Summary management report
for fiscal year 2016/17

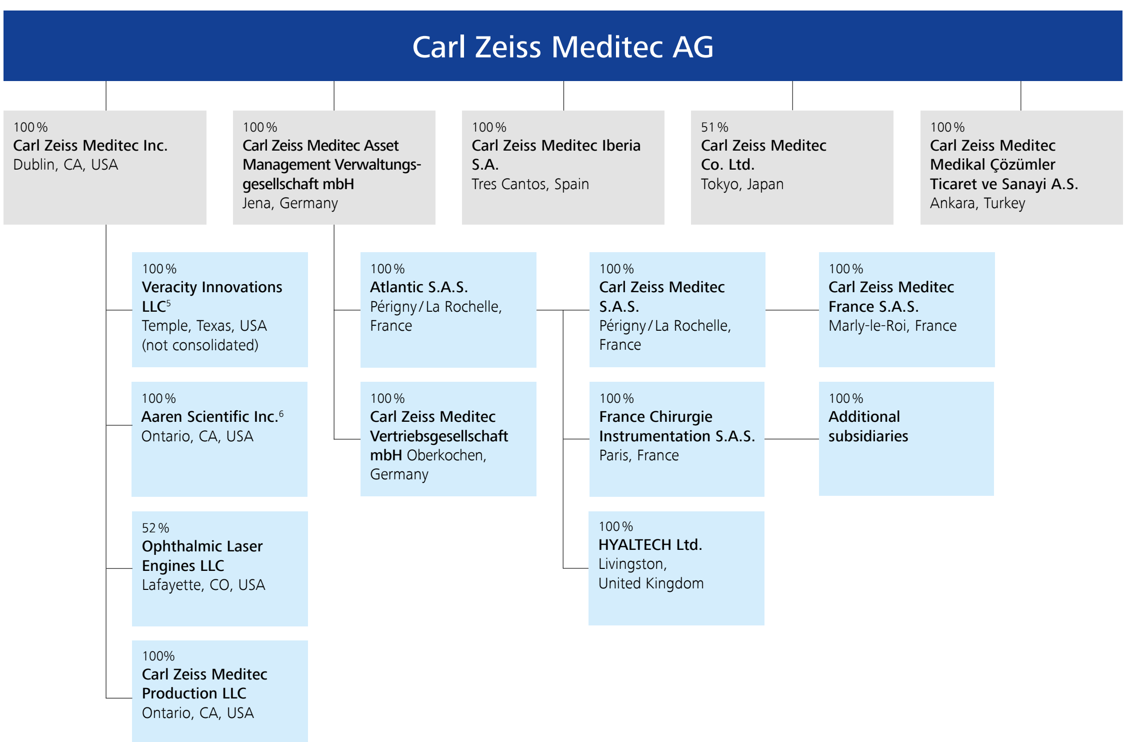
THE CARL ZEISS MEDITEC GROUP

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 on the German Stock Exchange. It is among the 30 largest technology equities in the TecDax index in Germany.

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 have been presented as a summary management report since fiscal year 2015/16. Major investments of the Carl Zeiss Meditec Group as of 30 September 2017 are presented in the chart below:

Investment structure of Carl Zeiss Meditec Group as of 30 September 2017



[5] As of 3 October 2017 Veracity Innovations LLC shall be renamed Carl Zeiss Meditec Digital Innovations LLC.
[6] The assets of Aaren Scientific Inc., Ontario, USA were transferred to Carl Zeiss Meditec Production LLC on 1 October 2017.

The following changes were made to the Group's reporting entity and the structure of its consolidated financial statements in fiscal year 2016/17:

On 24 February 2017 Carl Zeiss Meditec Inc., Dublin, USA, acquired 52% of the shares in Ophthalmic Laser Engines, LLC, Lafayette, Colorado, USA (OLE). Carl Zeiss Meditec has control, as the Group has the power to make decisions in the company's decisionmaking executive bodies. The main aim of acquiring these shares is to develop and produce a low-motion source of radiation for ophthalmology, and the associated OCT system elements.

On 18 August 2017 Carl Zeiss Meditec Inc., Dublin, USA also acquired 100% of the shares in the medical software company Veracity Innovations LLC (Veracity)[5], which has its headquarters in Temple, USA. Veracity developed an innovative, cloud-based technology platform for ophthalmologists, which supports the workflow through targeted provision of context-dependent patient information and relevant patient data, to help achieve an optimum treatment outcome and an efficient workflow. Veracity develops innovative and relevant software solutions for ophthalmologists, which are cost-effective and easy to use. As of the end of fiscal year 2016/17 the company is insignificant for the Group in terms of revenue and earnings. For this reason the Carl Zeiss Meditec Group does not currently include it in its consolidated financial statements, and recognizes the acquired shares in its statement of financial position as "Shares in associated non-consolidated companies".

Both acquisitions are an important strategic step for Carl Zeiss Meditec AG in terms of generating further growth in ophthalmology in the future.

In addition, Aaren Scientific Inc., Ontario, USA, (Aaren) concluded an agreement dated 4 November 2016 and effective from 16 November 2016 with Aaren Laboratories, LLC, USA, pertaining to the disposal of assets associated with Aaren's hydrophilic intraocular lens business. The disposal includes property, plant and equipment at a carrying amount of €0.5m and inventories amounting to €1.1m. The purchase price amounts to €9.3m, and was paid in November 2016. The disposal proceeds amount to around €7.5 m.

Effective 1 October 2017, Carl Zeiss Meditec Inc., Dublin, USA, executed the sale agreed in the past fiscal year of the legal entity Aaren Scientific Inc., Ontario, USA. The subsidiary of Aaren Scientific Inc., Hexavision S.A.R.L., Paris, France, was also sold at the same time.

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 Carl Zeiss Group, with more than 50 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 Carl Zeiss Group. Of the around 25 research and development locations of the Carl 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

A general distinction is made within the Carl Zeiss Meditec Group between 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 the 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
In ophthalmology, a distinction is made between conditions such as vision defects (refraction), cataracts, glaucoma and other retinal disorders, the incidence of which particularly increases with age and can become chronic in many cases.

In the **Ophthalmic Devices** SBU, the Carl Zeiss Meditec Group mainly 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. The Company's aim is to enable efficient diagnosis and treatment through integrated products and systems that are geared to the procedures of the attending physician. 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. Examples include optical coherence tomography (OCT) devices, perimetry devices and tonometers for measuring intraocular pressure for glaucoma diagnostics. The Company offers end-to-end solutions for the surgical treatment of eye diseases in the area of cataract and retinal surgery, including a comprehensive selection of intraocular lenses and consumables. The offering in the preoperative area for cataract treatment includes optical biometers. In the operating room, the Company supports cataract surgery with ophthalmic surgical microscopes, an OR-assistance system and phacoemulsification/vitrectomy 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) and is supplemented by ophthalmic viscoelastics. The OR workstation is further completed by software-based assistance systems such as CALLISTO eye®, to assist with the implantation of toric intraocular lenses. The Company aims to deliver value-added to the customer by providing interconnected systems that are precisely tailored to the surgeon's workflow. One example of this is the ZEISS Cataract Suite markerless, with which the Company offers the surgeon a complete, one-stop range of devices for cataract surgery. The product portfolio in the area of refractive surgery primarily includes systems and consumables for invasive refractive surgery.

Another focus is on networking systems and integrated data management, to make workflows in hospitals and medical practices efficient. To this end, FORUM®, a scalable and flexible data management system, offers a comprehensive, cross-location solution for the evaluation of clinically relevant data from various diagnostic devices and direct access to the patient's full examination history.

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, for example, are essential tools in the surgical treatment of tumors or vascular diseases, such as aneurysms. Other 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 technology, three-dimensional imaging or intraoperative fluorescence

options, offer the surgeon assistance in complex treatments, by delivering diagnostic data and information during the procedure in the eyepiece or on monitors. In surgical oncology, the innovative INTRABEAM® irradiation device enables the Company to offer patients a gentle, intraoperative treatment option for certain types of tumor.

Group strategy

The Carl Zeiss Meditec Group's strategy is to achieve sustainable, profitable growth as market and technology leader in the field of ophthalmology and microsurgery. The aim of the product range is to improve the treatment result and reduce treatment costs through efficient and effective approaches, and thus to contribute 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 case numbers, limited public funding and more demanding expectations of patients with respect to the treatment outcome. Integrated products and solutions can help customers to increase workflow efficiency and reduce costs, for example by providing clinical decision aids for the physician and options for easy outsourcing of routine tasks to medical auxiliary staff. Digitalization offers massive opportunities here, for example in the field of data management solutions. A key prerequisite for the long-term success of the Carl Zeiss Meditec Group is having a deep understanding of the customers' challenges and a service offering that is tailored to overcoming these challenges.

