

Carl Zeiss Group On Course to Further Growth

Considerable increase in earnings and corporate value in fiscal year 2003/04

Healthy growth again recorded in first quarter of 2004/05

Frankfurt/Main, February 16, 2005. The Carl Zeiss Group substantially improved its revenues and earnings in fiscal year 2003/04. Growth was achieved in all important balance sheet entries. Corporate value was significantly increased thanks to positive contributions by all business groups. The business trend was characterized by marked increases in revenue in the Semiconductor Technology and Opto-Electronic Systems Groups. Carl Zeiss AG has further improved its strategic market positions by the implementation of targeted portfolio measures. President and CEO Dr. Dieter Kurz considers the company to be well poised for the future. At the annual press conference held in Frankfurt/Main on February 16, 2005 he stated: "Our new legal form as a stock corporation has made us even more flexible with regard to partnerships and transactions. We have continued to develop our strategy and have focused it even more sharply on growth. With a further rise in net liquid assets to EUR 672 million, we are now in a position to make quick use of any opportunities offered to us. After a pleasing first quarter, we look toward the current fiscal year with confidence."

Further growth of nine percent was achieved in the first three months of fiscal year 2004/05. With the exception of business with ophthalmic products, which reported an exceptional level of demand at the end of 2003 due to healthcare reforms in Germany, a further rise in revenues was achieved in all business groups. "A major impetus for growth was

provided by industrial business. Gains were recorded not only in the dynamic Semiconductor Technology business, but also in Opto-Electronic Systems and Industrial Metrology," Kurz continued.

Successful 2003/04 year

In fiscal year 2003/04 (ended September 30), the Carl Zeiss Group generated revenues totaling EUR 2.135 billion, an increase of five percent over the previous year's figure (EUR 2.029 billion). After adjustment for currency effects – primarily due to the US dollar and the Japanese yen – this increase would have totaled eight percent. The volume of sales generated outside Germany increased by two percentage points to 80 percent. The largest growth in sales was posted by the Semiconductor Technology Group with an increase of 25 percent. Considerable growth was also recorded by the Opto-Electronic Systems Group with a rise of 17 percent over last year.

With a volume of EUR 2,234 million, an increase of 13 percent over last year, incoming orders showed an even stronger trend than revenue.

Strong improvement in earnings

The favorable business trend led to a marked improvement in earnings. Virtually all business groups increased their contribution to the overall operating result of the Carl Zeiss Group. The Carl Zeiss Group recorded an overall operating result of EUR 130 million, almost double the value reported last year (EUR 64 million). Pre-tax earnings increased from EUR 49 million the previous year to EUR 129 million. The result is a net annual income of EUR 77 million (last year EUR 16 million). This value would have been much higher without a special expenditure of EUR 33

million for a cross-licensing agreement concluded by the Semiconductor Technology Group.

Corporate value is growing

The growth in corporate value paralleled the rise in earnings. All six business groups achieved an enhancement of their value on the basis of the financial performance measure EVA® (Economic Value Added) and improved their position compared to last year. Overall, EVA® at Carl Zeiss grew to EUR 42 million, a very good value. "We have constantly increased our balance sheet performance in the past few years," explained Chief Financial Officer Dr. Michael Kaschke. "Our strategy of value-oriented corporate control focused on continuous EVA enhancement is now paying off."

Reduction in manpower

On the balance sheet date, the Carl Zeiss Group had a global workforce of 13,667 people (last year 14,151), including 3,984 outside Germany (last year 4,044). The drop was largely attributable to capacity adjustments in Germany in the Consumer Optics, Semiconductor Technology and Microscopy (Jena site) Groups, in the Oberkochen Service Center and in the Wetzlar plant initiated last year.

Net liquid assets at record level

The substantial rise in earning power is also reflected in the pre-tax cash flow. At EUR 264 million, the value exceeded last year's level (EUR 190 million) by a good third. This is equivalent to 12 percent (last year 9 percent) of revenues. There has been a further strong rise in the net liquid assets of the Carl Zeiss Group. After a figure totaling EUR 525 million the previous year, they increased to the record value of EUR 672 million on the balance sheet date.

Increase in equity ratio

The Carl Zeiss Group has once again expanded its equity capital in fiscal year 2003/04. The equity ratio increased by one percentage point to 20 percent. At the same time, there was an increase in the funds available in the long term (equity and long-term provisions) which, with a figure totaling EUR 1,337 million (last year EUR 1,219 million), accounted for about 64% of the balance sheet total.

