Summary management report
for fiscal year 2015/16

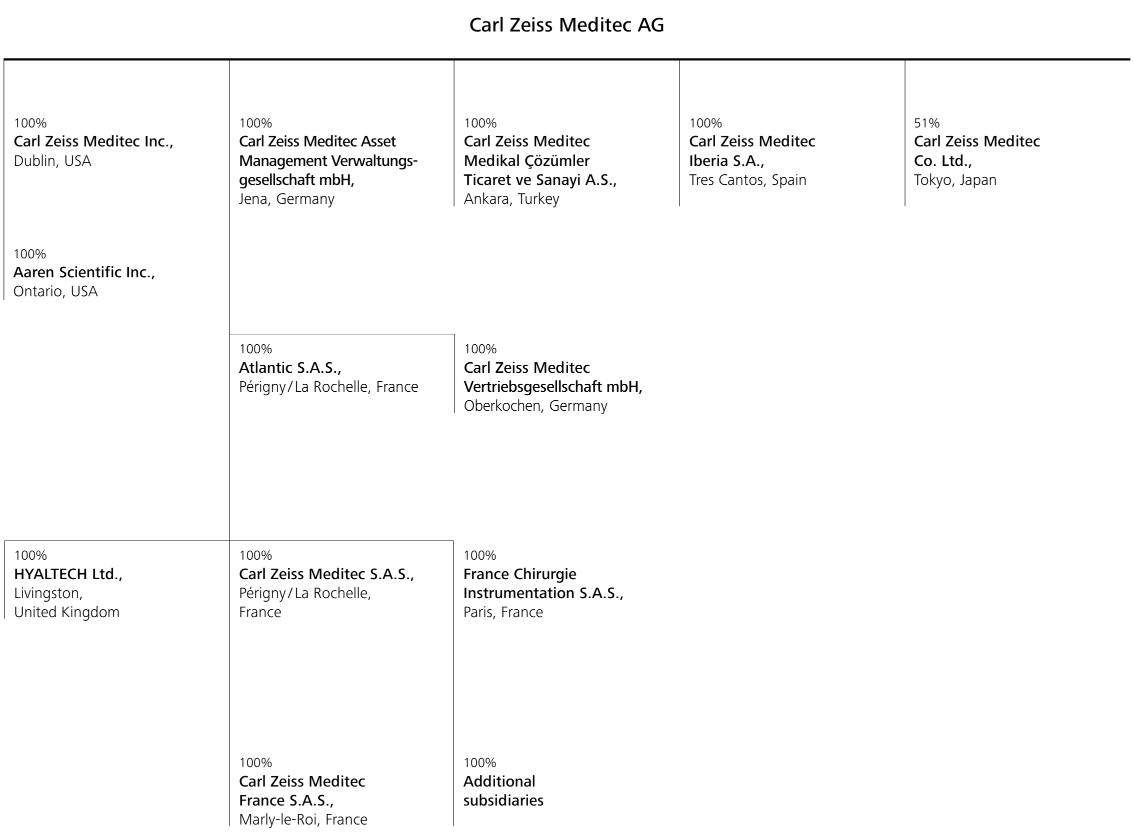
THE CARL ZEISS MEDITEC GROUP

Group structure

The Carl Zeiss Meditec Group (Carl Zeiss Meditec Group, 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 at that 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. Therefore, for the purposes of more compact presentation, the business development of Carl Zeiss Meditec AG and the Carl Zeiss Meditec Group shall be presented as a summary management report from fiscal year 2015/16.

Investment structure of the Carl Zeiss Meditec Group as of 30 September 2016



No changes were made to the Group's reporting entity or the structure of its consolidated financial statements in fiscal year 2015/16.

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 sales network of the 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 ZEISS Group. Of the around 25 research and development locations of the ZEISS Group worldwide, in particular China and India 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 distinction is made within the Carl Zeiss Meditec Group essentially between two main areas in which the Company operates: Ophthalmology and Microsurgery. Up until 31 July 2016, the operative business was divided into three strategic business units (SBUs). In addition to Microsurgery (MSC), there were two strategic business units within Ophthalmology: Ophthalmic Systems (OPH) and Surgical Ophthalmology (SUR).

The organizational structure was modified on 1 August 2016. Two of the former three strategic business units, the SBU OPH and the SBU SUR, were combined to form a new Ophthalmic Devices SBU, which comprises the entire ophthalmic business. A distinction shall be made from now on between the two strategic business units Ophthalmic Devices (OPT) and Microsurgery (MCS), in which the operational business is condensed according to similar application areas and customer groups. The objective of this organizational change was to establish uniform management of the ophthalmic business as a whole and to strengthen the focus on customers and consolidate the range of integrated solutions from a single source.

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 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 a comprehensive range of products for investigating all clinical pictures. 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 (IOLs) 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 extends from the standard (monofocal lenses) to the premium segment (for example 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 minimally invasive refractive surgery.

A further focus is the networking of systems and the integrated management of data, to make workflows in hospitals and medical practices efficient. For this purpose 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 full examination history of the patient.

Microsurgery

In the Microsurgery strategic business unit the Carl Zeiss Meditec Group provides visualization solutions for minimally invasive surgical treatments. The state-of-the-art surgical microscopes for neurosurgery, ear, nose and throat (ENT), plastic and reconstructive (P & R) surgery, as well as dental surgery and spinal surgery, are essential tools, for example in the surgical treatment of tumors or vascular diseases, such as aneurysms. 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 screens. In surgical oncology, the innovative radiation device INTRABEAM® enables the Company to offer patients a gentle, intraoperative treatment option for certain types of tumors.

Group strategy

It is the strategy of the Carl Zeiss Meditec Group to achieve sustainable, profitable growth as market and technology leader in the field of ophthalmology and microsurgery. The product range is aimed at improving the treatment result and reducing treatment costs through efficient and effective approaches. The success factors are: customer focus, innovation and integrated solutions for diagnosis and treatment.

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 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. Digitization offers us massive opportunities in this respect, 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 meeting 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 technology leadership by cooperating closely with its customers and by continuing to invest heavily in research and development (R&D).

Integrated solutions

Given the multitude of diagnostic and therapeutic devices typically used in medical practices and clinics, customers are offered the opportunity to make their workflows more efficient, and to achieve better clinical outcomes, by logically networking their devices and systems. 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 newly created as part of the organizational change on 1 August 2016. This 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, for example, Group Finance, Group Communications or Human Resources 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 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®")[1], Free Cash Flow (FCF)[2] 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.

[1] Calculation: EVA® = operating result after taxes minus capital costs of €43.5m for 2015/16 (calculation of capital costs: average committed business assets 2015/16 (€524.6m) multiplied by capital cost rate 2015/16 (8.3%)

[2] 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 + 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

BUSINESS REPORT

Underlying conditions for business development

Macroeconomic environment[3]

During the reporting period, the global economy grew at a significantly slower rate than forecast. The rapidly developing economies in Asia, such as India and China, continued to grow at above-average rates, although growth in China cooled considerably. The markets in Latin America did not develop uniformly; a significant recession in Brazil offset moderate growth in Mexico. Market growth in the industrialized countries was moderate in fiscal year 2015/16, but was weaker than expected. The upturn in the U.S. and Japan was considerably smaller than expected; market growth in the eurozone was as expected.

Uncertainties in the markets, particularly in China and Brazil, low oil prices, uncertainty due to Brexit, the situation in the Middle East and ongoing structural problems, were major political and economic issues, which impacted negatively on investment activity in industry and the public sector.

Situation in the medical technology industry

The Company believes that medical technology is one of the fast-growing sectors in the medium to long term. Growth drivers are medical progress and megatrends, such as the demographic trend due to increasing life expectancy and population growth. While a rising per-capita income is increasing demand for basic healthcare in rapidly developing economies, people in western regions are increasingly willing to pay more for better-quality services. As a result, the Company assumes that the total number of patients suffering from age-related illnesses will continuously rise. At the same time, it is expected that there will be a growing need for comprehensive and high-quality health care.

In the traditional markets of western industrialized nations the Company assumes that the demand for medical technology innovations and a higher quality of treatment will continue to rise as a result of higher and higher consumer and patient demands, due to a growing tendency 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. In addition, tighter regulations and varying regulatory requirements regionally is a growing challenge with regard to product development and approval.

Equally high are the demands on manufacturers to offer products and solutions that increase the efficiency of workflows for customers and that offer effective treatment methods to patients.

The demand for health care goods and services in the rapidly developing economies (RDEs) also creates significant future growth potential for the medical technology sector, due to the rising per capita income and growing prosperity in these countries. Increases in the volumes of conventional medical technology and basic health care products, in particular, shall play an increasingly more important role here, due to improvements in the standard of living.

[3] International Monetary Fund, "World Economic Outlook", July 2016, Washington D.C.

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

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$36.7b (about €31.9b) in 2015[4]. 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$9.8b, or around €8.5b[4], in 2015.

The Carl Zeiss Meditec Group estimates its share of the "devices and systems for ophthalmology" market segment, traditionally served by the Company, at about US$3.2b or €2.8b[4] or about 20% in 2015. In the market segment "implants, consumables and instruments for ophthalmic surgery", the Carl Zeiss Meditec Group estimates its global market share in 2015 at about 5%. However, our regional market shares in the countries the Company is currently focusing on range between 5% and 30%.

As described in the section "Situation in the medical technology industry", the Carl Zeiss Meditec Group's medium-term forecast is further long-term growth in the market for ophthalmic products, regardless of annual fluctuations.

