Group Management Report

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THE ZEISS GROUP

Business activity

ZEISS is an internationally leading technology enterprise operating in the optics and optoelectronics industries. The Group emerged from a workshop for precision mechanics and optics established by company founder Carl Zeiss in Jena (Thuringia) in 1846. Today, ZEISS is headquartered in Oberkochen (Baden-Württemberg).

With its business groups, ZEISS plays an active part in advancing leading-edge technology and drives forward the world of optics and other related fields with its solutions. The Group comprises 4 segments.

Semiconductor Manufacturing Technology
With its product portfolio, the Semiconductor Manufacturing Technology segment covers a variety of key processes in the production of microchips. ZEISS develops and manufactures lithography optics, optical systems for semiconductor manufacturing equipment as well as systems and solutions for manufacturing defect-free photomasks. The technologies from ZEISS enable further miniaturization of semiconductor structures, making microchips smaller, more powerful, energy efficient and cost-effective.

Research & Quality Technology
The Research & Quality Technology segment comprises business with industrial metrology and microscope systems: ZEISS develops and produces bridge-type, horizontal-arm and production measuring machines, form, contour and surface measuring machines, computer tomographs for industrial quality assurance and software solutions.

The Group also covers the entire spectrum of microscopy: light, ion, electron and X-ray microscopes are used in the life sciences and materials research, as well as for industrial quality assurance.

The Research & Quality Technology segment comprises the Industrial Metrology and Microscopy business groups.

Medical Technology
The Medical Technology segment develops, manufactures, markets and sells diagnostic and therapy systems, as well as implants and consumables in the field of ophthalmology. In addition, ZEISS offers visualization systems for microsurgery – for example, neurosurgery and ENT surgery, dentistry and gynecology. The product portfolio also includes future-oriented technologies such as intraoperative radiotherapy. ZEISS aspires to improve the diagnosis and treatment of diseases by constantly enhancing its innovative products. As a solutions provider, the company plays an active part in the increasing digitization and systems integration in the medical sector and creates the conditions needed for efficient processes and effective patient data management at its customers. The segment's activities are pooled primarily in the TecDAX-listed entity Carl Zeiss Meditec AG, in which Carl Zeiss AG has a 65.1% shareholding.

Vision Care / Consumer Optics
The Vision Care/Consumer Optics segment pools the eyeglass business of the Vision Care business group and the business with planetariums, camera and cine lenses, binoculars, hunting optics and spotting scopes of the Consumer Optics business group. ZEISS develops, produces and sells solutions for the entire eyeglass value chain. Alongside eyeglass lenses, this includes devices for eye examination, digital consultation and measurement applications as well as services for eye care professionals. ZEISS is one of the world's largest manufacturers of eyeglass lenses.

Global presence

The ZEISS Group is represented in more than 40 countries and has over 50 sales and service locations, more than 30 manufacturing sites and about 25 research and development centers around the globe.

Group structure

Carl Zeiss AG is the strategic management holding company that manages the ZEISS Group. It develops the corporate business activities and portfolio and provides central management and service functions. The sole owner of the company is the Carl Zeiss Foundation (Carl Zeiss Stiftung).

Group strategy

ZEISS has a broad and balanced business portfolio focusing on attractive future-oriented markets of optics, precision mechanics and optoelectronics. The objective of portfolio management is the sustainable business success of the ZEISS Group. This objective and the need to procure equity within the scope of internal financing require systematic strategy implementation geared to continuously enhancing value added.

The ZEISS mission statement is: "As the pioneer of science in optics, we continue to challenge the limits of our imagination. With our passion for excellence, we create value for our customers and inspire the world in new ways." This statement encapsulates the Group's fundamental objectives: ZEISS aims to leverage its customer focus to consolidate and expand its position as a global technology leader.

To achieve its objectives, ZEISS relies on the commitment and expertise of its employees, its innovative strength, its culture of innovation and its strong brand. Moreover, the Group is constantly working on increasing its international business activities.

The Carl Zeiss Agenda 2016 strategic program launched in 2011 defines the direction for the development of the Group. The program aims to make ZEISS even more modern, global and dynamic. In this context, continually enhancing customer service and leveraging opportunities presented by digitization play an important role.