Innovation
One of the goals is to make cutting-edge technology in medical application accessible for customers. The Group is therefore striving to establish its products as new gold standards in medical diagnostics and therapy. The Group ensures itself technology leadership by working closely with its customers and by continuing to invest heavily in research and development (R&D).

Integrated solutions
Based on the large number of diagnostic and therapeutic devices typically found in a practice or clinic, customers are being given the opportunity to make their workflows more efficient by logically networking devices and systems, 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 made up of the members of the Management Board of Carl Zeiss Meditec AG and the heads of the two strategic business units, Ophthalmic Devices and Microsurgery. The management levels below the Executive Committee perform their management responsibilities in accordance with the organizational structure within the strategic business units 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 regional companies themselves in accordance with prevailing laws and legislation, rules of procedure and articles of association, as well as the corporate values and principles applied globally within the Group.

As a company of the Carl Zeiss Group, the Carl Zeiss Meditec Group is also subject to the globally applicable Code of Conduct, which defines the basic principles of good and fair conduct in the competitive environment and in dealing with our employees and customers, and according to which business is carried out worldwide. 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 aim of corporate management is to achieve a long-term increase in value by consistently implementing the strategy. The tools for the financial management of the Carl Zeiss Meditec Group comprise a comprehensive system of key performance indicators. The greatest importance is attached to Economic Value Added® (EVA®)[7], Free Cash Flow (FCF)[8], 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 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 environment[9]

During the reporting period, the global economy grew at a slightly higher rate than forecast. Market growth in the industrialized countries was moderate in fiscal year 2016/17, but developed better than expected. In addition to the solid, if slightly more restrained, market growth in the USA, momentum for growth came from Japan and the eurozone. The rapidly developing economies in Asia, such as India, for example, continued to grow at above-average rates. Growth in China remained steady at the high level of the prior year. The development of the markets of Latin America was inconsistent: after a marked recession, Brazil began to show initial signs of growth again, while there was a moderate increase in growth in Mexico.

Risks that could lead to a slowdown of the global economy, such as a significant decline in economic growth in China, for example, or protectionist measures with a lasting effect on world trade, did not materialize.

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 and megatrends, such as the aging population due to the demographic development and global population growth. A distinction should be made here, in terms of the course of development and the significance of these trends, between the rapidly development economies (RDEs) and the western industrialized nations. While a rising per-capita income is increasing demand for basic healthcare in

[7] Calculation: EVA® = operating result (EBIT) after taxes minus capital costs of €56.9m for 2016/17 (calculation of capital costs: average committed business assets 2016/17 (€611.6m) multiplied by capital cost rate 2016/17 (9.3%)).

[8] 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.

[9] International Monetary Fund, "World Economic Outlook", July 2017, Washington D.C.

rapidly developing economies, people in western regions are becoming increasingly willing to pay more for better-quality services. 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.

The traditional selling markets of western industrialized nations will see further growth in demand for medical technology innovations and a higher quality of treatment. This is due to ever-increasing consumer and patient demands and a greater willingness to use premium services as a self-paying patient. At the same time, the cost pressure in the health care systems is increasing price pressure. Tighter regulations and different regional regulatory requirements pose a growing challenge with regard to product development and approval. 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.

The demand for health care goods and services in the rapidly developing economies (RDEs) is laying the foundations for considerable growth potential in the medical technology industry in future. This is mainly due to the rising per capita income and the associated growth in prosperity in these countries. An increasingly important role is played in particular by the growing prevalence of standard medical devices and basic medical care.

It is assumed that the demand for diagnostic and therapeutic devices and systems, as well as implants and consumables, will continue to grow in the long term, both in microsurgery and in ophthalmology.

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$39.0b (about €35.1b)[10] in 2016. 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$10.1b (around €9.1b[10]) in 2016.

The Carl Zeiss Meditec Group estimates its share of the part of the "devices and systems for ophthalmology" market segment traditionally served by the Company – with a volume of around US$3.3b (around €3.0b[10]) – at about 21% in 2016. In the market segment "implants, consumables and instruments for ophthalmic surgery", the Carl Zeiss Meditec Group estimates its global market share in 2016 at about 6%. However, our regional market shares in the countries the Company is currently focusing on range between 5% and 30%.

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 a slight increase in its market share in the market segments it addresses compared with the prior year.

[10] At average rate for fiscal year 2015/16 (€1 = US$1.1105)

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 market segments: "Implants", "Surgical instruments" and "Visualization". In the "Visualization" market 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, these sub-markets had a total volume of around US$1.7b in 2016 (around €1.5b[6]). With a market share that it estimates to be almost 20%, the Carl Zeiss Meditec Group is therefore one of the largest providers in this segment 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.

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

With revenue of €1,189.9m and growth of 9.3%, the Carl Zeiss Meditec Group achieved the forecast range of €1,150m to €1,200m for fiscal year 2016/17. The Ophthalmic Devices SBU and the Asia/Pacific (APAC) region, in particular, contributed to this positive development of business. Currency effects had no noticeable impact.

The Ophthalmic Devices SBU achieved growth of 11.2% (adjusted for currency effects: 11.2%), thus significantly exceeding the forecast of growth in the low to mid-single-digit percentage range. A strong refractive lasers business, in particular, contributed to this increase; however, Surgical Ophthalmology and Diagnostics also made good contributions to revenue growth. Nevertheless, the situation in Ophthalmic Diagnostics remains tense due to the strong competitive pressure.

The Microsurgery SBU achieved growth of 4.4% (adjusted for currency effects: 4.3%) year-on-year, thus meeting the low-single-digit percentage growth forecasts. The SBU also maintained its leading market position, as anticipated. Crucial to this was growth in the areas of both visualization and intraoperative radiotherapy.

Earnings before interest and taxes (EBIT) increased to €180.8m. Relative to revenue, the Group achieved an EBIT margin of 15.2% (prior year: 14.2 %). This included, among other things, a positive effect of €7.5m, which is discussed in more detail on page 39. Excluding this effect, the EBIT margin would have been within the forecast range for fiscal year 2016/17 of 13 – 15%. The significant increase in the EBIT margin is primarily attributable to a more favorable product mix with a higher proportion of case-number-dependent revenue.

The EBIT margin in the Ophthalmic Devices SBU improved year-on-year, particularly as a result of the positive development in the area of refractive lasers, but was slightly below the Group average, as expected. This was due to a positive development of the product mix, with a higher proportion of case-number-dependent revenue. The EBIT margin of the Microsurgery SBU increased only slightly compared with the prior year, due, among other things, to higher research and development costs, and somewhat restrained revenue growth, but remained above the Group average, as expected.

At €37.7m in fiscal year 2016/17, the Group's cash flow from operating activities is significantly lower than in the prior year (prior year: €111.8m).

Free cash flow amounted to €112.4m (prior year: €146.0m). EVA® rose to €69.9m, compared with €64.7m in the prior year.

In order to maintain its innovative strength and ensure future growth, the Company has up to now invested around 10% to 11% 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 12.3%, which corresponds to a slight increase compared with the prior year (11.3%).

The Carl Zeiss Meditec Group's financial position remained stable. This is also contributing toward 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 2016/17

	Results 2016/17	Forecast 2016/17
Group revenue	€1,189.9m	€1,150 - 1,200m
Ophthalmic Devices	11.2%	Growth in low to mid-single-digit percentage range
Microsurgery	4.4%	Growth in low to mid-single-digit percentage range
EBIT margin	15.2%[11]	13% - 15%
Cash flow from operating activities	€37.7m	Amount in high double-digit millions
Research and development expenses/revenue	12.3%	10% - 11%
Free cash flow (FCF)	€112.4m	Amount in high double-digit millions
Economic Value Added® ("EVA®")	€69.9m	slight improvement (prior year: €64.7m)

Results of operations

Presentation of results of operations

Summary of key ratios in the consolidated income statement Figures in €m, unless otherwise stated

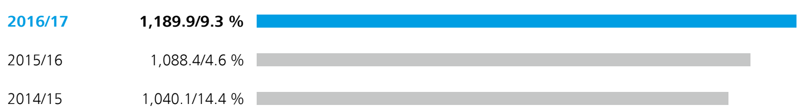
	2016/17	2015/16	Change
	€m	€m	in %
Revenue	1,189.9	1,088.4	+9.3%
Gross margin	55.2%	53.2%	+2.0% pts
EBITDA	205.1	174.6	+17.5%
EBITDA margin	17.2%	16.0%	+1.2% pts
EBIT	180.8	154.3	+17.2%
EBIT margin	15.2%	14.2%	+1.0% pts
Earnings before income taxes	188.6	142.0	+32.8%
Tax rate	28.0%	29.6%	-1.6% pts
Consolidated profit after non-controlling interests	134.4	98.3	+36.7%
Earnings per share after non-controlling interests	€1.57	€1.21	+29.8%

[11] Includes a one-time special effect of €7.5m in connection with the disposal of assets at the Ontario site in the first quarter of 2016/17.

