or investments in companies or other investable assets, including receivables. In addition, the Management Board shall be authorized to stipulate the further details of the capital increase and its implementation, with the consent of the Supervisory Board.

Pursuant to the resolution of the Annual General Meeting of Carl Zeiss Meditec AG on 18 March 2015, the Management Board is authorized to purchase treasury shares. This authorization is valid until 17 March, 2020. The shares may be purchased, with the consent of the Supervisory Board:

- » to offer them for purchase to employees of the Company and the companies affiliated with the Company within the meaning of Section 15 et seqq. German Stock Corporation Act (AktG) – noting that the right of shareholders to subscribe to treasury shares is excluded – or
- » to use them within the scope of mergers with companies or to purchase companies, parts of companies or shares in companies – noting that the right of shareholders to subscribe to treasury shares is also excluded in this case – or
- » to recall them.

This authorization is limited to the acquisition of shares equivalent to share capital of €8,130,000.00. The shares shall be purchased at the stock exchange. The consideration paid by the Company per share (excluding incidental purchase costs) may not be more than 10% above or below the closing rate of the shares in Xetra trading (or an equivalent successor system to the Xetra trading system) at the Frankfurt Stock Exchange on the previous day of trading. At no time may the purchased shares, together with other own shares held by the Company and ascribable to it pursuant to Section 71a et seqq. AktG, exceed 10% of the share capital.

The Company has not entered into any significant agreements contingent upon a change of control following a takeover bid.

Nor has the Company concluded any compensation agreements with the members of the Management Board or employees for the event of a takeover offer.

SUPPLEMENTARY REPORT

On 22 October 2018, Carl Zeiss Meditec signed an agreement pertaining to the acquisition of IamTECH. IamTECH, Inc., which is domiciled in Reno, Nevada, USA, is a privately owned company that specializes in technical solutions for minimally invasive cataract surgery. This company is integrated in the strategic business unit Ophthalmic Devices. This acquisition is an important strategic step for Carl Zeiss Meditec in terms of its technological position in cataract surgery. We refer here to the information in the notes to the financial statements under No. 38 "Events after the end of the reporting period".

OUTLOOK

Future conditions for business development

Macroeconomic environment²⁶

At the time the consolidated financial statements for 2017/18 were prepared, there were signs of continued, albeit lower, global economic growth, with differences between various regions. The economic momentum in the industrialized countries is likely to slow. The development of the growth markets, in particular Asia, is expected to remain above average – however, a slowdown is also expected there. Growth rates in Latin America are expected to accelerate again to a certain extent, due in particular to improved forecasts for Brazil.

At the current time, the prospects for the global economy are increasingly clouded by potential risk factors. Due to protectionist and politically motivated measures, the risk of a trade war that has a lasting impact on world trade cannot be ruled out. Credit-financed investments are creating impetus for growth; however, a mounting debt in connection with rising interest rates and large capital outflows also harbors risks. The as yet unforeseeable effects of Brexit, a potential further escalation of the political conflicts in the Middle East, the Ukraine and North Korea, as well as ongoing structural problems, may have an adverse effect on industry and public sector investing activities.

Future situation in the medical technology industry

The Company's management forecasts further growth for the medical technology market, as the factors responsible for this still hold true. In addition to the increase in the global population, key growth drivers also include a rising proportion of elderly people and a growing percentage of the global population with access to state-of-the-art medical care.

Furthermore, the greater demands being placed on innovative capacity in the medical technology industry play an important role. Consequently, the products and procedures of medical technology manufacturers shall no longer be measured based solely on their effectiveness and safety, but also on their cost-efficiency.

Digitalization is another aspect that has already transformed the structure of the medical technology industry today. Integrated system solutions for simplified workflows are an important distinguishing feature for customers. This presents a major opportunity for companies to help design products and solutions in health care and to thus contribute to better treatment outcomes. In the Company's view, the integration of medical technology and information technology shall continue to proceed at a fast pace.

If nothing else, the development of the global economy shall influence the growth of the medical technology industry. Both private customers and public authorities base their investment decisions on it to a certain extent.

²⁶ International Monetary Fund, "World Economic Outlook", July 2017, Washington D.C.