Corporate management

The ZEISS Group is managed using financial and non-financial key indicators. These are summarized in a balanced scorecard. For ZEISS, Economic Value Added (EVA®) and Free Cash Flow (FCF) are the most important financial indicators. Customer and employee satisfaction, innovation excellence and process quality are other performance indicators.

REPORT ON ECONOMIC POSITION

Macroeconomic and segment-specific environment

Macroeconomic environment

During the reporting period, the global economic growth was considerably lower than forecast. The rapidly developing economies in Asia, such as India and China, continued to grow at above-average rates, even if growth in China cooled down considerably. The Latin American market saw weaker growth, and Brazil experienced a recession. The market growth of the industrial nations in fiscal year 2014/15 was moderate. In the USA and in the euro zone, the upswing was somewhat smaller, and in Japan significantly smaller than expected.

Development in the growth markets – particularly in China and in Brazil – as well as the euro crisis and the situation in the Middle East were key political and economic issues that negatively impacted the investing activities of industry and the public sector.

Segment-specific environment

Semiconductor Manufacturing Technology

The market for semiconductors, which are primarily deployed in mobile devices such as smartphones and tablets, but also networks and servers for application areas such as the Internet of Things, grew during the reporting period, albeit not as strongly as in the prior year. Demand in the market for semiconductor manufacturing equipment was likewise lower than in the prior year, with the investment behavior of microchip manufacturers being characterized by increasing uncertainty.

Research & Quality Technology

In the market for industrial metrology, the positive trend at global level continued in 2014/15. The automotive and the associated supplier industry were the key driver. The market developed positively in Germany and the USA in particular, while the pace of growth in the rapidly developing economies slackened.

During the reporting period, the microscopy market grew slightly. Asian countries increased their spending on research and teaching in 2014/15. In Europe and the USA, by contrast, investment in research was hesitant. The market for industrial microscopic developed steadily.

Medical Technology

The market for medical technology again saw stable growth. The growth drivers here are megatrends such as demographic development and population growth. The pace of growth picked up for ZEISS due to positive currency effects.

Vision Care / Consumer Optics

Global market growth in the vision care market remains stable. The main growth drivers were the good market development in the rapidly developing economies as well as innovations for eye care professionals and consumers. However, the global market continues to be characterized by high price pressure and ongoing consolidation.

The market for camera lenses saw stable development in fiscal year 2014/15. A fierce price war left its mark on the market for binoculars. The specialty markets for hunting optics, nature observation and planetariums stagnated.

Overall statement on the economic situation of the Group as of fiscal year-end

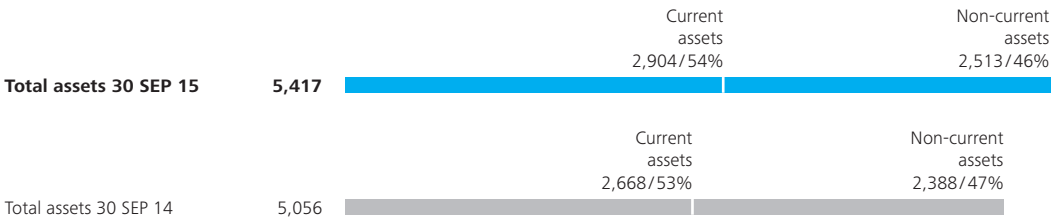
In fiscal year 2014/15, the economic environment was challenging. Nevertheless, ZEISS was able to continue the stable development of the prior years during the reporting period.
The Group recorded revenue of €4,511m in the reporting period (prior year: €4,287m). Adjusted for currency effects, consolidated revenue was at the prior-year level. This is primarily attributable to decreased revenue in the Semiconductor Manufacturing Technology segment. At €369m, EBIT exceeded the prior-year figure of €360m.

The development that had been forecast in the prior year was thus achieved, with the important currencies for ZEISS having a positive effect on revenue and earnings.