Revenue

In fiscal year 2016/17 the Carl Zeiss Meditec Group increased its revenue by 9.3%, to €1,189.9m (prior year: €1,088.4m), thus achieving the forecast range of €1,150m - €1,200m. Currency effects had no noticeable impact on growth. In particular Ophthalmic Devices and the APAC region contributed to this growth.

Consolidated revenue in €m/Growth in %



a) Consolidated revenue by strategic business unit

The **Ophthalmic Devices** strategic business unit generated almost three quarters of total revenue in the past fiscal year (74.0%; prior year: 72.8 %). The **Microsurgery** strategic business unit contributed 26.0% (prior year: 27.2%) of consolidated revenue.

Share of strategic business units in consolidated revenue in fiscal year 2016/17

Revenue growth in the **Ophthalmic Devices** strategic business unit amounted to 11.2% for fiscal year 2016/17 Currency effects had no noticeable impact on growth. Revenue amounted to €880.5m (prior year: €791.9m).

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 diagnosis continued to be exposed to intense competitive and price pressure during the fiscal year. Measures to improve competitiveness continued in the past fiscal year. The area of surgical ophthalmology, with its intraocular lens and consumables business for cataract surgery, biometry and ophthalmic surgery microscopes performed well.

With growth of 4.4%, business development in the **Microsurgery** strategic business unit was also positive (adjusted for currency effects: 4.3%). Both the Visualization and the Intraoperative Radiotherapy segments contributed to this growth.

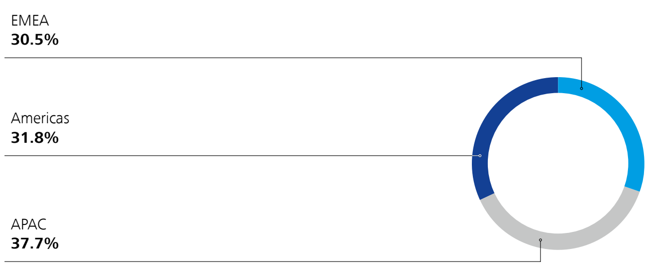
Revenue by strategic business unit

	2016/17	2015/16	Change in %	
	€m	€m		Adjusted for currency effects
Ophthalmic Devices	880.5	791.9	11.2	11.2
Microsurgery	309.4	296.5	4.4	4.3
Carl Zeiss Meditec Group	**1,189.9**	**1,088.4**	**9.3**	**9.3**

b) Consolidated revenue by region

The Carl Zeiss Meditec Group has a very balanced range of business activities worldwide, with each of its three business regions generating around one third of its total revenue. In the past fiscal year, the region **Europe, Middle East and Africa (EMEA)** accounted for 30.5% (prior year: 32.4%) of consolidated revenue; the Americas region accounted for 31.8% (prior year: 32.5%) and the **Asia/Pacific (APAC)** region accounted for 37.7% (prior year: 35.1 %). Once again, the APAC region delivered the highest contribution to revenue and also achieved the highest revenue growth of 17.4% (adjusted for currency effects: 17.1%) (prior year: 19.5%, adjusted for currency effects: 15.5%).

Share of regions in consolidated revenue in fiscal year 2016/17



At €363.4m, revenue in the **EMEA** region was 3.0% (adjusted for currency effects: 3.9% higher than the prior year (€352.7m, adjusted for currency effects: €349.8m). Business in the individual markets continued to be very heterogeneous, however. Although the core markets were largely positive or stable, business in the UK and some regions of Southern Europe continued to be weak.

Business in the **Americas** region grew by 6.8%, or 6.4% after adjustment for currency effects, which accelerated growth compared with the prior year. Revenue amounted to €378.2m (prior year: €354.0m, adjusted for currency effects: €355.6m). There was positive growth in the USA. South America also achieved good growth during the reporting period.

The **APAC** region made a substantial contribution to growth within the Group, increasing revenue by 17.4%, to €448.2m (prior year: €381.7m). Adjusted for currency effects, growth was of a similar magnitude of 17.1%, The largest contribution to revenue, with strong growth once again, came from China. India, Southeast Asia and South Korea also achieved high growth rates.

Consolidated revenue by region

	2016/17	2015/16	Change in %	
	€m	€m		Adjusted for currency effects
EMEA	363.4	352.7	3.0	3.9
Americas	378.2	354.0	6.8	6.4
APAC	448.2	381.7	17.4	17.1
Carl Zeiss Meditec Group	**1,189.9**	**1,088.4**	**9.3**	**9.3**

Gross profit

In fiscal year 2016/17, gross profit increased from €579.6m to €656.7m. The gross margin for the reporting period increased to 55.2% (prior year: 53.2 %). This growth is mainly due to the positive effect had by a more favorable product mix with a higher proportion of case-number-dependent business, particularly in the Ophthalmic Devices strategic business unit.

Functional costs

Functional costs for the reporting year amounted to €483.4m (prior year: €425.2m), thus increasing by 13.7% and disproportionately to revenue. Their share of revenue increased year-on-year, from 39.1% to 40.6%.

» **Selling and marketing expenses:** In the fiscal year under review, selling and marketing expenses increased by 13.4%, relative to revenue growth, from €255.3m to €289.6m. Relative to revenue, selling and marketing expenses were 0.8 percentage points higher than the prior year's level, at 24.3% (prior year: 23.5 %). This was due in particular to strategic investments in the expansion of ophthalmic distribution, for example in the area of refractive lasers.

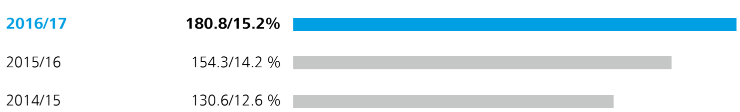
» **General administrative expenses:** Expenses in this area increased by 3.5%, to €48.1m (prior year: €46.5m). The ratio of these expenses to revenue decreased from 4.3% in the prior year, to 4.0%.

» **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 18.1% in the reporting period, to €145.8m (prior year: €123.4m). The R&D ratio increased year-on-year, to 12.3% (prior year: 11.3 %).

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 €180.8m (prior year: €154.3m). This corresponds to an EBIT margin of 15.2% (prior year: 14.2 %). The increase in the EBIT margin is attributable to a more favorable product mix with a higher proportion of case-number-dependent revenue.

EBIT in €m/EBIT margin in %



EBIT in fiscal year 2016/17 included positive effects from acquisitions and restructuring to the volume of €4.6m. A major role in this was played by disposal proceeds from the first quarter of 2016/17, with a positive effect of €7.5m, which resulted from the sale of non-strategic assets at the Ontario site. Scheduled write-downs from the purchase price allocation had an adverse effect on earnings.

Overview of effects from acquisitions and restructuring included in EBIT

	2016/17	2015/16	Change
	€m	€m	in %
EBIT	180.8	154.3	+17.2
Acquisition-related effects[12]	+4.6	-3.8	
Restructuring/reorganization[13]	0.0	-1.4	
Total effects	**+4.6**	**-5.2**	

The development of the EBIT margin within the **Ophthalmic Devices** SBU was positive. This is attributable, among other things, to a more favorable product mix, which primarily resulted from a higher amount of procedure-dependent revenue in the refractive laser business as well as operating economies of scale. The EBIT margin in the **Microsurgery** SBU was only slightly higher compared with the prior year, with higher functional costs.

Earnings before interest, taxes, depreciation and amortization **(EBITDA)** amounted to €205.1m for the past fiscal year (prior year: €174.6m). The **EBITDA margin** therefore increased to 17.2% compared with the prior year's level (prior year: 16.0 %).

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

Currency effects arose within the financial result as of 30 September 2017 as a result of hedges, primarily in the form of unrealized foreign currency gains in the amount of €9.0m (prior year: foreign currency losses of €9.3m).

The **tax rate** for the reporting period was 28.0% (prior year: 29.6 %). A positive effect was had by the disposal proceeds from the sale of non-strategic assets at the Ontario site, which were recognized as tax-free income. 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 2016/17 amounted to €134.4m, thus increasing by 36.7% (prior year: €98.3m). Non-controlling interests accounted for €1.3m (prior year: €1.6m). In fiscal year 2016/17, basic **earnings per share of the parent company** amount to €1.57 (prior year: €1.21).