Decreased investments

Investments in plant, property and equipment totaled EUR 81 million (last year EUR 105 million). Depreciations totaled EUR 97 million compared to the high figure of EUR 114 million recorded the previous year due to special depreciations in the Semiconductor Technology Group. Capital spending was once again concentrated on semiconductor technology, ophthalmic products and the production areas of the Oberkochen and Jena Service Centers.

Further rise in innovative strength

To expand its leading technological position in the competitive arena, the Carl Zeiss Group once again increased its investments in innovation. With a total of EUR 209 million (last year: EUR 190 million), spending on research and development reached a record high. This corresponds to ten percent of revenue and underlines the Group's aspiration to expand its technology leadership and turn it into market success. This is reflected by the percentage of new products in overall sales. In fiscal year 2003/04 the Carl Zeiss Group generated roughly 43 percent of its revenue with products launched in the past three years. There was also a rise in the number of inventions. The 371 applications for patents or registered designs topped the previous year's figure by eight percent.

Further development of portfolio

One focal point of the growth-oriented strategy of the Carl Zeiss Group is the value-oriented development of the corporate portfolio. Carl Zeiss is shaping the corporate structure for the future through the organic growth of the existing divisions, the development of new fields of business, and by alliances and acquisitions. Important portfolio management measures in the 2003/04 fiscal year included:

- Display Technologies now a division

In view of the dynamic development in the field of digital projection, the former Display Technologies business unit is now being managed as an independent division. Business with projectors and projection TV systems also promises further growth possibilities in the future.

- Production facility opened in China

The customers of digital projection optics are the manufacturers of entertainment electronics and information technology. The major suppliers in this field are concentrating an increasing proportion of their production capacity in China. Against this background, the Display Technologies division opened a production facility called Carl Zeiss Display Technologies (Suzhou) Co., Ltd. near Shanghai in May 2004.

- Microscopy expands its operations

The Microscopy Group expanded its technology spectrum by the acquisition of the confocal microscopy division of the Californian company Bio-Rad Laboratories, Inc. This provides Carl Zeiss with exclusive access to femtosecond two-photon microscopy, one of the most important technological innovations in the field of microscopy.

- Meditec expands its software competence

Carl Zeiss Meditec AG acquired its collaboration partner of many years' standing and software specialist hiko medical communications GmbH. The company, now called Carl Zeiss Meditec Systems GmbH, focuses its activities on the administration and archiving of diagnostic and treatment data in ophthalmic hospitals and doctors' offices.

- Access to lithographic technology

Carl Zeiss SMT AG gained access to a new lithographic technology for semiconductor production by participating in the young US company Molecular Imprints, Inc., Austin, Texas and has assumed responsibility for distribution of the company's products in Europe.

- LEO becomes ZEISS

In addition, the Semiconductor Technology Group allocated its business with electron beam technology, part of the activities of the company LEO Elektronenmikroskopie GmbH until then, to the ZEISS umbrella brand. This business will now be conducted as the Nanotechnology Systems Division under the name Carl Zeiss NTS GmbH. The systems formerly marketed under the LEO brand now all bear the name ZEISS.

- Ophthalmic Products sharpens its focus on India

On the high growth Indian Market, the Ophthalmic Products Division strengthened its position by participating in the firm GKB Hi-Tech Lenses Ltd. in Mapusa (Goa). The subcontinent's leading manufacturer of prescription eyeglass lenses has offered ZEISS lenses featuring leading edge coatings since the end of 2004. Carl Zeiss has the option of increasing its share.

- Shares acquired in South Korea

After acquiring 49 percent of the shares in the firm from long-time local partners, the sales organization in South Korea is now a fully owned subsidiary of the Carl Zeiss Group.

Initiatives in the current fiscal year

Carl Zeiss continued its policy of active portfolio management in the initial months of fiscal year 2004/05:

- IT Division goes to HP

In October 2004 concluded an agreement for the transfer of the Information Technology Division to Hewlett Packard. A total of 151 employees at the Oberkochen, Jena, Calmbach, Wetzlar and Göttingen locations switched to HP. The entire IT facilities and existing supplier agreements are also being transferred to HP.

- Special provider enriches microscopy

At the beginning of December 2004, the Microscopy Group acquired all shares in the company P.A.L.M. Microlaser Technologies AG, Bernried, Germany. This is the leading manufacturer in the field of microdissection and micromanipulation systems. The key technology used here is Laser Microdissection and Pressure Catapulting (LMPC).

- 3D Metrology Services now fully owned

In January 2005, Carl Zeiss IMT GmbH (Oberkochen) increased its interest in Carl Zeiss 3D Metrology Services GmbH Aalen from 75.1 to 100 percent. With this move, the Industrial Metrology Group is further expanding its leading position in the field of application service for 3D coordinate measuring machines and is remaining on course to further growth in the service sector.