At the present time the medical technology industry is expected to grow in the coming years in the low to mid-single-digit percentage range.

Future development in the strategic business units of the Carl Zeiss Meditec Group

Strategic business unit Ophthalmic Devices

The development of revenue in the **Ophthalmic Devices** strategic business unit was encouraging in the past fiscal year. Further growth is anticipated in 2018/19. Both the products already established on the market for diagnosing and treating ophthalmic diseases, as well as other innovations launched in the course of the past fiscal year shall contribute to this growth. These include, among others, the widefield fundus imaging system CLARUS™ 500, the premium intraocular lens AT LARA®, as well as a further spread of the minimally invasive vision correction procedure ReLEx® SMILE to the USA and worldwide.

The Company is confident that it will grow at least to the same extent as the underlying market in the new fiscal year. From a current perspective, and excluding currency effects, this corresponds to growth at least in the low to mid-single-digit percentage range. The EBIT margin is expected to remain slightly below the Group average.

Strategic business unit Microsurgery

In the past fiscal year, the **Microsurgery** SBU achieved significant revenue growth and thus maintained its already exceptionally strong market position. The new robotic visualization system KINEVO® 900 and the dental microscope EXTARO® 300 are expected to continue to make a positive contribution over the course of the next fiscal year.

The Company expects the **Microsurgery** SBU to continue to make significant contributions to earnings in future, too, and is optimistic that it will grow at a faster rate than the underlying market in the coming fiscal year. The Company also expects the newly launched products TIVATO® 700 and EXTARO® 300 for spinal and ENT surgery to make their contribution. From a current perspective, and excluding currency effects, the growth anticipated in fiscal year 2018/19 will be at least in the mid-single-digit percentage range. The EBIT margin is also expected to remain significantly above the Group average.

Future selling markets

As a global Group, our continued aim in the years ahead shall be to maintain as balanced a distribution of revenue as possible across our individual markets. The Carl Zeiss Meditec Group currently generates around one third of its revenue in all three of its strategically important business regions: EMEA, the Americas and APAC. The Company sees particularly promising business prospects for the long term in the APAC region, due to the rapid economic growth there. The research centers of the ZEISS Group in India and China, which the Carl Zeiss Meditec Group uses for product development, shall help to expand and secure this growth. We aim to exploit the potential in these countries to an even greater extent in future to generate further sales growth.

Future research and development activities

The Carl Zeiss Meditec Group invests considerable funds in research and development projects, with efficient and targeted development processes playing a key role. The Company searches for new technologies and market trends, in order to subsequently become established on the market with new solutions. To achieve this, regional market conditions and the needs of the customers are involved in the development process from the outset. The aim for fiscal year 2018/19 is to invest around 12% of revenue in research and development.

Future investments

Investments are a basic requirement for maintaining technology leadership in future. The investment ratio at the Carl Zeiss Meditec Group has been largely constant over the past few years. Even the investments required to realize growth targets shall not significantly change the current investment ratio in the coming fiscal year. The Company plans to invest around 1% to 2% of revenue in property, plant and equipment (cash) in fiscal year 2018/19, which is on a par with prior years.

Future dividend policy

Carl Zeiss Meditec AG pursues a long-term and earnings-oriented dividend policy. The Company's management plans to propose to the Annual General Meeting the distribution of a dividend of €0.55 per share for the past fiscal year. The dividend ratio would therefore be 39.0% (prior year: 35.0%).

Future employee development

Qualified and highly motivated employees are essential for the Company's success: we need them to be able to continue to work innovatively and profitably in future. It is crucial to keep investing in the further development of existing employees in future, and to recruit well qualified specialists and managers. The Company therefore expects employee growth in the coming periods to correlate with the Company's business development.

Future financial position

Interest income and expenses depend on changes in interest rates on the financial markets. At present, the Company does not expect any marked improvements in investment conditions in the next two years. Interest income and interest expenses are thus expected to remain around the prior year's level. As of 30 September 2018, current cash and cash equivalents of around €670.0m are available for financing. In view of this, as well as the ongoing expectation of positive business development and a positive cash flow from operating activities as a result, and the possibility to use other financial instruments and sources of financing, if required, we consider the Carl Zeiss Meditec Group's funding capacity to be adequate. In 2018/19 we aim to achieve operative cash flow that is at least in low three-digit million range, based on active working capital management.