[12] The sale of non-strategic assets at the site in Ontario, USA, 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 was had by write-downs on intangible assets from the purchase price allocation (PPA), also mainly in connection with the acquisition of Aaren Scientific Inc. in fiscal year 2013/14.

[13] Restructuring costs mainly relate to the reorganization of the Ophthalmic Diagnostics unit within the Ophthalmic Devices strategic business unit in fiscal year 2015/16.

Financial position

Objectives and principles of financial management

A primary objective of financial management at the Carl Zeiss Meditec Group is to ensure the solvency of the Company and to manage this efficiently throughout the Group. The Group's main source of liquidity comes from the business operations of the individual business units, upon which the financial activities and the strategic orientation of the Group are also based. 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 Group treasury of the Carl 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 minimizes the effect of currency fluctuation. 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”, “(35) Financial risk management”, “(2) (t)” and “(33) 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 30.7% as of 30 September 2017 (prior year: 46.6 %).

The Group's dynamic gearing ratio stands at -6.7 years for fiscal year 2016/17 (prior year: 0.3 years)[14].

The interest coverage ratio, i.e., the coverage of interest income by the operating result before depreciation and amortization (EBITDA), amounted to 116.6 (prior year: 69.4).

In March 2017 Carl Zeiss Meditec AG implemented a capital increase against cash contributions. A total of 8,130,960 new shares were placed at a price of €38.94 per share. Gross issue proceeds of around €317m accrued to the Company from the capital increase. The net capital proceeds amounted to around €314m The capital increase was carried out with partial utilization of the authorized capital of €40,654,805 created pursuant to Art. 4 (5) of the Company’s Articles of Association. This increased the Company’s share capital from €81,309,610 to €89,440,570 (no-par value shares). The net issue proceeds from the capital increase shall serve to finance the Company’s growth strategy, particularly for acquisitions, as well as general business purposes.

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 Carl Zeiss Group or from banks.

[14] Calculation: borrowings excluding non-controlling interests, less cash and cash equivalents and less treasury receivables/cash flow from operating activities.

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 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. In addition, 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.

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 2017. 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 €37.7m in the reporting period (prior year: €111.8m). Inventories increased as of 30 September 2017, due to a number of current product launches since the end of the past fiscal year, as well as to ensure delivery capacity for a number of top-selling products. There was also a decline in provisions and other financial liabilities, as well as an increase in trade receivables in fiscal year 2016/17, compared with the prior year.

Cash flow from investing activities was negative in fiscal year 2016/17, amounting to €–55.9m (prior year: €+77.3m). This result is mainly due to investments in property, plant and equipment and other intangible assets, as well as to the acquisition of shares in affiliated companies.

Cash flow from financing activities in the past fiscal year amounts to €+14.5m (prior year: €-195.0m). This amount includes the proceeds from the capital increase in March 2017.

Free cash flow amounted to €112.4m (prior year: €146.0m). This is attributable to the increase in inventories due to a number of current new product launches since the end of the last fiscal year, as well as to ensure delivery capacities for a number of high-selling products.

Net cash[15] in the past fiscal year amounted to €565.0m (prior year: €334.6m). This corresponds to an increase of almost 70%, which is due to the capital increase implemented in March 2017 and to the positive cash flow from operating activities.

Investment and depreciation policy

Continuous investments are required to further consolidate the Company’s good 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.

In terms of the production of devices and systems, the Company mainly confines itself 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 investments in property, plant and equipment (cash)[16] to consolidated revenue. In fiscal year 2016/17, it was 1.1% (prior year: 1.2%).

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.

[15] Includes receivables from and liabilities to the treasury of the Carl Zeiss Group, as defined on page 27 et seq..

[16] In fiscal year 2016/17, investments in property, plant and equipment (cash) totaled €13.7m, compared with €12.8m the prior year.

Key ratios relating to financial position

Key ratios relating to financial position

Key ratio	Definition	30 Sep. 2017	30 Sep. 2016	Change
		€m	€m	in %
Cash and cash equivalents	Cash-in-hand and bank balances	3.9	8.7	-55.2
Net cash	Cash-in-hand and bank balances + treasury receivables from the Carl Zeiss AG ./. treasury payables treasury of Carl Zeiss Group	565.0	334.6	+68.9
Net working capital	Current assets including financial investments ./. cash and cash equivalents ./. treasury receivables from Group treasury of Carl Zeiss Group./. current liabilities excl. liabilities treasury of Carl Zeiss Group	326.8	237.0	+37.9
Working capital	Current assets ./. current liabilities	891.8	571.6	+56.0

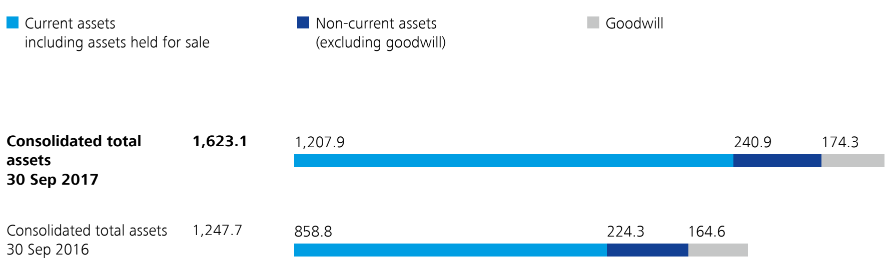
Key ratio	Definition	2016/17	2015/16	Change
Cash flow per share	Cash flow from operating activities / Weighted average of shares outstanding	€ 0.44	€ 1.37	-67.9%
Capex ratio	Investment (cash) in property, plant and equipment / Consolidated revenue	1.1%	1.2%	-0.1-pts

Net assets

Presentation of net assets

Total assets increased to €1,623.1m as of 30 September 2017 (prior year: €1,247.7m).

Structure of statement of financial position – assets in €m



Non-current assets increased to €415.2m as of 30 September 2017 (prior year: €388.9m) due to a variety of factors. On the one hand, there was an increase in goodwill due, among other things, to positive currency effects and to the acquisition of 52% of the shares in Ophthalmic Laser Engines, LLC, Lafayette, USA (OLE). On the other hand, this increase is due to higher other intangible assets and to shares in the unconsolidated company Veracity Innovations, LLC, recently acquired in August 2017.

Current assets increased to €1,207.9m as of 30 September 2017 (prior year: €857.5m), due, among other things, to the development of cash flow from operating activities and the capital increase in March 2017. Inventories also increased as of 30 September 2017, due to a number of current product launches since the end of the past fiscal year, as well as to ensure delivery capacity for a number of top-selling products.

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 €1,241.7m as of 30 September 2017 (prior year: €851.2m). The equity ratio was 76.5% (prior year: 68.2%) and thus remains high.

Non-current liabilities amounted to €65.3m as of 30 September 2017 (prior year: €110.7m). This is mainly due to declining pension commitments as a result of an adjustment of the discount factor.

As of 30 September 2017, **current liabilities** amounted to €316.1m (prior year: €285.9m). This increase is mainly attributable to the change in trade receivables relating to the end of the reporting period, the increase in inventories to ensure delivery capacity for a number of top-selling products, and to the change in liabilities to related parties.

Key ratios relating to net assets

Key ratios relating to net assets

Key ratio	Definition	30 Sep 2017	30 Sep 2016	Change
		in %	in %	% pts
Equity ratio	Equity (including non-controlling interests) / Total assets	76.5	68.2	+8.3
Inventories in % of rolling 12-month revenue	Inventories (net) / Rolling revenue of the past twelve months as of the end of the reporting period	19.7	19.1	+0.6
Receivables in % of rolling 12-month revenue	Trade receivables at the end of the reporting period (including non-current receivables) / Rolling revenue of the past twelve months as of the end of the reporting period	25.0	23.9	+1.1

Orders on hand

The Carl Zeiss Meditec Group's orders on hand increased by 1.6%. As of 30 September 2017 it amounted to €165.3m (prior year: €162.7m).

Events of particular significance

There were no other events of particular significance during fiscal year 2016/17.

NON-FINANCIAL PERFORMANCE INDICATORS

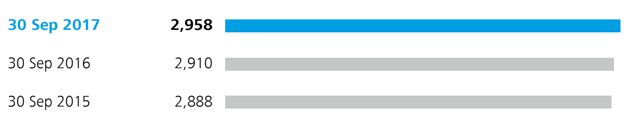
Responsibility

Traditionally, the Carl Zeiss Meditec Group has always been particularly committed to public welfare and the environment. Social responsibility does not just shape the corporate culture within, but also plays and important role externally. The Company wants to give as many people as possible access to modern medical care and contribute to the improvement of medical care for people in all regions of the world. It also goes without saying that the Carl Zeiss Meditec ZEISS Group believes in responsible and state-of-the-art handling of natural resources.