Based on the information at hand, the Group estimates that it slightly increased its market share overall in the market segments it addresses, in comparison with the prior year.

b) Market for microsurgery products

Besides ophthalmology, the Company also operates in the market for microsurgery, particularly in the field of neuro/ENT surgery. The overall neuro/ENT surgery market is divided into three 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, this market segment had a total volume of around US$1.6b or €1.4b[4], in 2015. 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. According to own estimates, the Carl Zeiss Meditec Group continues to be the global market leader in the sub-segment "Surgical microscopes", with a market share of more than 50%.

As described in the section "Situation in the medical technology industry", the Carl Zeiss Meditec Group's medium-term forecast is further long-term growth in the market for microsurgery products, regardless of annual fluctuations.

[4] At average rate for fiscal year 2014/15 (€1 = US$1.1485)

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

With revenue of €1,088.4m and growth of 4.6%, the Carl Zeiss Meditec Group achieved the forecast range of €1,080m to €1,120m for fiscal year 2015/16. Boosted by positive currency effects, the Ophthalmology sector and the Asia/Pacific region (APAC), in particular, contributed to this development of business.

Primarily driven by the positive development in the refractive laser business, the SBU Ophthalmic Systems showed growth of 7.5%, and thus slightly exceeded the expectations of a low to mid-single-digit percentage growth, while currency effects also had a slightly positive effect. Nevertheless, the situation in Ophthalmic Diagnostics remains tense due to the strong competitive pressure. This is counteracted with corresponding initiatives in terms of product innovations, sales measures and cost reductions.

Overall, the market for products of the Surgical Ophthalmology SBU was slightly weaker than expected. Growth in the Surgical Ophthalmology SBU was accordingly slightly lower compared with the prior year, at 4.3%, but was in line with the forecast of an increase within at least the mid-single-digit percentage range. The SBU nevertheless grew faster than the corresponding market as a whole and further strengthened its competitive position, particularly in the area of intraocular lenses, which recorded a double-digit percentage increase.

The growth of the Ophthalmic Systems SBU and the Surgical Ophthalmology SBU amounted to total growth of 6.0% for the newly created strategic business unit, **Ophthalmic Devices**. Currency effects had a positive impact on growth of this segment. Adjusted for currency effects, revenue increased by 4.1%.

Growth momentum in the market environment of the **Microsurgery** SBU remained slow during the year. The strategic business unit nevertheless retained its leading market position, as expected, and achieved revenue growth in the low single-digit percentage range (1.3%).

Earnings before interest and taxes (EBIT) increased to €154.3m. Relative to revenue, the Group achieved an EBIT margin of 14.2% (prior year: 12.6%) which was therefore within the range of 13% to 15% forecast for both fiscal year 2015/16 and the medium term. The significant increase in the EBIT margin is attributable to a strict cost discipline and a more favorable product mix with a higher proportion of case-number-dependent revenue.

The EBIT margin in the Ophthalmic Systems SBU improved significantly, particularly as a result of the positive development in the field of refractive lasers, but was slightly below the group average, as expected. The Surgical Ophthalmology SBU achieved significant margin growth due to strict cost management and growth-related economies of scale, and was slightly higher than the Group average for the fiscal year as a whole. Accordingly, the development of the EBIT margin within the newly created **Ophthalmic Devices** SBU was positive overall. 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 €111.8m in fiscal year 2015/16, the Group's cash flow from operating activities is significantly higher than in the prior year (prior year: €56.7m).

Free cash flow increased to €146.0m (prior year: €91.1m). EVA rose to €64.7m, compared with €42.0m 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 past fiscal year R&D spending amounted to 11.3% of revenue.

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

Comparison of actual business development with forecast development in fiscal year 2015/16

	Results 2015/16	Forecast 2015/16
Group revenue	€1,088m	€1,080 - 1,120m
Former Ophthalmic Systems SBU	7.5%	Growth in low to mid-single-digit percentage range
Former Surgical Ophthalmology SBU	4.3%	Growth in mid-single-digit percentage range
Microsurgery	1.3%	Growth in low-single-digit percentage range
EBIT margin	14.2%	13% - 15%
Cash flow from operating activities	€111.8m	Substantial double-digit millions
Research and development expenses/revenue	11.3%	10% - 11%
Free cash flow (FCF)	€146.0m	High double-digit millions
Economic Value Added® ("EVA®")	€64.7m	slight improvement

Results of operations

Presentation of results of operations

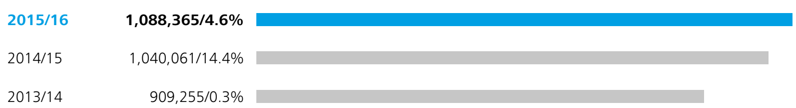
Summary of key ratios in the consolidated income statement
Figures in €k, unless otherwise stated

	2015/16	2014/15	Change
	€k	€k	in %
Revenue	1,088,365	1,040,061	+4.6%
Gross margin	53.2%	51.9%	+1.3% pts
EBITDA	174,558	149,753	+16.6%
EBITDA margin	16.0%	14.4%	+1.6% pts
EBIT	154,332	130,591	+18.2%
EBIT margin	14.2%	12.6%	+1.6% pts
Earnings before income taxes	141,961	101,720	+39.6%
Tax rate	29.6%	35.5%	-5.9% pts
Consolidated net income after non-controlling interests	98,330	62,297	+57.8%
Earnings per share after non-controlling interests	€1.21	€0.77	+57.8%

Revenue

The Carl Zeiss Meditec Group increased its revenue by 4.6% to €1,088.4m (prior year: €1,040.1m) in fiscal year 2015/16, and thus achieved the forecast range proposed in May 2016 of €1,080m to €1,120m. The Group benefited from positive currency effects. After adjustment for currency effects, growth amounted to 2.7%. In particular the area of Ophthalmology and the APAC region contributed to this growth.

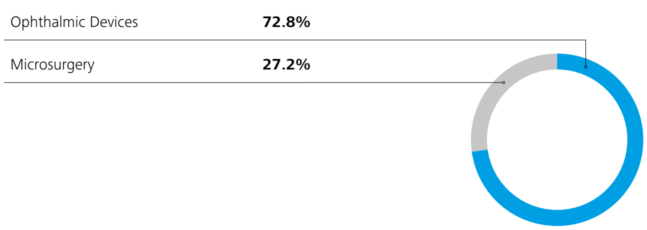
Consolidated revenue in €k /growth in %



a) Consolidated revenue by strategic business unit

Since the merging of the two former strategic business units Ophthalmic Systems and Surgical Ophthalmology on 1 August 2016, almost three-quarters of Group revenue has been generated in the newly established **Ophthalmic Devices** strategic business unit (72.8%; prior year: 71.9%). The **Microsurgery** strategic business unit accounted for 27.2% (prior year: 28.1%) of consolidated revenue. In the reporting year, 38.7% (prior year: 37.7%) of total revenue was attributable to the strategic business unit Ophthalmic Systems and 34.1% (prior year: 34.2%) to Surgical Ophthalmology.

Share of strategic business units in consolidated revenue in fiscal year 2015/16



The revenue growth of the new **Ophthalmic Devices** strategic business unit amounted to 6.0% for fiscal year 2015/16 (adjusted for currency effects: 4.1%). Revenue amounted to €791.9m (prior year: €747.2m).

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 year. Measures aimed at improving the competitiveness continued in the past fiscal year. Business with intraocular lenses and consumables for cataract surgery and biometry developed positively, whereas the business with ophthalmic surgery microscopes moved sideways, after strong demand in the prior year.

Revenue of the Ophthalmic Systems strategic business unit increased by 7.5%, from €392.0m to €421.2m. Assuming constant exchange rates, revenue grew by 5.2%.

In the former Surgical Ophthalmology strategic business unit, revenue increased from €355.3m to €370.7m. This corresponds to growth of 4.3% (adjusted for currency effects: 2.9%).

There was a slight downturn in business of -0.9% in the **Microsurgery** strategic business unit, after adjustment for currency effects. Business in Japan, in particular, was restrained. Boosted by currency effects, the SBU grew slightly, by 1.3%.

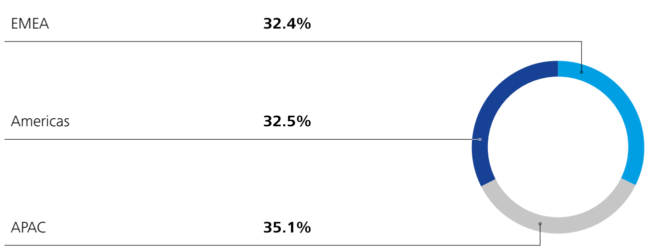
Revenue by strategic business unit

	2015/16	2014/15	Change in %	
	€k	€k		adjusted for currency effects
Ophthalmic Devices	791,866	747,225	6.0	4.1
Microsurgery	296,499	292,836	1.3	-0.9
Carl Zeiss Meditec Group	**1,088,365**	**1,040,061**	**4.6**	**2.7**

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 32.4% (prior year: 34.5%) **of consolidated revenue**. The **Americas** and **Asia/Pacific (APAC)** regions accounted for 32.5% (prior year: 34.8%) and 35.1% (prior year: 30.7%), respectively, of the Group's total revenue. The APAC region provided the highest contribution to revenue for the first time and also achieved the highest revenue growth of 19.5% (adjusted for currency effects: 15.5%).

Share of regions in consolidated revenue in fiscal year 2015/16



Revenue in the **EMEA** region fell by a slight -1.7%, or -1.3% after adjustment for currency effects, from €358.8m in the prior year to €352.7m. Business in individual markets was very heterogeneous, however. Germany, France and the United Kingdom made good contributions to revenue, while declines were recorded particularly in Southern Europe and the Middle East.