Future opportunities

The global medical technology market is characterized by fundamentally sustainable growth. This applies to both ophthalmology and microsurgery and assures us of good selling conditions for the Company. Additional opportunities are provided by our innovative and broad product range, which shall continue to expand in the coming fiscal year. Our strong financial profile, which safeguards the Company's development against external influences, should also have a positive effect. Future development shall also include external growth opportunities in some areas. In a systematic process Carl Zeiss Meditec AG continuously looks for strategically meaningful acquisitions. It is not possible at this point to gauge how feasible such opportunities might be.

Overall assertion on future development

At the time of publication of this Annual Report, the management of the Carl Zeiss Meditec Group considers the outlook for the coming fiscal year to be positive. This assumption is also based on the persistent long-term trends already described above.

Given the favorable conditions for market development in the medium and long term, and the Carl Zeiss Meditec Group's good strategic position, the Company's management currently assumes that revenue will continue to grow in the coming fiscal year, provided that general economic conditions remain stable. Revenue growth is predicted to be at least in line with the market growth expected for the industry, which, from today's perspective and without taking currency effects into consideration, will be at least in the low to mid-single-digit percentage range.

A crucial advantage for even greater stability of our overall business is a higher proportion of revenue with case-number-dependent products and services, since there is generally less fluctuation in these areas than in the capital goods business, for example. In fiscal year 2017/18, we achieved a share of around 33.5%. From a current perspective, we expect a further increase in fiscal year 2018/19 and in the medium term.

In fiscal year 2017/18, the EBIT margin increased slightly from 15.2% in the prior year, to 15.4%. As before, an EBIT margin of between 14% and 16% is expected for the coming fiscal year 2018/19 and in the medium term.

In terms of free cash flow for fiscal year 2018/19, Carl Zeiss Meditec AG is striving for a figure that is at least in the high double-digit millions. The Company expects Economic Value Added® (EVA®) in the coming fiscal year to be on a similar level to fiscal year 2017/18.

Should there be any significant changes in the economic environment currently forecast over the course of the fiscal year, and should it thus become necessary to amend the statements made here on the development of business from today's perspective, these amendments shall be published promptly and shall specify our expectations in more detail.

FINAL DECLARATION OF THE MANAGEMENT BOARD ON THE DEPENDENT COMPANY REPORT PURSUANT TO SECTION 312 (3) AKTG

As a group company within Carl Zeiss AG, Carl Zeiss Meditec AG has prepared a dependent company report pursuant to Section 312 German Stock Corporation Act (AktG). In light of the circumstances known to the Management Board at the time the legal transactions were concluded, the companies of Carl Zeiss Meditec AG received an appropriate consideration for each of the transactions listed in this report concerning relations with affiliated companies. No other reportable transactions pursuant to Section 312 (1) Sentence 2 AktG were entered into by the Company.

**DECLARATION ON CORPORATE GOVERNANCE (PURSUANT TO SECTION 289F, 315D HGB)
AND CORPORATE GOVERNANCE REPORT**

The declaration on corporate governance (pursuant to Section 289f HGB and 315d HGB) includes the declaration of conformity pursuant to Section 161 AktG, relevant information on corporate governance practices applied which go beyond the statutory requirements, in addition to information of where these are publicly accessible and a description of how the Management and Supervisory Boards work, as well as the composition and mode of working of their committees. In addition, disclosures are made concerning the stipulation of targets for the proportion of women on the Management Board and within the next two levels of management, including the deadlines for attaining these targets, and concerning compliance with the minimum proportions of women and men on the Supervisory Board.

The Declaration on Corporate Governance is available at www.zeiss.com/meditec-ag/investor-relations.html under "Corporate Governance".

Jena, 23 November 2018



Dr. Ludwin Monz
President and CEO



Justus Felix Wehmer
Member of the
Management Board



Jan Willem de Cler
Member of the
Management Board