Employees

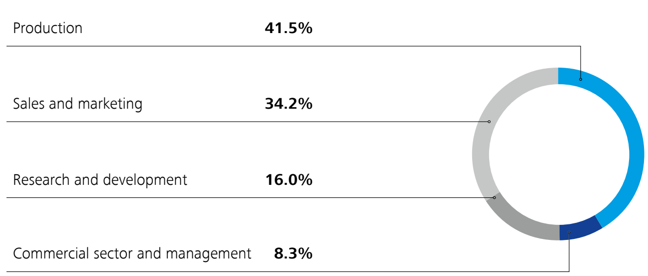
Highly qualified and motivated employees are a necessity for ensuring the long-term success of a company. Responsible human resources development and continuous improvement play a crucial role in this. As of 30 September 2017 the Carl Zeiss Meditec Group had 2,958 employees worldwide (prior year: 2,910).

Employees



At 41.5% and 34.2%, respectively, the majority of employees were working in Production or Sales and Marketing as of 30 September 2017. The percentage of employees working in Research and Development was 16.0% at the end of the reporting period. The percentage of employees working in the commercial area as of 30 September 2017 was 8.3%. This includes a total of 542 Service employees, who are spread across various areas.

Employees by function[17] 30 September 2017



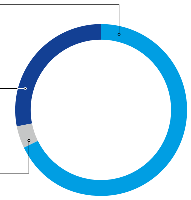
[17] Including Service employees

At 68.0%, the majority of the Carl Zeiss Meditec Group's employees were working in the **EMEA** region as of 30 September 2017. A total of 28.0% of all the Group’s employees were working in the **Americas** region and 4.0% in the **APAC** region.

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

Employees by region 30 September 2017

EMEA	**68.0%**
Americas	**28.0%**
APAC	**4.0%**



It is the Company’s employees, with their expertise and achievements, who lay the foundations for the Carl Zeiss Meditec Group's global success. The sustainable development and targeted support of employee potential is therefore the core mission of human resources management at the Company. The focus is on employee training and further education and 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 considers this a sound basis for ensuring long-term economic success. The Group aims to increase its attractiveness as an employer through strategic employee development.

Social commitment

Social responsibility is an integral part of corporate culture at ZEISS. 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.

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 special partner is the Christoffel-Blindenmission (CBM), which is one of the largest global charity organizations working in the area of eyesight. CBM aims to help improve the lives of those with visual impairments, to prevent visual impairments, and break down barriers for people living with visual impairments. Together with CBM, and as part of the VISION 2020 Initiative of the IAPB (International Agency for the Prevention of Blindness), ZEISS has supported a total of five ophthalmology training centers over the past number of years, in South America, Africa and Indonesia. In addition to treating patients, these centers also give doctors training on how to operate new technical equipment. As a partner of the international umbrella organization for ophthalmology (International Council of Ophthalmology, ICO), ZEISS supports the ICO Fellowship Program and the “Teaching the Teacher” program. This fellowship program aims to train particularly talented young ophthalmologists from economically poorer regions. Participants then bring the knowledge and skills they have learned back to their native countries.

Environment

It goes without saying that the Carl Zeiss Group and the Carl Zeiss Meditec Group believe in responsible and state-of-the-art handling of natural resources.

By the end of 2015 a total of 16 production sites and a total of 30 subsidiaries of the Carl Zeiss Group were certified to ISO 14001 standard. An energy management system was successfully introduced and applied for this purpose, in accordance with the prescribed standards. Since December 2015, the Group has been certified in accordance with the internationally recognized energy management standard ISO 50001 in the European Union.

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.

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.

Since 2012 the more than 4,000 solar panels on the roof of Carl Zeiss Meditec Inc. in Dublin, USA, 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.

Compliance

As a company of the Carl Zeiss Group, integrity and compliance are of paramount importance for the global reputation of the Carl Zeiss Meditec Group. Having business partners, customers, the authorities, the public and competitors trust that all employees will conduct themselves in a responsible, law-abiding and ethical manner is a basic prerequisite for growth and success. As a company of the Carl Zeiss Group, Carl Zeiss Meditec AG has joined the compliance management system 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). In the event of a breach of the compliance requirement or if there are grounds for suspecting such a breach, all ZEISS employees are asked to report the breach or suspicions. The whistleblower 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, some with their own brand, in Besançon, France, Livingston, Scotland, and Goodlands, Mauritius. Systems and devices for ophthalmology are manufactured in Dublin and in Jena. The Group manufactures surgical microscopes and microsurgical visualization solutions in Oberkochen; intraocular lenses are manufactured in La Rochelle, Berlin and Ontario.

Production concept
When manufacturing its devices and systems, the Carl Zeiss Meditec Group focuses on the assembly of system components, most of which it purchases from external suppliers. The vertical range of manufacture for intraocular lenses is higher, however. Production of these largely takes place in-house at the Company. Only a number of specific steps in the production process are outsourced to external companies. When selecting suppliers, the Carl Zeiss Meditec Group continuously strives to qualify additional suppliers for key components and product groups, as appropriate, in order to reduce its dependence on individual suppliers.

The main focus in terms of production processes is to be able to respond quickly to customer inquiries and requirements, to implement short chains of command and to be able to quickly and efficiently carry innovations over into production. Shorter throughput times play a major role in this, as well as reducing inventories, while simultaneously optimizing production costs and improving product quality and delivery performance.

Production planning
Production planning in Jena, Oberkochen and Dublin is based on the rolling forecast method, mostly on a monthly or quarterly basis. The 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, products are usually assembled to customer order (series production of individual items).

In the area of refractive lasers, inventories are kept for consumables for the planned sales volume for at least three months, in order to ensure uninterrupted supplies for customers who cannot use their equipment without such consumables. The customers are served from the stock according to the first-in-first-out principle.

The rolling forecast method described above is also applied for the manufacture of intraocular lenses. Limited quantities of the finished products are stockpiled, as customers expect very short delivery times for implants. To this end, replenishment orders are forwarded by the customers to a central warehouse; these, in turn, trigger a new order directly at the production site, thus ensuring customers are 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.

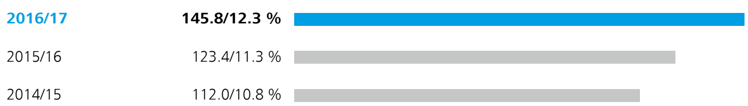
Research and development

Objectives and focus of research and development
Research and development plays an important role within the Carl Zeiss Meditec Group. Pursuant to its strategy, innovations are a key driver of future growth. The Carl Zeiss Meditec Group has the necessary resources to secure the Company's future earnings power through its research and development activities. The Company shall therefore continue to offer innovations in future that make leading technologies available to its customers, enable improvements in efficiency and continuously enhance treatment results for patients.

For this reason the Company is aiming to continuously expand its product portfolio and continuously improve products that are already on the market. At the same time, the Group is striving 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 research and development work within the Carl Zeiss Meditec Group is close cooperation with customers and continuously high investments in research and development.

In fiscal year 2016/17 research and development expenses increased by 18.1%, to €145.8m (prior year: €123.4m). The R&D ratio also increased compared with the prior year, to 12.3% (prior year: 11.3%), 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 10.1% Further information can be found in Appendix.

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



In the reporting period 16.0% (prior year: 15.2%) 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 2016/17 the expenses incurred for this amounted to around 13.5% of the overall research and development expenses of €145.8m.

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
» networking systems and equipment to increase the efficiency of diagnosis and treatment and to improve treatment results for patients.

Customer focus

As medical suppliers, customers of the Carl Zeiss Meditec Group are faced with a variety of challenges worldwide, such as the continuously growing number of patients due to the progressive aging of society, the higher expectations of patients, and increasing competitive pressure. The global position of the Group, its capacity for innovation and customer proximity enable it to find differentiated solutions in the fields of ophthalmology and microsurgery.

Customer solutions in ophthalmology
The Carl Zeiss Meditec Group is constantly striving to make cutting-edge technology in medical application accessible for customers and to establish new standards in medical diagnostics and therapy. The offering of software solutions make it possible to merge data and information from various devices and view several points of the treatment process at the same time. One example of this is the ZEISS Retina Workplace, which provides easy access to important clinical data for the management of macular diseases, assists ophthalmologists with the treatment of retinal diseases and helps them to monitor patients undergoing anti-VEGF therapy, and ultimately contributes to a better quality of treatment. The Retina Workplace is based on FORUM®, a scalable and flexible data management system, which manages the relevant examination data centrally. This enables fast and reliable access to clinically relevant patient data, which simplifies the daily work of physicians and can significantly increase the efficiency of ophthalmic practices. Another important milestone in the area of digitalization is to be achieved through the acquisition of Veracity Innovations, LLC, an intelligent, cloud-based platform in the area of ophthalmology. This supports the workflow by providing specific, context-sensitive information and relevant patient data, to help achieve an optimum treatment outcome and an efficient workflow.