Business in the **Americas** region declined by -2.2%, or -4.9% after adjustment for currency effects. Revenue amounted to €354.0m (prior year: €361.9m). This was mainly attributable to declining revenue in Ophthalmic Diagnostics due to persistently intense competitive pressure.

The **APAC** region made a substantial contribution to growth within the Group, increasing its revenue by 19.5%, to €381.7m (prior year: €319.4m). Adjusted for currency effects, growth was of a similar magnitude of 15.5%, with China, Southeast Asia and South Korea as the strongest growth drivers.

Consolidated revenue by region

	2015/16	2014/15	Change in %	
	€k	€k		adjusted for currency effects
EMEA	352,691	358,753	-1.7	-1.3
Americas	354,005	361,882	-2.2	-4.9
APAC	381,669	319,426	19.5	15.5
Carl Zeiss Meditec Group	**1,088,365**	**1,040,061**	**4.6**	**2.7**

Gross profit
In fiscal year 2015/16, gross profit increased from €539.7m to €579.6m. The gross margin for the reporting period increased to 53.2% (prior year: 51.9%). 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 Ophthalmology.

Functional costs
Functional costs for the reporting year amounted to €425.2m (prior year: €409.1m), thus increasing by 3.9%, which is slightly disproportionate to revenue growth. The proportion of revenue decreased slightly year-on-year, from 39.3% to 39.1%.

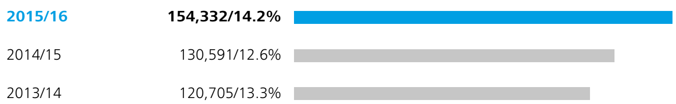
» **Selling and marketing expenses:** Selling and marketing expenses increased disproportionately to revenue growth in the fiscal year under review, by 3.0%, from €247.9m to €255.3m. Relative to revenue, selling and marketing expenses were slightly below the prior year's level, at 23.5% (prior year: 23.8%).

» **General administrative expenses:** Expenses in this area decreased by 5.5%, to €46.5m (prior year: €49.2m). The ratio of these expenses to revenue decreased from 4.7% in the prior year, to 4.3%.

» **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 10.2% in the reporting period, to €123.4m (prior year: €112.0m). At 11.3% of revenue, the R&D ratio increased slightly year-on-year (prior year: 10.8%).

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 €154.3m (prior year: €130.6m). This corresponds to an EBIT margin of 14.2% (prior year: 12.6%). The significant increase in the EBIT margin is attributable to a strict cost discipline and a more favorable product mix with a higher proportion of case-number-dependent revenue.

EBIT in €k /EBIT margin in %



EBIT in fiscal year 2015/16 included special effects in a volume amounting to €5.2m, which were associated with acquisitions and restructuring and reorganization measures, among other things.

Overview of special effects included in EBIT

	2015/16	2014/15	Change
	€m	€m	in %
EBIT	154.3	130.6	+18.2
Acquisition-related special effects[5]	3.8	4.7	-20.1
Restructuring/reorganization[6]	1.4	3.3	-57.3
Total special effects	**5.2**	**8.0**	**-35.4**

Accordingly, the development of the EBIT margin within the newly created **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, operating economies of scale, as well as cost-cutting measures accompanied by a strict cost discipline. The EBIT margin of the former Ophthalmic Systems SBU improved significantly compared with the prior year. Substantial increases in the EBIT margin were recorded in the former Surgical Ophthalmology SBU. The EBIT margin of the **Microsurgery** SBU increased only slightly compared with the prior year, due, among other things, to higher research and development expenses and the somewhat restrained revenue growth.

Earnings before interest, taxes, depreciation and amortization (**EBITDA**) amounted to €174.6m in the past fiscal year (prior year: €149.8m), resulting in an **EBITDA margin** of 16.0% (prior year: 14.4%).

The balance of **interest income and interest expenses** amounted to €-1.1m in the reporting period (prior year: €-0.2m).

Due to the recognition of currency hedges as of 30 September 2016, the financial result was impacted by foreign currency losses in the amount of €9.3m (prior year: foreign currency losses of €8.9m).

The **tax rate** for the reporting period was 29.6% (prior year: 35.5%). In the prior year, the financial result was still impacted by write-downs in connection with the impairment testing of the investments in Oraya Therapeutics Inc. As a general rule, an average annual tax rate of between 31% and 33% is assumed.

[5] Write-downs on intangible assets arose from the purchase price allocation (PPA), mainly in connection with the acquisition of Aaren Scientific Inc. in fiscal year 2013/14.

[6] Restructuring costs mainly relate to the reorganization of the Diagnostics unit within the Ophthalmic Devices strategic business unit.

Consolidated profit attributable to shareholders of the parent company for fiscal year 2015/16 amounted to €98.3m, thus increasing by 57.8% compared with the low basis of comparison in the prior year (prior year: €62.3m). Non-controlling interests accounted for €1.6m (prior year: €3.3m). In fiscal year 2015/16, basic **earnings per share of the parent company** amount to €1.21 (prior year: €0.77).

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 Carl Zeiss AG. When investing surplus liquidity, short-term availability mainly 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) (i) Financial instruments", "(27) Additional disclosures on financial instruments", "(35) Financial risk management", "(2) (u)" and "(33) Related party disclosures" and in the financial statements of Carl Zeiss Meditec AG in sections 5 "Information and explanatory notes on accounting and valuation principles", paragraph "Derivative financial instruments"”, 9 "Receivables from/ liabilities to affiliated companies" and 26 "Financial result".

Financial management

The ratio of borrowed capital to equity amounts to 46.6% as of 30 September 2016 (30 September 2015: 42.9%).

The Group's dynamic gearing ratio stands at 0.3[7] years for fiscal year 2015/16 (prior year: 2.4 years[8]).

The interest coverage ratio, i.e., the coverage of interest income by the operating result before depreciation and amortization (EBITDA), amounted to 69.4 (prior year: 101.5).

Cash inflows generated from operating activities provide an important source of financing for the Carl Zeiss Meditec Group. The Company can also create additional liquidity by issuing new shares on the capital market. Furthermore, the Company has the option to assume loans either from the Group treasury of Carl Zeiss AG or from banks.

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

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

[8] Calculation: borrowings excluding non-controlling interests, less cash and cash equivalents and less treasury receivables plus financial investments in the amount of €110m / cash flow from operating activities)

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

Separate reporting on financial instruments

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

Hedges are mainly transacted centrally by Carl Zeiss Financial Services GmbH. The services provided by Carl Zeiss Financial Services GmbH to Carl Zeiss Meditec AG and its subsidiaries are regulated by corresponding general agreements. The hedges are processed by Carl Zeiss Financial Services GmbH with external business banks. Hedges are processed exclusively by banks with a high credit rating from 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 2016. 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 €k

	2015/16	2014/15
Cash flows from operating activities	**111,770**	56,744
Cash flows from investing activities	**77,332**	-35,173
Cash flows from financing activities	**-195,021**	-19,290
Change in cash and cash equivalents	**-4,331**	2,314

Cash flows from operating activities amounted to €111.8m in the reporting period (prior year: €56.7m). This increase is primarily due to the higher consolidated profit, which is around €34m higher than the prior year. In addition, there was a less build-up of trade receivables at the end of the reporting period in fiscal year 2015/16 than in the prior year.

Cash flow from investing activities amounted to €77.3m in the period under review (prior year: €-35.2m). This amount is mainly due to the maturity of a fixed-term deposit on 30 September 2015, in the amount of €110m, which was processed via Carl Zeiss Financial Services GmbH.

Cash flow from financing activities in the past fiscal year amounts to €-195.0m (prior year: €-19.3m). The difference compared with the year-ago period is primarily attributable to an increase in treasury receivables, resulting, among other, from the maturity of the above-mentioned fixed-term deposit of €110m.

Free cash flow increased, primarily as a result of the higher cash flows from operating activities, to €146.0m (prior year: €91.1m).

Investment and depreciation policy

In order to further consolidate the good market position in the medical technology sector and strengthen our leading market position, the Company needs to make continued investments. A distinction is made here 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[9] in property, plant and equipment (cash) to consolidated revenue. In fiscal year 2015/16 this ratio was 1.2% (prior year: 1.0%).

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) (g) Other intangible assets" and "(2) (h) Property, plant and equipment" in the accompanying notes to the consolidated financial statements and in section 6 "Fixed assets" of the financial statements of Carl Zeiss Meditec AG.

[9]In fiscal year 2015/16, investments in property, plant and equipment (cash) totaled €12.8m, compared with €9.8m the prior year.