- New diagnostics for ophthalmology

At the beginning of December, Carl Zeiss Meditec AG concluded the acquisition of Laser Diagnostic Technologies, Inc. (LDT), San Diego, California. This allows the Ophthalmology Division to offer its customers an even broader spectrum of products for the diagnosis and management of glaucoma.

- Meditec expands its portfolio

Carl Zeiss Meditec AG has acquired approximately 63 percent of the shares in the eye surgery specialist IOLTECH, La Rochelle, France. The publicly listed company specializes in the manufacture and distribution of intraocular lenses (IOL). With this participation, Carl Zeiss Meditec is combining its business with instruments for the diagnosis and follow-up therapy of eye diseases with the implants required for the surgical treatment of cataracts.

- Offer for international eyeglass lens provider

On December 6, 2004, Carl Zeiss AG announced its intention, together with the private equity EQT III firm, to acquire the majority shareholding in SOLA International Inc., San Diego, California. The goal is to merge the eyeglass lens business of Carl Zeiss with SOLA, one of the world's leading suppliers in this field. The two companies are an excellent match – both from the product and technology viewpoints and with regard to their presence in the world's sales regions. After approval by SOLA shareholders and the antitrust authorities, the merger is scheduled to take place in the first quarter of 2005. Chief Financial Officer Dr. Michael Kaschke, who is also responsible for business with ophthalmic products, explained: "This step will allow us to turn the Carl Zeiss Ophthalmic Products division with its innovative products and strong brand into a real global player. The planned merger with SOLA is an excellent opportunity to form a company that is represented in all of the world's important markets."

Business continues to grow

In the first three months of the new fiscal year, the Carl Zeiss Group achieved a further increase in revenues. Overall, the volume of business rose by nine percent. Incoming orders were slightly above the previous year's figure.

A strong rise in revenue of more than 50 percent over last year was posted by the **Semiconductor Technology Group** (Carl Zeiss SMT AG). The mainstay of growth at SMT was lithography optics. SMT is benefiting from increased sales of high quality 193 nanometer systems which are currently the technological leaders in the field.

In the first quarter, business with **Medical Systems** was stable and in line with expectations. In the Surgical Products division in particular, there was a noticeable upturn in business with the introduction of new products. A positive trend was also reported by the Ophthalmology division, particularly with the products Stratus OCT and IOL-Master. Viewed from a regional viewpoint, demand in North America is particularly high, while Europe and some Asian countries are making seasonally weaker contributions to revenues and earnings.

Cuts in the costs paid by health insurers for eyeglass lenses led to a market downturn of 25 percent in Germany. As a result, the **Consumer Optics Group** could neither assert its position on the market nor compensate for the decline by business outside Germany. With a rejuvenated product line, the Sports Optics division successfully won additional market share and increase its revenues.

The **Microscopy Group** has extensively updated its product line by launching an innovation offensive. It posted increases of seven percent over the previous year. The most important market for high quality

microscope systems is North America. The trend in Europe remains constant.

In the first quarter the **Industrial Metrology Group** achieved an increase in revenue of about 10 percent. A particularly positive trend was evident in North America. The proportion of services in overall business is continuing to grow. However, reluctance to invest is still discernible in the environment of the automotive industry.

With an 18 percent increase in revenue, considerable growth was recorded by the **Opto-Electronic Systems Group**. The motor behind this development was the Display Technologies division. In addition, the Camera Lens division reported healthy sales figures in the field of optics for digital cameras. Optronics business developed as expected in the first quarter.

After a good start after the end of another successful fiscal year, the Carl Zeiss Group considers that it is well prepared to meet new, ambitious challenges. "We are now entering a new phase of our growth strategy," explains President and CEO Dr. Dieter Kurz. "In the past few years we have created a sound basis that allows us to aggressively drive forward the expansion of our business."

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Carl Zeiss is a leading international group of companies operating worldwide in the optical and opto-electronic industry. Carl Zeiss AG is headquartered in Oberkochen, Germany.

The Carl Zeiss Group is structured as six business groups that operate with sole responsibility. They are generally ranked first or second in the three strategic markets of biosciences and medical technology, system solutions for industry and optical consumer goods. They offer products and services for biomedical research and medical technology, system solutions for the semiconductor, automotive and mechanical engineering industries, as well as high-quality consumer goods, such as eyeglass lenses, camera lenses and binoculars.

The Carl Zeiss Group is directly represented in more than 30 countries and operates production facilities in Europe, America and Asia. In fiscal year 2003/04 the global workforce of approximately 13,700 employees generated revenue of about EUR 2.1 billion. Further information is available at www.zeiss.de.