An innovative product has also been launched in the area of fundus imaging – CLARUS™ 500 – which displays natural colors in HD quality and also offers an ultra-wide-angle view right out to the periphery of the retina. This enables ophthalmologists to identify early signs of eye diseases faster and more reliably.

The growing expectations of patients regarding therapy and ultimately the treatment outcome must be considered in the Company's research and development work. Responses to this include the AT LISA® tri and AT LISA® tri toric, as well as microincision-capable intraocular lenses, which enable less-invasive operations for patients and freedom from glasses at all distances. This portfolio is rounded off by the AT LARA®. This intraocular lens, which is based on the optical concept of extended depth of focus, distinguishes itself from conventional multifocal IOLs by causing fewer visual side effects.

The minimally invasive SMILE technology in refractive laser surgery also enables a gentler procedure for patients. The ReLEx® SMILE procedure has established itself as the third generation of laser vision correction. Compared with previous procedures, ReLEx® SMILE stands out by being considerably less invasive and offering very good predictability of correction. Since its launch in 2011, approximately one million eyes have now been successfully treated worldwide using this minimally invasive method. The procedure has also had regulatory approval in the USA since September 2016 and was launched in the U.S. market in March 2017.

Customer solutions in Microsurgery

The Carl Zeiss Meditec Group also offers highly innovative solutions in the field of microsurgery. These include, among others, state-of-the-art surgical microscopes for disciplines such as neurosurgery, ear, nose and throat (ENT) surgery, plastic and reconstructive (P&R) surgery, and spinal and dental surgery.

The KINEVO® 900 is a new robotic visualization system in the field of neurosurgery, which was presented in April 2017 during the Annual Scientific Meeting of the American Association of Neurological Surgeons in Los Angeles. This system is a highly innovative technology that avoids the need for manual repositioning and broadens the surgeon’s line of sight considerably. It also enables the use of digital visualization during surgery, which avoids the surgeon having to work in an uncomfortable position and makes it possible to transmit a high-resolution, digital image to assistant physicians, operating theater staff and doctors in training, which, in turn, has a learning and training effect. Another product in the area of microsurgery – EXTARO® 300 – was presented at this year’s International Dental Show in Cologne. This dental microscope combines optical magnification with a fluorescence-based technology for identifying tooth decay, which makes the dental treatment process much simpler.

Customer solutions in rapidly developing economies

Product requirements in rapidly developing economies such as India or China are often very different to the requirements in established markets. That is why it is necessary to develop a market-specific product range. The Carl Zeiss Meditec Group aims to provide physicians in these regions with efficient workflows. 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 "CARIn" Center of Application and Research in India 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 2016/17. 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 only 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 610 registered brands and brand registrations (as of 30 September 2017). 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 at those of 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. The foregoing explanations for the Carl Zeiss Meditec Group therefore also apply for Carl Zeiss Meditec AG.

The aim of controlling at Carl Zeiss Meditec AG is to ensure the solvency of the Company and to manage this efficiently throughout the Group. The EBIT margin and sales growth carry the most weight in this respect. The Company's primary source of liquidity comes from the business operations of the individual business units, upon which the financial activities and the strategic orientation of the Company are also based.

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 2016/17 to a successful close, thus continuing its growth trend of the previous fiscal years.

Sales increased by 11.1% year-on-year (adjusted for currency effects: 10.6%). Both strategic business units contributed to this growth to varying degrees. The increase in currency-adjusted sales is therefore higher than the forecast for market growth in the low to mid-single-digit percentage range. The EBIT margin increased from 14.3% in the prior year to 15.6%.

Income statement according to HGB

	Appendix	2016/17		2015/16		Change
		€k	€k	€k	€k	in %
Revenue	(21)		**766,162**		**689,643**	**11.1%**
Cost of sales			(368,701)		(353,287)	4.4%
Gross profit			**397,461**		**336,356**	**18.2%**
Sales and marketing expenses			(118,620)		(107,554)	10.3%
General administrative expenses			(34,657)		(33,110)	4.7%
R&D costs		(120,603)		(87,828)		
minus subsidies received		-	(120,603)	23	(87,805)	37.4%
Other operating income	(24)		43,504		32,554	33.6%
Other operating expenses	(25)		(46,336)		(48,523)	-4.5%
Income from investments	(26)		27,335		-	100.0%
thereof from affiliated companies			27,335		-	100.0%
Income from profit transfer	(27)		5,888		-	100.0%
Income from investments and long-term loans			2,388		2,505	-4.7%
thereof from affiliated companies			2,388		2,505	-4.7%
Other interest and similar income			751		749	0.3%
thereof from affiliated companies			702		157	347.1%
Amortization of financial assets and short-term investments/marketable securities	(28)		-		(20,500)	-100.0%
Interest and similar expenses			(3,278)		(768)	326.8%
thereof from affiliated companies	(29)		-		-	
Earnings before income taxes			**153,833**		**73,904**	**108.2%**
Income taxes	(30)		(43,060)		(30,904)	39.3%
Profit after tax			**110,773**		**43,000**	**157.6%**
Other taxes	(31)		(306)		(253)	20.9%
Net income for the year			**110,467**		**42,747**	**158.4%**
Retained profits brought forward from prior year			115,564		103,714	11.4%
Dividend			(37,565)		(30,897)	21.6%
Net retained profits			**188,466**		**115,564**	**63.1%**

Results of operations

Sales increased by 11.1% compared with the prior year (€689.6m), to €766.2m. This includes slightly positive effects from foreign currency translation. The new legal definition of section 277 (1) HGB was implemented in the reporting year. This means that service revenue, which was previously recognized under other operating income, is now recognized as sales. In fiscal year 2016/17 these sales amounted to €4.5m. Once again in fiscal year 2016/17, ophthalmology was the main contributor to sales growth. Notable products in this area include in particular femtosecond laser technology, the innovative intraocular lenses and multifocal and toric premium lenses for minimally invasive cataract surgery.

In fiscal year 2016/17, gross profit on sales increased from €336.4m to €397.5m. The corresponding margin increased to 51.8%, due to a more favorable product and regional mix (prior year: 48.8 %).

Selling expenses in the fiscal year amounted to €118.6m; general and administrative expenses amount to €34.7m. Compared with sales, therefore, selling and general administrative expenses remained on the level of a year ago. Research and development expenses of Carl Zeiss Meditec AG amounted to €120.6m (prior year: €87.8m) in fiscal year 2016/17. Detailed information on the Carl Zeiss Meditec Group's research and development activities can be found on pages 48 et seqq.

The increase in other operating income is primarily the result of higher exchange rate gains. Conversely, the increase in other operating costs is in particular attributable to exchange rate losses.

The increase in interest and similar expenses within the financial result is mainly due to the interest expense on provisions for pensions.

The earnings before taxes increased from €80.9m in the prior year, to €153.8m in fiscal year 2016/17. Net income for the fiscal year under review amounted to €110.5m (prior year: €42.7m).

Balance sheet

	30 Sep 2017	30 Sep 2016		Change
	€k	€k	€k	in %
ASSETS				
A. Fixed assets	**496,526**	**496,273**	**253**	**0.1%**
I. Intangible assets	131,245	143,133	(11,888)	-8.3%
II. Property, plant and equipment	19,067	17,993	1,074	6.0%
III. Financial assets	346,214	335,147	11,067	3.3%
B. Current assets	**864,715**	**500,472**	**364,243**	**72.8%**
I. Inventories	115,134	96,085	19,049	19.8%
II. Receivables and other assets	749,512	404,314	345,198	85.4%
III. Cash-in-hand and bank balances	69	73	(4)	-5.5%
C. Deferred income	**808**	**701**	**107**	**15.3%**
D. Asset-side difference arising from asset offsetting	**18,627**	**10,022**	**8,605**	**85.9%**
Total assets	**1,380,676**	**1,007,468**	**373,208**	**37.0%**
EQUITY AND LIABILITIES				
A. Equity	**1,235,789**	**846,268**	**389,521**	**46.0%**
I. Share capital	89,441	81,310	8,131	10.0%
II. Capital reserve	954,942	646,454	308,488	47.7%
III. Retained earnings	2,940	2,940	-	0.0%
IV. Net retained profits	188,466	115,564	72,902	63.1%
B. Special reserve for investment subsidies	**48**	**81**	**(33)**	**-40.7%**
C. Provisions	**47,529**	**70,763**	**(23,234)**	**-32.8%**
D. Liabilities	**95,164**	**86,817**	**8,347**	**9.6%**
E. Deferred income	**2,146**	**2,167**	**(21)**	**-1.0%**
F. Deferred tax liabilities	**-**	**1,372**	**(1,372)**	**-100.0%**
Total liabilities	**1,380,676**	**1,007,468**	**373,208**	**37.0%**

Net assets and results of operations

Pursuant to German commercial law (HGB), the total assets of Carl Zeiss Meditec AG amounted to €1,380.7m as of 30 September 2017. This corresponds to an increase of 37.0% compared with the prior year (€1,007.5m).