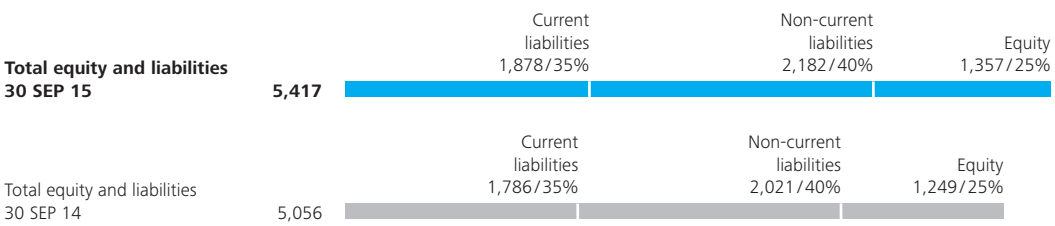
Net assets

Total assets increased by €361m to €5,417m in the reporting period. With regard to assets, this resulted mainly from the development of receivables, deferred tax assets, and cash and cash equivalents. In terms of equity and liabilities, the main effect was from the change in the provisions for pensions and equity.

Structure of the statement of financial position – assets in € m/as a % of total assets



Structure of the statement of financial position – equity and liabilities in € m/as a % of total equity and liabilities



Intangible assets

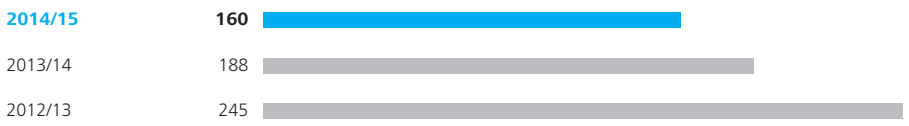
Intangible assets of €795m (prior year: €777m) mainly contain goodwill of €582m (prior year: €553m). The increase of €18m is mainly in connection with the acquisition of Carl Zeiss Optotechnik GmbH, Neubeuern (Bavaria) (formerly: Steinbichler Optotechnik GmbH, Neubeuern).

The impairment tests performed in the reporting period did not give rise to the need to recognize any impairment losses on goodwill.

Property, plant and equipment

In fiscal year 2014/15, ZEISS invested a total of €160m in property, plant and equipment (prior year: €188m), mainly in modernization measures relating to production plants and in furniture and fixtures. Moreover, the international company locations were further expanded and modernized. Depreciation in the reporting period amounted to €150m (prior year: €152m).

Capital expenditures on property, plant and equipment in € m



Other non-current assets

Other non-current assets amounted to €137m (prior year: €119m) and mainly pertained to assets for securing flextime credits via a contractual trust arrangement (CTA), investments as well as securities.

Working capital

Inventories came to €1,081m as of the reporting date and are therefore at the prior-year level (€1,080m). At €923m, current trade receivables were higher than the prior-year figure (€874m). The increase relates to the cut-off date and is consistent with the increase in business volume in the instrument business compared to the prior year.

Trade payables came to €228m as of the reporting date (prior year: €214m). Advances received increased by €32m to €494m in fiscal year 2014/15 (prior year: €462m).
Other current assets amounted to €154m (prior year: €134m). The change mainly results from input tax refund claims at the end of the fiscal year, which were higher than in the prior year.

In the reporting period, current provisions increased by €15m to €332m and essentially comprise provisions for personnel-related and sales-related obligations, provisions for income taxes, and provisions in connection with required structural adjustments.

The increase of €85m in other current non-financial liabilities to €1,170m (prior year: €1,085m) also includes higher advances received.

Equity at a sound level

Equity amounted to €1,357m as of the reporting date (prior year: €1,249m). The consolidated profit of €208m generated in the reporting period increased equity, and the development of exchange rates in the reporting period also had a positive effect of €40m. Countereffects mainly resulted from the remeasurement of defined benefit plans through other comprehensive income, which reduced equity by €117m, and from the dividends paid of €19m.
The equity ratio improved in comparison to the prior year and at 25.1% is at the prior-year level (prior year: 24.7%).