Key ratios relating to financial position

Key ratios relating to financial position

Key ratio	Definition	30 Sep 2016	30 Sep 2015	Change
		€k	€k	in %
Cash and cash equivalents	Cash-in-hand and bank balances	8,710	13,041	-33.2
Net cash	Cash-in-hand and bank balances + treasury receivables from Group treasury of Carl Zeiss AG6 ./. treasury payables to Group treasury of Carl Zeiss AG	334,582	278,410	+20.2
Net working capital	Current assets including financial investments ./. cash and cash equivalents ./. treasury receivables from Group treasury of Carl Zeiss AG ./. current liabilities excl. treasury payables to Group treasury of Carl Zeiss AG	236,984	254,498	-6.9
Working capital	Current assets ./. current liabilities	571,566	532,908	+7.3

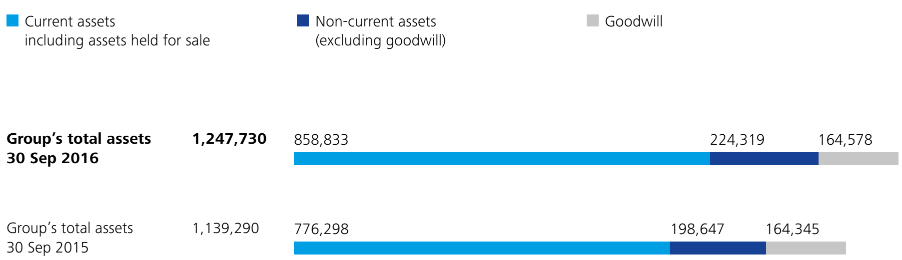
Key ratio	Definition	2015/16	2014/15	Change
Cash flow per share	Cash flow from operating activities ――― Weighted average of shares outstanding	€1.37	€0.70	+97.0%
Capex ratio	Investment (cash) in property, plant and equipment ――― Consolidated revenue	1.2%	1.0%	+0.2% pts

Net assets

Presentation of net assets

Total assets increased to €1,247.7m as of 30 September 2016 (30 September 2015: €1,139.3m).

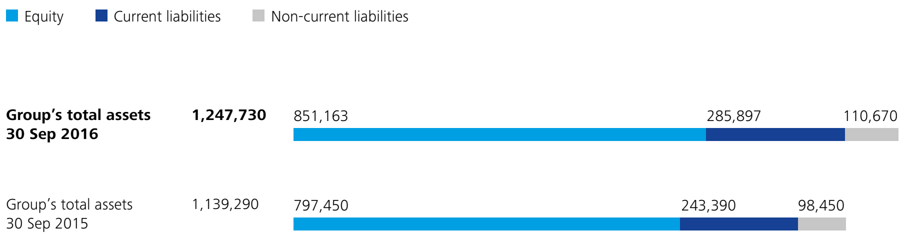
Structure of the consolidated statement of financial position – assets in €k



Non-current liabilities increased to €388.9m as of 30 September 2016 (30 September 2015: €363.0m), due mainly to an increase in deferred taxes. This is the result of higher pension commitments due to an adjustment of the discount factor arising from the fall in the interest rate.

There were significant changes in **current assets** as of 30 September 2016, which amounted to €857.5m (30 September 2015: €776.3m) resulting from an increase in treasury receivables, among others, due to a strong cash flow from operating activities. Inventories also increased as of 30 September 2016, 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 the consolidated statement of financial position – liabilities in €k



The **equity** recognized in the Carl Zeiss Meditec Group's statement of financial position amounts to €851.2m as of 30 September 2016 (30 September 2015: €797.5m). The equity ratio is 68.2% (30 September 2015: 70.0%) and thus remains high.

Non-current liabilities amounted to €110.7m as of 30 September 2016 (30 September 2015: €98.5m). This is the result of higher pension commitments due to an adjustment of the discount factor arising from the fall in the interest rate.

As of 30 September 2016, **current liabilities** amounted to €285.9m (30 September 2015: €243.4m). This increase is primarily attributable to the change in trade payables relating to the end of the reporting period, as well the change in liabilities to related parties.

Key ratios relating to net assets

Key ratios relating to net assets

Key ratio	Definition	30 Sep 2016	30 Sep 2015	Change
		in %	in %	% pts
Equity ratio	Equity (including non-controlling interests)	68.2	70.0	-1.8
	Total assets			
Inventories in % of rolling 12-month revenue	Inventories (net)	19.1	18.2	+0.9
	Rolling revenue of the past twelve months at the end of the reporting period			
Receivables in % of rolling 12-month revenue	Trade receivables at the end of the reporting period (including non-current receivables)	23.9	24.3	-0.4
	Rolling revenue of the past twelve months at the end of the reporting period			

Orders on hand

The Carl Zeiss Meditec Group's orders on hand increased by 2.1%. As of 30 September 2016 it amounted to €162.7m (30 September 2015: €157.8m).

Events of particular significance

There were no other events of particular significance during fiscal year 2015/16.

NON-FINANCIAL PERFORMANCE INDICATORS

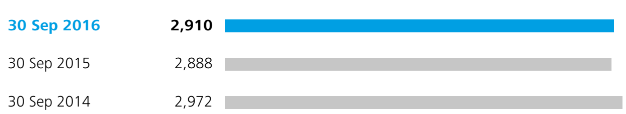
Responsibility

For Carl Zeiss Meditec Group a particular commitment to public welfare and the environment has traditionally played an important role. 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 Group believes in responsible and state-of-the-art handling of natural resources.

Employees

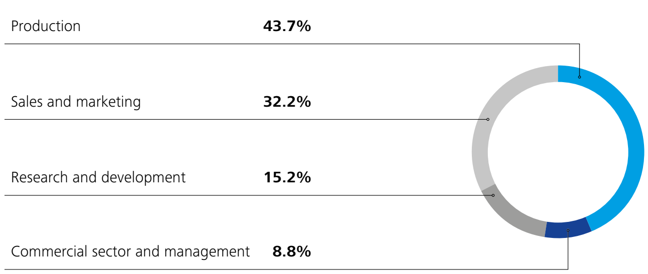
Highly qualified and motivated employees are a necessity for ensuring the long-term success of a company. Responsible human resources development and continuous improvement play a crucial role in this. As of 30 September, 2016 the Carl Zeiss Meditec Group had 2,910 employees worldwide (prior year: 2,888).

Employees



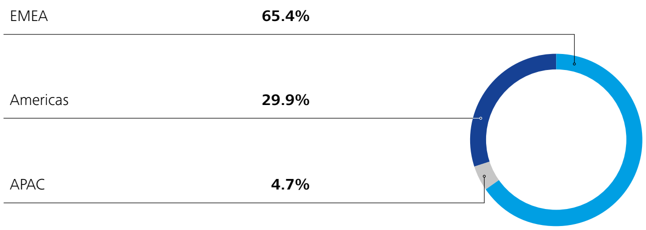
At 43.7% and 32.2%, respectively, the majority of employees were working in Production or Sales and Marketing as of 30 September 2016. The percentage of employees working in Research and Development was 15.2% at the end of the reporting period. The percentage of employees working in the commercial area as of 30 September 2016 was 8.8%.

Employees by function 30 September 2016



At 65.4%, the majority of the Carl Zeiss Meditec Group's employees work in the **EMEA** region. A total of 29.9% work in the **Americas** region and 4.7% of all employees in the **APAC** region.

Employees by region 30 September 2016



It is the Company's employees, with their expertise and achievements, who lay the foundations for the Carl Zeiss Meditec Group's global success. That is why the sustainable development and targeted support of the potential of all employees is the primary task of human resources management at the Company. The focus is on employee training and management development. To this end, the Company invested more than half a million euros in Germany alone and employed 15 trainees in Germany in fiscal year 2015/16. Employees can choose from a wide range of courses offered in the internal ZEISS qualification program. In addition, ZEISS supports measures for vocational training and qualification opportunities outside working hours. 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. Our aim is to give people in underprivileged regions (for example, RDEs) access to state-of-the-art medical care. For this reason, the Company supports many local social initiatives and dedicates itself to training and further education for physicians and medical staff, scientific and technological research and sustainable work worldwide. One focus is the global commitment to good vision as part of the VISION 2020 initiative. One special partner is the Christoffel Blindenmission (CBM). As a partner of the International Council of Ophthalmology (ICO), the Company supports the ICO Fellowship Program and the "Teaching the Teacher" program. The fellowship program aims to support particularly talented young ophthalmologists from economically poorer regions.

Environment

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

All the major manufacturing sites worldwide are certified to the international environmental management standard ISO 14001. 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 (California).

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

Production

Production plants

The Carl Zeiss Meditec Group manufactures its products in Jena, Oberkochen and Berlin in Germany, Dublin and Ontario in the USA and in La Rochelle in France. The Group also has a number of smaller sites belonging to subsidiaries of Carl Zeiss Meditec S.A.S. in Besançon (France), Livingston (Scotland) and 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 mainly manufactured in La Rochelle and Berlin, and Ontario. The broad product portfolio is rounded off by viscoelastics, which are produced at the facility in Livingston and are mainly used for treating cataracts. The two remaining production facilities of Carl Zeiss Meditec S.A.S. manufacture other instruments and consumables for the treatment of ophthalmic diseases.

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 (IOL) 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 vendor parts, as appropriate, in order to reduce its dependence on individual suppliers.

The main focus concerning 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.

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 three months, in order to ensure uninterrupted supplies for customers who cannot use their equipment without such consumables. The customers are served from the safety 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 since 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 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

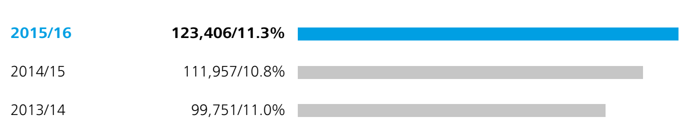
Objectives and focus of research and development

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 ensure 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. The Group is therefore striving to establish its products as new gold standards in medical diagnostics and therapy. The focus is to design more efficient workflows for the customer by integrating solutions and thus to improve clinical results. A central component of the research and development work within the Carl Zeiss Meditec Group is close cooperation with the customer and continuously high investments in research and development.

In fiscal year 2015/16 research and development expenses increased by 10.2% to €123.4m (prior year: €112.0m). At the same time, the F&E ratio increased year-on-year to 11.3% (prior year: 10.8%) and is thus slightly above the medium to long term target range of 10% to 11%.