Inventories increased from €96.1m in the prior year, to €115.1m, 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 attributable to receivables from the Group treasury of the Carl Zeiss Group, which increased from €236.4m in the prior year, to €576.0m in the year under review. A large part of this increase is due to the issue proceeds from the capital increase in March 2017.

Cash and cash equivalents consist exclusively of bank balances. Term deposit balances are deposited with the Group treasury of the Carl Zeiss Group and are recognized under "Receivables from affiliated companies".

Net retained profits increased by the net income for the fiscal year of €110.5m, less the dividend paid of €37.6m.

Provisions decreased compared with the prior year, to €47.5m (prior year: €70.8m). This is mainly due to lower 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) decreased to 11.5% as of 30 September 2017 (30 September 2016: 18.8 %).

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 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 2017, Carl Zeiss Meditec AG had 1,268 employees. This number does not include any Management Board members.

Appropriation of profits

Fiscal year 2016/17 closes with net income for the year of €110,467,237.09. The Management Board proposes utilizing the net retained profits of €188,465,912.90 for fiscal year 2016/17 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: € 139,273,599.40.

Declaration on corporate governance (pursuant to Section 289A HGB, 315 (4) HGB) and corporate governance report

The declaration on corporate governance (pursuant to Section 289a HGB and 315 (5) 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/erklaerung-zur-unternehmensfuehrung.

REMUNERATION REPORT

Remuneration of the Management Board

The members of the Management Board are remunerated based on Section 87 German Stock Corporation Act (Aktiengesetz). 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 5 December 2016, the Supervisory Board addressed the achievement of objectives by the Management Board members for fiscal year 2015/2016, and stipulated the relevant variable remunerations. At its meeting on 2 February 2017 the Supervisory Board resolved an extension of the employment contracts expiring on 30 September 2017 of the two Management Board members, for a period of five years from 1 October 2017 to 30 September 2022.

In addition, the amount of remuneration payable to the members of the Management Board was reviewed, in the same meeting on 2 February 2017, based on the salary situation compared to the market, general price and salary trends and achievements demonstrated and expected in future, and adjusted for Management Board member Dr. Christian Müller, effective from 1 October 2016, and for President and CEO, Dr. Ludwin Monz, effective from 1 January 2017.

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 and qualitative targets. The main quantitative targets are Economic Value Added® (EVA®)and free cash flow. Certain strategic targets agreed individually with the members of the Management Board are also taken into consideration. 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 Carl 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 Carl Zeiss Group is higher than 20% at this point. The first payment was made in December 2014. The next payment is forecast for December 2017.

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 (figures in €k)

	Management Board remuneration						
	Fiscal year	Fixed remuneration	Remuneration in kind and other remuneration[18]	Variable remuneration[19]	Total remuneration paid directly	LTIP	Total remuneration pursuant to Section 314 (1) No. 6a) HGB
Dr. Ludwin Monz	**2016/17**	375.0	16.3	387.5	778.8	305.0	1,083.8
	2015/16	300.0	16.2	416.2[20]	732.4	155.6	888.0
Dr. Christian Müller	**2016/17**	324.0	18.5	235.2	577.7	130.0	707.7
	2015/16	252.0	18.4	198.0[20]	468.4	126.1	594.5
Thomas Simmerer	**2016/17**	-	-	-	-	-	-
	2015/16	280.8	44.0	269.5[20]	594.3	123.8	718.1

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.

[18] 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.
[19] Variable remuneration corresponds to the amounts paid in the respective fiscal year.
[20] Variable remunerations in the prior year include both the formation of a provision for the bonus for the current fiscal year and payments for the bonus for the prior year, insofar as this differs from the prior year's figure.

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

	Fiscal year	Current service cost	Present value of pension commitment, total
Dr. Ludwin Monz[21]	**2016/17**	277.1	-
	2015/16	155.1	-
Dr. Christian Müller	**2016/17**	42.6	639.2
	2015/16	32.2	694.9
Thomas Simmerer	**2016/17**	-	-
	2015/16	30.8	356.1

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 €1,139.8k (prior year: €990.7k).

Value of benefits granted for fiscal year 2016/17 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.
Tranche 2015/16 of the benefits granted in fiscal year 2015/16 shows the proportionate interest cost, which was paid out with the previous year's values (underlying and interest yield) in fiscal year 2015/16.

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
	2016/17	2015/16	**2016/17**	**2016/17**
Value of benefits granted	€k	€k	€k	€k
1. Fixed remuneration	375.0	300.0	375.0	375.0
2. Fringe benefits	16.3	16.2	16.3	16.3
3. Total	**391.3**	**316.2**	**391.3**	**391.3**
4. Single-year variable compensation (VCS)	292.5	270.0	-	585.0
5. Multi-year variable compensation (LTI)	**860.1**	**418.6**	**-**	**1,522.7**
2015/16	-	11.4	-	-
2016/17	305.0	145.3	-	447.5
2017/18	203.5	126.9	-	372.1
2018/19	168.8	135.0	-	337.5
2019/20	182.8	-	-	365.6
6. Pension cost	277.1	155.1	277.1	277.1

[21] 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

	2016/17	2015/16
Allocation amount for the fiscal year	€k	€k
1. Fixed remuneration	375.0	300.0
2. Fringe benefits	16.3	16.2
3. Total	**391.3**	**316.2**
4. Single-year variable compensation (VCS)	387.5	416.2
5. Multi-year variable compensation (LTI)	305.0	155.6
6. Total	**1,083.8**	**888.0**
7. Pension cost	277.1	155.1
8. Total remuneration	**1,360.9**	**1,043.1**

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
	2016/17	2015/16	2016/17	2016/17
Value of benefits granted	€k	€k	€k	€k
1. Fixed remuneration	324.0	252.0	324.0	324.0
2. Fringe benefits	18.5	18.4	18.5	18.5
3. Total	**342.5**	**270.4**	**342.5**	**342.5**
4. Single-year variable compensation (VCS)	216.0	168.0	0	567.0
5. Multi-year variable compensation (LTI)	**428.6**	**272.9**	**0**	**567.0**
2015/16	-	9.3	0	-
2016/17	130.0	111.8	0-	145.4
2017/18	76.6	64.8	0	94.2
2018/19	104.4	87.0	0	139.2
2019/20	117.6	-	0	188.2
6. Pension cost	42.6	32.2	42.6	42.6

Allocation amount in reporting year Dr. Christian Müller

Dr. Christian Müller
CFO
Member of the Management Board since 15 December 2009

	2016/17	2015/16
Allocation amount for the fiscal year	€k	€k
1. Fixed remuneration	324.0	252.0
2. Fringe benefits	18.5	18.4
3. Total	**342.5**	**270.4**
4. Single-year variable compensation (VCS)	235.2	174.0
5. Multi-year variable compensation (LTI)	130.0	126.1
6. Total	**707.7**	**570.5**
7. Pension cost	42.6	32.2
8. Total remuneration	**750.3**	**602.7**

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.

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)	**2016/17**	60.0	-	60.0
	2015/16	60.0	2.6	62.6
Dr. Carla Kriwet (Deputy Chairwoman)	**2016/17**	45.0	-	45.0
	2015/16	37.3	-	37.3
Dr. Markus Guthoff	**2016/17**	45.0	5.0	50.0
	2015/16	52.7	2.4	55.1
Thomas Spitzenpfeil[22]	**2016/17**	30.0	5.0	35.0
	2015/16	30.0	5.0	35.0
Cornelia Grandy	**2016/17**	30.0	-	30.0
	2015/16	30.0	-	30.0
Jörg Heinrich	**2016/17**	30.0	5.0	35.0
	2015/16	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 2016/17.

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 damage up to at least one-and-a-half times the fixed annual remuneration.

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.

[22] Mr. Thomas Spitzenpfeil waived his entitlement to remuneration for fiscal year 2016/17 by way of a waiver declaration as in the prior year.

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 is it 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 on earnings of these risks equates to an amount in the mid-single-digit to the low double-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 Carl Zeiss Group have close contractual relationships in some areas. This is particularly the case in the procurement of IT services, the licensed use of the ZEISS brand and agreements with distribution companies of the Carl 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 to low double-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 information technology (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 €174.3m 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 €172.6m of this goodwill is attributable to the Ophthalmic Devices SBU, and €1.7m 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 "(29) 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 76.5%, 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 "(35) 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 growth may be curbed significantly by the euro crisis, the debt situation in the USA and a slowdown in growth in China. 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. Thanks to the early-warning system established within the Company, these risks are recognized in good time and can be countered accordingly. 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 assessments, the Company is not exposed to any significant risks.

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 predicted with certainty, demand may be considerably dampened by the financial situation of consumers.

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 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 the 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. The potential negative impact these risks could have on earnings equates to an amount in the low to mid-single-digit million euro range.

Infrastructure risks
Uncontrollable environmental influences, such as natural disasters or terrorist attacks, may result in the loss of employees or 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 Group department. The Finance Group 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 0.9% in the year under review (prior year: 0.8 %).

The Carl Zeiss Meditec Group's financial situation can be considered sound. Cash and cash equivalents amounted to €3.9m as of the balance sheet date 30 September 2017. Added to this are credit balances recognized as receivables from the treasury of the Carl Zeiss Group, in the amount of €630.7m. The Group also generated cash flows from operating activities of €37.7m 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 Carl 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 Carl Zeiss AG.

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 289 (4) AND SECTION 315 (4) HGB

Carl Zeiss Meditec AG's subscribed capital amounts to €89,440,570.00 and is composed of 89,440,570.00 no-par value ordinary bearer shares (no-par value shares), each with a theoretical interest in the share capital of €1.00 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 Annual 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. 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 the 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 own 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. This authorization was partly utilized in March 2017 by way of the share capital increase by €8,130,960.00, with the exclusion of the subscription right. The remaining authorized capital amounts to €32,523,845.00.

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 own 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

The development of business at the beginning of fiscal year 2017/18 validates the statements made in the "Outlook" below.

We refer here to the information in the notes to the financial statements under section 37 "Events after the end of the reporting period".

OUTLOOK

Corporate strategy

As market and technology leader in the field of ophthalmology and microsurgery, Carl Zeiss Meditec AG's aim is to achieve sustainable, profitable growth, by improving the diagnosis and treatment of diseases with innovative products and solutions. Key success factors here include: Innovation, the development of integrated solutions and customer focus. Innovation, in particular, plays a key role.

Customer focus

The customers of the Carl Zeiss Meditec Group are facing major challenges in managing rising case numbers, limited public funding and more demanding expectations of patients with respect to the treatment outcome. Integrated products and solutions can help to increase workflow efficiency and reduce costs, e.g. by providing clinical decision aids for the physician and options for easy outsourcing of routine tasks to medical auxiliary staff. Digitalization offers massive opportunities here, for example in the field of data management solutions. For the Company, a key prerequisite for long-term success is having an exact understanding of our customers' requirements and offering a range of services that is tailored to these requirements. In fiscal year 2016/17, the service share of Group revenue amounted to approximately 9.1%. A further moderate increase in the service share of consolidated revenue is expected in the medium term.

Innovation

The goal is to make cutting-edge technology in medical application accessible for the customers of Carl Zeiss Meditec AG. The Company is therefore striving to establish products as new gold standards in medical diagnostics and therapy. Technology leadership is ensured by continuously high investments in research and development.

Integrated solutions

Based on the large number of diagnostic and therapeutic devices typically found in a medical practice or clinic, customers are being given the opportunity to make their workflows more efficient and improve clinical outcomes by logically networking devices and systems. A comprehensive system integration including IT-assisted analysis functions is essential for this.

Future conditions for business development

Macroeconomic environment[19]

At the current time, fiscal year 2017/18 is expected to bring continuous moderate economic growth. The emerging economies shall continue to provide considerable impetus for growth, while growth rates in the industrialized nations will remain almost the same. According to forecasts, economic growth in the USA will be at a similar level, while a moderate decline is expected in Japan and Europe. Growth in the emerging Asian markets shall continue, although growth rates are expected to flatten off in China and increase slightly in India. Growth in Latin America is back on the increase, also due to the rise in growth following the recession in Brazil.

At the present time, there are hardly any potential risk factors clouding growth prospects for the global economy. Credit-financed investments are creating impetus for growth; however, a mounting debt also harbors risks. In addition, the possibility of adverse effects due to protectionist and politically motivated measures cannot be ruled out. The as yet unforeseeable effects of Brexit, a possible escalation 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.

[19] International Monetary Fund, „World Economic Outlook", July 2017, Washington D.C.

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 a growing global population, key growth drivers include an increasing proportion of elderly people and a growing percentage of the global population with access to medical care.

Furthermore, the greater requirements being placed on innovation performance in the medical technology industry play an important role from an efficiency and cost perspective. 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. Integrated system solutions for simplified workflows at the customer are an important distinguishing feature.

The medical technology sector has also not been left untouched by digitalization. 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.

Last but not least, the development of the global economy influences the growth of the medical technology industry inasmuch as private customers or public authorities make the timing of their investment decisions dependent on this to a certain degree.

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
Revenue in the Ophthalmic Devices SBU developed positively in the past fiscal year. Further growth is anticipated in 2017/18. 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 innovative 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 in the low to mid-single-digit percentage range. The EBIT margin is expected to remain below the Group average.

Strategic business unit Microsurgery
In the past fiscal year, the Microsurgery SBU achieved slight 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 make a positive contribution over the course of the next fiscal year.

The Company also expects continued significant earnings contributions in the Microsurgery SBU in future and is optimistic that it will achieve growth that is at least on a par with the underlying market in the coming fiscal year. From a current perspective, and excluding currency effects, this corresponds to growth in the low-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 Carl Zeiss Group in India and China, which the Carl Zeiss Meditec Group uses for product development, shall help to expand and secure this growth. The aim in future shall be to exploit the potential in these countries to an even greater extent and 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. Upstream from this is the search for new technologies and market trends, in order to subsequently become established on the market with new solutions. The important thing is to consider the regional market conditions and the needs of the customers in the development process from the outset. The aim for fiscal year 2017/18 is to invest around 11% to 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 in fiscal year 2017/18, which is about the same as in 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 35.0% (prior year: 34.7%). The share capital was increased in March 2017, with gross issue proceeds of €317m. The Company’s objective with this step is to accelerate the growth strategy, to serve in particular acquisitions and general business purposes.

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, as well as to recruit well qualified specialists and managers for the Company. Employee growth that correlates with the Company’s business development is therefore anticipated in the coming periods.

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

2017 current cash and cash equivalents of €565.0m were 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 2017/18 we aim to achieve operative cash flow in the high double-digit millions, 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 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. It is anticipated that revenue growth will be at least on a par with the market growth expected for the industry. From a current perspective, and excluding currency effects, this corresponds to growth 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 2016/17 we achieved a share of around 33%. From a current perspective, we expect a further increase in fiscal year 2017/18 and in the medium term.

In fiscal year 2016/17 the EBIT margin increased from 14.2% in the prior year, to 15.2%. Even excluding one-time disposal proceeds of €7.5m in the first quarter of 2016/17, the EBIT margin would have increased further in fiscal year 2016/17. Due in particular to the positive development of revenue, the improved product mix and the increased proportion of case-number-dependent revenue, Carl Zeiss Meditec AG anticipates – on a comparable basis – an EBIT margin of between 14% and 16% in fiscal year 2017/18 and in the medium term

In terms of free cash flow for fiscal year 2017/18, Carl Zeiss Meditec AG anticipates a figure that is still at least in the high double-digit millions. We expect Economic Value Added® (EVA®) in the coming fiscal year to be on a similar level to fiscal year 2016/17.

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

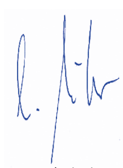
As a group company within Carl Zeiss AG, Carl Zeiss Meditec AG has prepared a dependent company report pursuant to Section 312 German Stock Corporation Act (AktG). In light of the circumstances known to the Management Board at the time the legal transactions were concluded, the companies of Carl Zeiss 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 289A, 315 (5) HGB) AND CORPORATE GOVERNANCE REPORT

The declaration on corporate governance (pursuant to Section 289a HGB and 315 (5)) 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 under www.zeiss.com/meditec-ag/ir "Declaration on Corporate Governance".

Jena, 24 November 2017



Dr. Ludwin Monz
Chairman of the Management Board

Dr. Christian Müller
Member of the Management Board