R&D expenses in €k %/Ratio to consolidated revenue in %



In the reporting period 15.2% (prior year: 14.6%) of the entire workforce of the Carl Zeiss Meditec Group were employed in Research and Development. To a certain extent in research and development, services are procured from Carl Zeiss AG, Oberkochen, and its subsidiaries. In fiscal year 2015/16 the expenses incurred for this amounted to around 16.6% of the overall research and development expenses of €123.4m.

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
The close cooperation with our customers is a key prerequisite for the long-term success of the Company. The customers are facing challenges in managing rising case numbers, limited public funding and more demanding expectations of patients with respect to the treatment outcome. On the other hand, ensuring basic medical care for a large number of people over long distances plays an important role in RDEs. The different requirements for products and solutions are critical.

By driving innovations, the Carl Zeiss Meditec Group is constantly seeking to make cutting-edge technology in medical applications accessible for customers and to establish new standards in medical diagnostics and therapy. At the same time, customers shall be supported in their decision making by integrating data from different devices using software or by viewing data from different visits during the course of treatment. Examples of software designed for workflow efficiency are the workplaces used in ophthalmology, such as the ZEISS Retina Workplace which provides easy access to important clinical information in the management of macular diseases. In addition, technologies such as fluorescence technology and other imaging techniques should enable physicians to make better clinical decisions in diagnostic examinations and surgical treatments. The ZEISS AngioPlex™ OCT Angiography technology enables physicians to examine changes in the retinal blood vessels non-invasively, using three-dimensional images. In neurosurgery, blood flow can be made visible using fluorescence technology, to help the physician make decisions during surgery and reduce risks for the patient.

As a result, logical networking of devices and systems and integrated solutions can create more efficient workflows and improve clinical results.

The growing expectations of patients regarding therapy and ultimately the treatment outcome must be considered in the Company's research and development work. Examples include the AT LISA® and AT LISA® tri toric, intraocular lenses capable of micro-incision in cataract surgery that allow less-invasive operations for patients and visual acuity at all distances. The minimally invasive SMILE technology in refractive laser surgery also enables a more gentle 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 600,000 eyes have now been successfully treated worldwide using this minimally invasive method. The procedure has also had approval in the USA since September 2016.

Another example of close cooperation with our customers is PLEX ™ Elite 9000. PLEX™ Elite 9000[10] is an innovative and powerful application based on optical coherence tomography with swept-source technology. PLEX™ Elite 9000 is currently being made available as research technology to leading scientists within the scope of the "Advanced Retina Imaging Network" (ARIN). ARIN's focus is to test the next generation of optical coherence tomography technology. Using this innovative OCT technology, researchers can examine retinal micro-structures and the tiniest of vessels in individual sections of the eye (e.g., vitreous, retina and choroid). The delivery of OCT and OCT angiography imaging enables fast, dense, broad and deep visualization which was not previously possible with other technologies.

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 important to establish 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.

Two examples are the OCT device PRIMUS 200 and the OPMI LUMERA® 300.

The Company has expanded its OCT portfolio to include the compact device ZEISS PRIMUS 200. The device is easy to use, versatile and offers physicians new possibilities in clinical care, particularly those in smaller ophthalmic practices and in countries with fast-growing markets. The OCT procedure is used, for example, to visualize the retina in the posterior eye segment.

With the OPMI LUMERA® 300, the Company also provides a surgical microscope with an excellent price/performance ratio, allowing physicians to benefit form the renowned quality of optics and illumination of the ZEISS OPMI LUMERA product range.

However, the Company is also aware that meeting customer needs demands a strong on-site presence. With the application and research center "CARIn" (Center of Application and Research in India) targeted investments are being made in research and development projects in the immediate vicinity of our customers.

[10] The ZEISS PLEX™ Elite 9000 bears a CE marking. The device has no approval from the American Food and Drug Administration (FDA)

Brands and patents

The Company invests in innovations and solutions and ensures that these have an innovative edge with patents. The Carl Zeiss Meditec Group currently owns more than 800 patent families worldwide. The Carl Zeiss Meditec Group is granted an average of one patent a week. 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. Since a number of products have already been on the market for some time, patent protection does not extend to the basic functionality of these products, but, rather, to individual features and enhancements that protect beneficial solutions. As a result, the Group is able to successfully and permanently maintain its position in the market.

In addition, the Company has more than 630 registered brands and brand registrations (as of 30 September, 2016). These include, among others, product names, slogans, images, logos and other specific characteristics of the Company.

FINANCIAL STATEMENTS OF CARL ZEISS MEDITEC AG

Carl Zeiss Meditec AG is the parent company of the Carl Zeiss Meditec Group and is listed on the German Stock Exchange. 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 that 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 following 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 main source of liquidity comes from the business operations of its individual business units, upon which the Company's financial activities and strategic focus 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), as they are to be applied in the EU, 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 2015/16 to a successful close, thus continuing the Company's growth trend of the last few fiscal year. Sales increased by 5.9% year-on-year (adjusted for currency effects: 5.7%). All strategic business units contributed to this growth to varying degrees. The increase in sales is in line with the forecast for market growth, in the low to mid-single-digit percentage range, after adjustment for currency effects. The EBIT margin increased from 12.8% in the prior year, to 14.3%.

Income statement according to HGB

	Notes		2015/16		2014/15	Change
		€k	€k	€k	€k	in %
Sales	(21)		**689,643**		**651,110**	**5.9%**
Cost of sales			(353,287)		(345,300)	2.3%
Gross profit on sales			**336,356**		**305,810**	**10.0%**
Sales and marketing expenses			(107,554)		(103,990)	3.4%
General and administrative expenses			(33,110)		(35,135)	-5.8%
R&D costs		(87,828)		(79,107)		
minus subsidies received		23	(87,805)	27	(79,080)	11.0%
Other operating income	(24)		32,554		39,105	-16.8%
Other operating expenses	(25)		(41,553)		(43,166)	-3.7%
Income from investments and long-term loans	(26)		2,505		2,797	-10.4%
Other interest and similar income	(26)		749		695	7.8%
Amortization of financial assets and short-term investments/marketable securities	(26)		(20,500)		(16,000)	28.1%
Interest and similar expenses	(26)		(768)		(11,959)	-93.6%
Result from ordinary activities			**80,874**		**59,077**	**36.9%**
Extraordinary expenses			(6,970)		(748)	831.8%
Extraordinary result	(27)		**(6,970)**		**(748)**	**831.8%**
Income taxes	(28)		(30,904)		(24,705)	25.1%
Profit after tax			**43,000**		**33,624**	**27.9%**
Other taxes	(29)		(253)		(274)	-7.7%
Net income for the year			**42,747**		**33,350**	**28.2%**
Retained profits brought forward from prior year			103,714		102,888	0.8%
Dividend			(30,897)		(32,524)	-5.0%
Net retained profits			**115,564**		**103,714**	**11.4%**

Results of operations

Sales increased by 5.9% compared with the prior year (€651.1m), to €689.6m. This includes slightly positive effects from foreign currency translation.
Sales in the area of ophthalmology increased year-on-year, due in particular to the femtosecond technology products, the innovative intraocular lenses and multifocal and toric premium lenses for minimally invasive cataract surgery.
In fiscal year 2015/16, gross profit on sales increased from €305.8m to €336.4m. The corresponding margin increased to 48.8%, due to a more favorable product and regional mix (prior year: 47.0%).

Selling expenses in the fiscal year amounted to €107.6m; general administrative expenses amount to €33.1m. Selling and general administrative expenses are thus at around the same level as the prior year. Research and development costs of Carl Zeiss Meditec AG amounted to €87.8m (prior year: €79.1m) in fiscal year 2015/16. Detailed information on the Carl Zeiss Meditec Group's research and development activities can be found on pages 48 to 50.

The decline in other operating income is the result of lower exchange rate gains. The improvement in the financial result is attributable, in particular, to a lower interest expense, which is mainly due to the change in legislation regarding the discounting of pension provisions.

The result from ordinary activities increased from €59.1m in the prior year, to €80.9m in fiscal year 2015/16. Net income in the year under review amounted to €42.7m (prior year: €33.4m).

Balance sheet

	30 Sep 2016	30 Sep 2015	Change	
	€k	€k	in €k	in %
ASSETS				
A. Fixed assets	**496,273**	**531,002**	**(34,729)**	**-6.5%**
I. Intangible assets	143,133	154,298	(11,165)	-7.2%
II. Tangible assets	17,993	17,249	744	4.3%
III. Financial assets	335,147	359,455	(24,308)	-6.8%
B. Current assets	**500,472**	**431,181**	**69,291**	**16.1%**
I. Inventories	96,085	95,489	596	0.6%
II. Receivables and other assets	404,314	335,689	68,625	20.4%
III. Cash-in-hand and bank balances	73	3	70	2,333.3%
C. Deferred income	**701**	**774**	**(73)**	**-9.4%**
D. Asset-side difference arising from asset offsetting	**10,022**	**-**	**10,022**	**-**
Total ASSETS	**1,007,468**	**962,957**	**44,511**	**4.6%**
EQUITY AND LIABILITIES				
A. Equity	**846,268**	**834,418**	**11,850**	**1.4%**
I. Subscribed capital	81,310	81,310	-	0.0%
II. Capital reserve	646,454	646,454	-	0.0%
III. Sales reserves	2,940	2,940	-	0.0%
IV. Net retained profits	115,564	103,714	11,850	11.4%
B. Special reserve for investment subsidies	**81**	**104**	**(23)**	**-22.1%**
C. Provisions	**70,763**	**45,095**	**25,668**	**56.9%**
D. Liabilities	**86,817**	**71,241**	**15,576**	**21.9%**
E. Deferred income	**2,167**	**1,200**	**967**	**80.6%**
F. Deferred tax liabilities	**1,372**	**10,899**	**(9,527)**	**-87.4%**
Total LIABILITIES	**1,007,468**	**962,957**	**44,511**	**4.6%**

Net assets and results of operations

Pursuant to German commercial law (HGB), the total assets of Carl Zeiss Meditec AG amounted to €1,007.5m as of 30 September 2016. This corresponds to an increase of 4.6% compared with the prior year (€962.9m).

The decline in financial assets compared with the prior year is primarily attributable to the repayment of a loan granted to Atlantic S.A.S. and to the write-down of a loan to the subsidiary Carl Zeiss Meditec Iberia S.A. Although, due to the currently difficult economic and political environment in the local Spanish market, Carl Zeiss Meditec Iberia S.A. was unable to achieve its financial targets in the past fiscal year 2015/16, Carl Zeiss Meditec AG continues to work on the basis of the going concern assumption.

The increase in receivables and other assets is mainly attributable to receivables from the Group treasury of the ZEISS Group, which increased in the year under review from €206.1m in the prior year, to €236.4m, other receivables from affiliated companies, which increased to €30.8m (prior year: €2.7m), and to trade receivables from affiliated companies in the amount of €92.8m (prior year: €86.9m).

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

Net retained profits increased by the net income for the year of €42.7m, less the dividend paid of €30.9m.

Provisions increased compared with the prior year, to €70.8m (prior year: €45.1m). This is mainly due to higher tax provisions, particularly for foreign exchange transactions carried as liabilities, and outstanding invoices. Further information can be found in the notes to the annual financial statements of Carl Zeiss Meditec AG in the section entitled "Provisions".

The debt ratio (ratio of borrowed capital to equity) increased to 18.8% as of 30 September 2016 (30 September 2015: 15.2%).

Cash inflows generated from operating activities provide an important source of financing for the Carl Zeiss Meditec AG. The Company can also create additional liquidity by issuing new shares on the capital market. Furthermore, the Company has the option to assume loans either from the Group treasury of Carl Zeiss AG or from banks. Since Carl Zeiss Meditec AG possesses sufficient cash funds to finance its operating and strategic objectives, changes in credit conditions do not currently have any material effect on its financial position.

Employees

As of 30 September 2016, Carl Zeiss Meditec AG had 1,196 employees. This figure does not include Management Board members.

Appropriation of profits

Fiscal year 2015/16 closes with net income for the year of €42,746,858.13. The Management Board proposes utilizing the net retained profits of €115,563,715.21 for fiscal year 2015/16 as follows:

» payment of a dividend of €0.42 per no-par value share for 81,309,610 no-par-value shares: €34,150,036.20
» residual profit carried forward to new account: €81,413,679.01

Declaration on corporate governance (pursuant to Section 289a HGB) and corporate governance report

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

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 17 September 2015 the Supervisory Board addressed the Management Board objectives for fiscal year 2015/16.

At its meeting on 8 December 15, the Supervisory Board addressed the achievement of objectives by the Management Board members for fiscal year 2014/2015, and stipulated the relevant variable remunerations. Furthermore, the salaries of Management Board members Dr. Christian Müller and Thomas Simmerer were also reviewed during this meeting – based on the salary situation compared with the market, general price and salary trends, and the achievements demonstrated and achievements anticipated in future – and adjusted with effect from 1 October 2015.

Following the request of Management Board member Thomas Simmerer for early termination of his Management Board mandate, the Supervisory Board passed a resolution to this effect at its meeting on 2 June 2016, and approved this, effective 30 September 2016.

The objectives for the Management Board for fiscal year 2016/17 were stipulated by the Supervisory Board at its meeting on 14 September 2016. This meeting of the Supervisory Board also resolved upon the achievement of the objectives for fiscal year 2015/16 by Mr. Thomas Simmerer, as well as the conditions of his early departure from the Management Board, effective 30 September 2016.

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 quantitative objectives mainly relate to 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 fiscal year 2011. This program offers a remuneration component with a long-term incentive, which allows the members of the Management Board to achieve an additional annual income after a three-year period. This amounts to 50% of the individual short-term variable remuneration for the fiscal year that precedes the beginning of the term of an LTI tranche, plus interest. This is based on the ZEISS Group's profit-participation certificate model.
A precondition for payment of this remuneration is that the members of the Management Board have not handed in their notice at the end of the applicable three-year period per tranche, and the equity ratio of the ZEISS Group is higher than 20% at this point. The first payment was made in December 2014. The next payment is expected upon fulfillment of the payment requirements for December 2016.

As part of the redefinition of remuneration for Dr. Monz on 1 January 2014, a different regulation shall apply to Dr. Monz from this date, for the long-term variable component of his remuneration. Pursuant to this regulation, it shall be possible, after a three-year period, for Dr. Monz to attain an additional annual income amounting to no more than a basic salary, depending on the achievement of certain financial and personal objectives at the end of this three-year period.

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

	Management Board remuneration						
	Fiscal year	Fixed remuneration	Remuneration in kind and other remuneration[11]	Variable remuneration[12]	Total remuneration paid directly	LTIP	Total remuneration pursuant to Section 314 (1) No. 6a) HGB
Dr. Ludwin Monz	**2015/16**	300.0	16.2	416.2	732.4	155.6	888.0
	2014/15	300.0	9.8	252.0	561.8	131.9	693.7
Dr. Christian Müller	**2015/16**	252.0	18.4	198.0	468.4	126.1	594.5
	2014/15	240.0	18.4	128.3	386.7	93.5	480.2
Thomas Simmerer	**2015/16**	280.8	44.0	269.5	594.3	123.8	718.1
	2014/15	231.1	17.1	131.3	394.4	96.9	491.3

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.

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

	Fiscal year	Service cost	Present value of pension commitment, total
Dr. Ludwin Monz[13]	**2015/16**	155.1	-
	2014/15	145.9	-
Dr. Christian Müller	**2015/16**	32.2	694.9
	2014/15	28.9	493.3
Thomas Simmerer	**2015/16**	30.8	356.1
	2014/15	26.4	257.4

[11] Payments in kind include other benefits such as 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.
[12] Variable remunerations 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.
[13] including oncharged service cost of the pension commitment Dr. Monz

In connection with the additional 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 set up to date 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 €990.7k (prior year: €765.4k) .

Value of benefits granted for fiscal year 2015/16 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.

In the benefits granted for fiscal year 2015/16, tranche 2 presents the proportionate interest expense, which was paid with the prior-year values (base value and return) 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 Oct 2007			Minimum achievable value	Maximum achievable value
	2015/16	2014/15	**2015/16**	**2015/16**
Value of benefits granted	€k	€k	€k	€k
1. Fixed remuneration	300.0	300.0	300.0	300.0
2. Fringe benefits	16.2	9.8	16.2	16.2
3. Total	**316.2**	**309.8**	**316.2**	**316.2**
4. Single-year variable compensation (VCS)	270.0	270.0	-	486.0
5. Multi-year variable compensation (LTI)	418.6	368.3	-	832.1
LTI tranche 2 - 10/2012 - 09/2015	11.4	144.2	-	155.6
LTI tranche 3 - 10/2013 - 09/2016	145.3	133.5	-	168.9
LTI tranche 4 - 10/2014 - 09/2017	126.9	90.6	-	237.6
LTI tranche 5 - 10/2015 - 09/2018	135.0	-	-	270.0
6. Total	**1,004.8**	**948.1**	**316.2**	**1,634.3**
7. Pension cost	155.1	145.9	155.1	155.1
8. Total remuneration	**1,159.9**	**1,094.0**	**471.3**	**1,789.4**

Allocation amount in/for the fiscal year Dr. Ludwin Monz

Dr. Ludwin Monz
President and CEO
Member of the Management Board since 8 Oct 2007

	2015/16	2014/15
Allocation amount for the fiscal year	€k	€k
1. Fixed remuneration	300.0	300.0
2. Fringe benefits	16.2	9.8
3. Total	**316.2**	**309.8**
4. Single-year variable compensation (VCS)	416.2	236.2
5. Multi-year variable compensation (LTI)	155.6	132.0
LTI tranche 1 - 10/2011 - 09/2014	-	132.0
LTI tranche 2 - 10/2012 - 09/2015	155.6	-
6. Other	-	-
7. Total	**888.0**	**678.0**
8. Pension cost	155.1	145.9
9. Total remuneration	**1,043.1**	**823.9**

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

Dr. Christian Müller
Chief Financial Officer
Member of the Management Board since 15 Dec 2009

			Minimum achievable value	Maximum achievable value
	2015/16	2014/15	2015/16	2015/16
Value of benefits granted	€k	€k	€k	€k
1. Fixed remuneration	252.0	240.0	252.0	252.0
2. Fringe benefits	18.4	18.4	18.4	18.4
3. Total	**270.4**	**258.4**	**270.4**	**270.4**
4. Single-year variable compensation (VCS)	168.0	160.0	-	235.2
5. Multi-year variable compensation (LTI)	272.9	278.4	-	483.7
LTI tranche 2 - 10/2012 - 09/2015	9.3	116.8	-	126.1
LTI tranche 3 - 10/2013 - 09/2016	111.8	102.7	-	130.0
LTI tranche 4 - 10/2014 - 09/2017	64.8	58.9	-	88.4
LTI tranche 5 - 10/2015 - 09/2018	87.0	-	-	139.2
6. Total	**711.3**	**696.8**	**270.4**	**989.3**
7. Pension cost	32.2	28.9	32.2	32.2
8. Total remuneration	**743.5**	**725.8**	**302.6**	**1,021.5**

Allocation amount in/for the fiscal year Dr. Christian Müller

Dr. Christian Müller
Chief Financial Officer
Member of the Management Board since 15 Dec 2009

	2015/16	2014/15
Allocation amount for the fiscal year	€k	€k
1. Fixed remuneration	252.0	240.0
2. Fringe benefits	18.4	18.4
3. Total	**270.4**	**258.4**
4. Single-year variable compensation (VCS)	174.0	117.8
5. Multi-year variable compensation (LTI)	126.1	93.5
LTI tranche 1 - 10/2011 - 09/2014	-	93.5
LTI tranche 2 - 10/2012 - 09/2015	126.1	-
6. Other	-	-
7. Total	**570.5**	**469.7**
8. Pension cost	32.2	28.9
9. Total remuneration	**602.7**	**498.7**

Value of benefits granted and tendered for the fiscal year Thomas Simmerer

Thomas Simmerer
Chief Sales Officer
Member of the Management Board from 1 Apr 2011 to 30 Sep 2016

			Minimum achievable value	Maximum achievable value
	2015/16	2014/15	2015/16	2015/16
Value of benefits granted	€k	€k	€k	€k
1. Fixed remuneration	280.8	246.0	280.8	280.8
2. Fringe benefits	44.0	17.1	17.0	44.0
3. Total	**324.8**	**263.1**	**297.8**	**324.8**
4. Single-year variable compensation (VCS)	170.6	164.0	-	238.8
5. Multi-year variable compensation (LTI)	9.1	286.8	-	123.8
LTI tranche 2 - 10/2012 - 09/2015	9.1	114.7	-	123.8
LTI tranche 3 - 10/2013 - 09/2016	-	110.9	-	-
LTI tranche 4 - 10/2014 - 09/2017	-	61.2	-	-
LTI tranche 5 - 10/2015 - 09/2018	-	-	-	-
6. Total	**504.5**	**714.0**	**297.8**	**687.4**
7. Pension cost	30.8	26.4	30.8	30.8
8. Total remuneration	**535.3**	**740.3**	**328.6**	**718.2**

Allocation amount for the fiscal year Thomas Simmerer

Thomas Simmerer
Chief Sales Officer
Member of the Management Board from 1 Apr 2011 to 30 Sep 2016

	2015/16	2014/15
Allocation amount for the fiscal year	€k	€k
1. Fixed remuneration	280.8	246.0
2. Fringe benefits	44.0	17.1
3. Total	**324.8**	**263.1**
4. Single-year variable compensation (VCS)	417.1	122.4
5. Multi-year variable compensation (LTI)	123.8	96.6
LTI tranche 1 - 10/2011 - 09/2014	-	96.6
LTI tranche 2 - 10/2012 - 09/2015	123.8	-
6. Other	-	-
7. Total	**865.7**	**482.5**
8. Pension cost	30.8	26.4
9. Total remuneration	**896.5**	**508.9**

Departure of members of the Management Board

In the event of premature termination of the employment relationship, the contracts for members of the Management Board do not contain any explicit promise of a severance payment. A severance payment may, however, ensue from a severance agreement concluded on an individual basis. The severance agreement concluded in connection with the early departure of Mr. Simmerer on 30 September 2016 does not provide for any additional severance payment.

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 in €k

	Fiscal year	Basic remuneration	Committees	Total remuneration
Prof. Dr. Michael Kaschke (Chairman)	**2015/16**	60.0	2.6	62.6
	2014/15	60.0	5.0	65.0
Dr. Carla Kriwet	**2015/16**	37.3	-	37.3
(Deputy Chairwoman)	2014/15	26.0	-	26.0
Dr. Markus Guthoff	**2015/16**	52.7	2.4	55.1
	2014/15	60.0	-	60.0
Thomas Spitzenpfeil[14]	**2015/16**	30.0	5.0	35.0
	2014/15	30.0	5.0	35.0
Cornelia Grandy	**2015/16**	30.0	-	30.0
	2014/15	30.0	-	30.0
Jörg Heinrich	**2015/16**	30.0	5.0	35.0
	2014/15	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 2015/16.

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 the Carl Zeiss Meditec Group.

Risk management

The central risk management system at Carl Zeiss Meditec stipulates uniform rules and processes to detect, assess and manage risks at an early stage. 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.**

[14] Mr. Thomas Spitzenpfeil waived his entitlement to remuneration by notices of waivers for fiscal year 2015/16 as in the prior year.

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. This enables any relevant information to 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., it does not merely monitor 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 efficiency of internal auditing, risk management and 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 the single-entity financial statements of Carl Zeiss Meditec AG are in line with German HGB, 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 findings from science and research can give rise to technology shifts, new customer requirements, and also 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. 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 the 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 some technologies could have negative implications for the production, sales and the quality of the Company’s products. The Group continues to work on stabilizing supply chains and reducing the dependence on individual suppliers in order, among other things, to keep the associated economic impact low. The Company systematically leverages opportunities that arise from bundling procurement activities. Furthermore, the Carl Zeiss Meditec Group selects its suppliers carefully. By implementing consistent supply chain measures, such as qualifying its suppliers, identifying secondary suppliers and preparing a strategic inventory plan, the Carl Zeiss Meditec Group protects itself as best it can against supplier dependencies and changes on the commodities market.

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

The potential effect of supplier risks on earnings is in the mid-single-digit to low double-digit million euro range.

Risks of information technology
The Carl Zeiss Meditec Group constantly reviews and utilizes the opportunities of digitization. This gives rise to many new opportunities to provide customers with additional services. At the same time, the Group constantly updates its existing IT systems, and its IT protection and IT 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. 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 concluding a transaction is a standard process for mergers & acquisitions, including a due diligence review, to assess the expected business development. The economic impact and probability of occurrence are therefore low.

Goodwill totaling €164.6m from acquisitions is shown in the consolidated statement of financial position. This goodwill is tested annually for impairment in accordance with IAS 36. A total of €162.5m of this goodwill is attributable to the Ophthalmic Devices SBU, and €2.1m to the Microsurgery SBU. The impairment tests carried out during the current fiscal year 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 competitiveness of the Company depends on the protection of its technological innovations against exploitation of these innovations 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 through a comprehensive industrial property rights strategy. If ZEISS patent and brand rights are infringed by third parties, the Group takes legal steps in order to counter the associated high economic risk. This being said, the probability of such cases occurring is low. 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, management in the area of patents and intellectual property does not expect such risks 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 quality risk concerning business banks at which the Carl Zeiss Meditec Group holds deposits via the ZEISS Cash Pool. Nevertheless, the Group has taken various measures to mitigate risks. For example, a monitoring procedure has been introduced 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 68.2%, the large reserve of cash and cash equivalents, and a strong cash flow from operating activities. Cash and cash equivalents are kept in reserve at the Carl Zeiss Meditec Group based on a rolling monthly cash forecast within a fixed planning period, and are managed as part of a Groupwide ZEISS cash pool. The cash and cash equivalents in the cash pool at ZEISS are distributed among several corporate banks in order to spread risk. Depending on the assessment of the credit risk for individual banks, the cash and cash equivalents may be redistributed among these banks.

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".

Economic environment
As a company with global operations, the Carl Zeiss Meditec Group is particularly exposed to developments that pose a risk for 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. Such a trend in the overall economic situation may have an adverse effect on the economic situation of our customers and their demand for the Carl Zeiss Meditec Group's products which could result in negative impacts on sales and earnings. Thanks to the earlywarning system established within the Carl Zeiss Meditec Group, 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. Beside the market entry of new competitors, there is also a risk, in the event of significant exchange rate fluctuations, that competitors from the beneficiary countries may be able to offer considerably lower prices in the market, and could therefore improve their competitive position. Some competitors are larger than the Company in terms of their total revenue, and they have greater financial resources at their disposal to deal with competitive pressure. 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.

The costs of certain medical treatments carried out using products of the Carl Zeiss Meditec Group are reimbursed by health insurance funds, insurance companies or government health schemes. Changes in the health care and reimbursement policies in Germany or abroad may lead to the refusal or reduction of reimbursements, which could reduce the demand for the Carl Zeiss Meditec Group’s 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, the above issues related to market and competition 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 aims to sell its products worldwide, such 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 the relevant legal requirements are incorporated into all stages of development, production and distribution, there is no guarantee that products requiring approval will be granted regulatory approval at all or in time for their planned launch in the market, or that the Group's numerous registrations will still exist or be renewed in the future. This may lead to sales losses and, in the case of delayed product launches, to competitive disadvantages. Furthermore, registration requirements could become more stringent in future.

In order to be able to identify such developments in good time and react appropriately, the Group keeps a very close eye on developments in this area and monitors approval procedures extremely closely as part of its quality management system. 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

Some of the medical devices and system solutions and implants manufactured by the Company hold the fundamental, inherent risk 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 also 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 impact these risks could have on earnings equates to an amount in the low 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 material 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, by way of 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 instructions for methods, standardized reporting formats, IT systems and IT-supported 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. 2 HGB, Section 315 (2) No. 2 HGB

Price fluctuation risks can generally not be ruled out. However, the Carl Zeiss Meditec Group counters these risks by focusing on product innovations and optimizing its production costs through cost-cutting and efficiency-enhancing measures.

Potential risks of default on trade receivables – particularly given the euro and debt crisis and the generally greater risk of bad debt losses that comes with it – are minimized by means of an active credit control system. The Group also regularly sets up adequate provisions to cover such risks. On the whole, however, we consider this to be a limited risk. The ratio of value adjustments of trade receivables to consolidated revenue was 0.8% in the year under review (prior year: 0.5%).

The Carl Zeiss Meditec Group's financial situation can be considered stable. Cash and cash equivalents amounted to €8.7m as of the balance sheet date 30 September 2016. Added to this is credit of 354.5m recognized as accounts receivable from group treasury of Carl Zeiss AG. In addition, the Group generated cash flows from operating activities of €111.8m in the reporting period. From a current perspective, therefore, there are no significant liquidity risks.

All cash and cash equivalents, including the balances at the Group treasury of Carl Zeiss AG, are deposited at banks. Should it come to a loss of individual banks – due in particular to the euro and debt crisis – the existing balances 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 Group 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 curtail the financial result dependent on the extent of the fluctuations.

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.

DISCLOSURES PURSUANT TO SECTION 289 (4) AND SECTION 315 (4) HGB

Carl Zeiss Meditec AG's subscribed capital amounts to €81,309,610 and is composed of 81,309,610 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 65.05% of the voting rights in Carl Zeiss Meditec AG.
This corresponds to 52,893,270 no-par value shares. These include 7.47% 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. In accordance with 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 treasury shares on the basis of other authorizations pursuant to Section 186 (3) sentence 4 AktG must be taken into account in the restriction to 10% of the share capital.
» for capital increases against contributions in kind to grant shares for the purpose of acquiring companies, parts thereof or interests in a company.

The Management Board is authorized, subject to the approval of the Supervisory Board, to specify the details of capital increases from Authorized Capital.
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 or less than 10% of the total existing share capital. 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 the Group 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

No events of material significance for the Group's net assets, financial position and results of operations occurred after the end of fiscal year 2015/16.

The development of business at the beginning of fiscal year 2016/17 validates the statements made in the following "Outlook".

OUTLOOK

Corporate strategy

As market and technology leader in the field of ophthalmology and microsurgery, our aim is to achieve sustainable, profitable growth, by improving the diagnosis and treatment of diseases with our products and solutions. Our success factors are: Innovation, the development of integrated solutions and customer focus. Innovation, in particular, plays a key role.

Customer focus

Our customers are facing major challenges in managing rising case numbers, limited public funding and more demanding expectations of patients with respect to the treatment outcome. With our integrated products and solutions we can help to increase the efficiency of workflows 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. Digitization offers us massive opportunities in this respect, for example in the field of data management solutions. For us, a key prerequisite for our long-term success is having a deep understanding of our customers' problems and offering a range of services that is tailored to solving these problems. In fiscal year 2015/16, the service share of Group revenue amounted to approximately 10%. We expect the share of consolidated revenue generated by our Service business to increase further in the medium term.

Innovation

Our goal is to make cutting-edge technology in medical application accessible for our customers. We are therefore striving to establish our products as the new gold standards in medical diagnostics and therapy. We ensure our technology leadership by continuing to invest heavily in research and development.

Integrated solutions

Given the multitude of diagnostic and therapeutic devices typically used in medical practices and clinics, customers the offered the opportunity to make their workflows more efficient, and to achieve better clinical outcomes, by logically networking their devices and systems. A comprehensive system integration including IT-assisted analysis functions is essential for this.

Future conditions for business development

Macroeconomic environment

At the current time, fiscal year 2016/17 is still expected to bring moderate economic growth.

The global economy is growing, but with considerable regional variations. The stagnating growth rates in the industrialized world are being offset by growth in the rapidly developing economies, which, although still good, is now tailing off in places. According to forecasts, economic growth in the United States will be moderate, while the economies of Japan and Europe are expected to decline – also due to Brexit. In China a "new normality" is expected with flatter growth rates and a transformation process in industry. According to forecasts, the Indian economy shall experience above-average growth; Brazil is pulling out of its recession, with marginal growth.

Uncertainties regarding economic development in the emerging markets, low oil prices, the unpredictable effects of Brexit, the presidential elections in the U.S., the situation in the Middle East and Ukraine, as well as ongoing structural problems, are major political and economic issues, which may have an adverse effect on the investing activities of industry and the public sector.

Future situation in the medical technology industry

The Company's management anticipates further growth in the medical technology market, as the main growth drivers – such as the growing global population, the rising number of older people, and the increasing proportion of the global population with access to medical care – shall remain unchanged.

Furthermore, the greater requirements being placed on the innovations in the medical technology sector 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 in our opinion.

Last but not least, the development of the global economy influences the growth of the medical technology industry in as much as private customers or public budgets postpone their investment decisions until the future, or make them early.

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

Due to the persistent, long-term growth trends in our markets – such as the growing global population, the rising proportion of elderly people and improved access to medical care – the Carl Zeiss Meditec Group is generally anticipating further market growth. From a current perspective, and excluding currency effects, this corresponds to growth in the low to mid-single-digit percentage range. The Carl Zeiss Meditec Group expects revenue growth that is at least on a par with market growth.

Strategic business unit Ophthalmic Devices

In the past year, revenue developed positively in the **Ophthalmic Devices** sector. The revenue increase was also partly due to positive currency effects. We anticipate further growth in 2016/17. 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. When designing efficient solutions for our customers, system networking and integrated data management play a key role, for example our data management system, FORUM®. Another example is in the area of refractive lasers, where 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. To date, about 600,000 eyes worldwide have been successfully treated using this microinvasive method. With the AT LISA® tri and AT LISA® tri toric, the Company offers the leading MICS-compliant trifocal intraocular lens on the market of cataract surgery. We are also aiming to attract new customer groups and increase our revenue from existing customers by expanding our range of monofocal intraocular lenses.

We are confident that we shall 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 also expected to remain above the Group average.

Strategic business unit Microsurgery

In the fiscal year under review, the **Microsurgery** SBU recorded slight revenue growth, which was, however, largely due to positive currency effects. We therefore successfully defended our already exceptionally strong market position. Our surgical microscopes, the OPMI® Pentero® for neuro, spinal or plastic surgery, and the OPMI® VARIO, which is used in ENT surgery, for example, mean we are broadly diversified and are exploiting the associated market opportunities to an even greater degree by upgrading the products in terms of additional supporting applications for the user.

We expect the **Microsurgery** SBU to continue to make significant contributions to earnings in future. We are confident that we shall grow at least to the same extent as 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 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. We see particularly promising business prospects for the long term in the APAC region, due to the rapid economic growth there. ZEISS Group's research centers in India and China, which the Carl Zeiss Meditec Group uses for product development, shall help to expand and secure this growth. We aim to leverage the potential in these countries to an even greater extent in future and generate further revenue 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 our customers in the development process from the outset. We aim to invest around 10% to 11% of revenue in research and development in fiscal year 2016/17, which is about the same as in prior years.

Future investments

Investments are a basic requirement to be able to maintain our technology leadership in future. The investment ratio at the Carl Zeiss Meditec Group has been largely constant in the past few years. The investments required to realize growth targets shall not lead to a material change in the current investment ratio in the coming fiscal year. We aim to invest around 1% to 2% of revenue in property, plant and equipment in fiscal year 2016/17, 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 €0.42 per share for the past fiscal year. The dividend ratio would therefore be at 34.7% (prior year: 49.6%). The management also intends to allow shareholders to continue to participate fairly in the Company's success in future. The special dividend, an instrument that has been used several times in the past, may also be used again.

Future employee development

Our employees are indispensable for the Company's success: we need them to be able to continue to work innovatively and profitably in future. It is equally important to us to keep investing in the further development of our existing employees in future, as well as to recruit well qualified specialists and managers for the Company. We therefore expect our workforce to grow in the coming periods in line with the growth of the Company's business.

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 2016 current cash and cash equivalents of around €334.6m 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 financing capacity to be adequate. In 2016/17 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 we 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. The Company is in a position to protect itself against direct risks in the short term, without losing sight of its long-term objectives. Due to our ZEISS brand, our customers perceive us as a reliable and trustworthy partner, and we look back on a long, successful collaboration. We can therefore build upon an extremely positive brand image.

Our development in future shall also include external growth opportunities in some areas. Using a systematic process, we shall look for strategically useful expansion opportunities. 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: An ever-growing global population and the constantly growing number of older people associated with an increasing life expectancy. This is particularly significant for ophthalmology, since the incidence of diseases in this field is strongly related to the age of the patients. Better and better access to medical care in the emerging economies also offers long-term potential for growth for medical technology products.

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. We anticipate revenue growth that is 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 2015/16 we achieved a share of 32.4%. From a current perspective, we expect a further increase in fiscal year 2016/17 and for the medium term.

In fiscal year 2015/16 the EBIT margin increased significantly from 12.6% in the prior year to 14.2%. In fiscal year 2016/17 we expect the EBIT margin to be within the target corridor also forecast for the medium term, of 13.0% to 15.0%.

In terms of free cash flow for fiscal year 2016/17, we are continuing to aim for a figure that is at least in the high double-digit million range. We expect Economic Value Added (EVA) in the coming fiscal year to remain on a par with EVA in fiscal year 2015/16.

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, we shall publish these amendments promptly and 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 HGB) AND CORPORATE GOVERNANCE REPORT

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

The Declaration on Corporate Governance is available at www.zeiss.com/meditec-ag/ir under the section Declaration on Corporate Governance.

Jena, 24 November 2016

Dr. Ludwin Monz President and Chief Executive Officer	Dr. Christian Müller Member of the Management Board