Pension obligations
In fiscal year 2005/06, the financing of the pension obligations in Germany was restructured for the most part in the form of a contractual trust arrangement (CTA). The German entities transferred capital to cover pension obligations toward employees at that time to a dedicated trust, thus clearly separating the funds for operations from those for the pension obligations. This has increased the transparency and international comparability of the Group's financial reporting. The legally independent trust invests the assets transferred to it on the basis of an appropriate long-term investment strategy. The pension obligations of the corresponding entities remain unchanged.

The CTA assets in Germany, which are separated from operating funds, increased in the reporting period to €740m (prior year: €730m). This is attributable to transfers to the CTA of €31m, with the development of the value of the existing plan assets having an opposite effect. Benefit obligations in Germany again rose significantly on account of the interest rate under IFRS, which fell further to 2.35% in fiscal year 2014/15 (prior year: 2.70%). Due to the cut-off date, this resulted in a correspondingly lower funded status of the pension obligations of 58% (prior year: 63%). The Group also has pension obligations toward employees of foreign subsidiaries. In accordance with IAS 19, the pension obligations reported in the statement of financial position correspond to the actual obligations as of the reporting date and therefore correspond to the present value of benefit obligations after deducting the fair value of plan assets as of the reporting date. Provisions for pensions are reported at an amount of €1,483m (prior year: €1,333m) in the consolidated statement of financial position. This is equivalent to 27% of total assets (prior year: 26%).

Financial liabilities
At €536m (prior year: €556m), financial liabilities were almost at the prior-year level. This amount essentially comprises promissory notes and loans arranged with the European Investment Bank and the Kreditanstalt für Wiederaufbau.

Profit participation
ZEISS employees participated in the company's profit for fiscal year 2014/15. The Group issued profit participation certificates with a total (nominal) volume of €2m to employees in Germany. The non-transferable certificates have an annual return, the level of which depends on the Group's return on sales. The profit participation certificates have a term of 5 years, after which they are repaid. In addition, employees in Germany received a bonus of up to €800 gross, paid in October 2015 after the end of the reporting period. Employees at the majority of entities outside Germany also participated in the profit for fiscal year 2014/15 on the basis of the respective country-specific regulations.

Financial position

Sound liquidity base despite high investment volume and allocation to plan assets
In the reporting period, the financial position was again mainly characterized by purchases of property, plant and equipment, above all for modernization measures at production plants and in furniture and fixtures in all regions. In addition, there were cash outflows totaling €37m for allocations to plan assets in Germany and abroad.

The cash outflows from investing activities were completely covered by the cash inflows from operating activities.

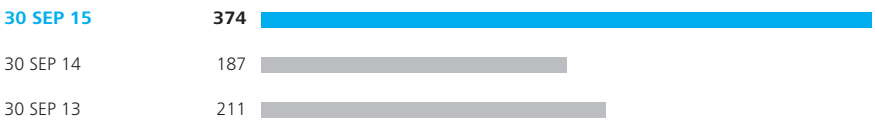
Cash flows from operating activities improved by €116m to €396m in the reporting period (prior year: €280m) and were largely determined by the profit for the year. Cash inflows from advances received also had a positive effect.

Cash flows from investing activities came to minus €206m in the reporting period (prior year: minus €288m); this includes a year-on-year decrease in investments in property, plant and equipment and intangible assets of €40m to minus €187m (prior year: minus €227m).

Cash flows from financing activities amounted to minus €25m (prior year: minus €86m), with loans payable of €18m being repaid and dividend payments of €19m being made, as planned. These were partially offset by proceeds of €11m in connection with loans.

Financial resources[1] came to €776m as of the end of the reporting period (prior year: €590m). Loans payable were at the prior-year level, which resulted in net liquidity[2] of €374m (prior year: €187m).

Net liquidity in € m



The financial position offers a sound base on which to realize the ZEISS Group's long-term growth strategy.

In addition, the Group has an extensive range of instruments at its disposal for raising external financing to fund its business operations. These include above all promissory notes totaling €200m. The terms to maturity of the promissory notes began in December 2013 and May 2014 and break down as follows:

» €105m with a term of 5 years
» €67.5m with a term of 7 years
» €27.5m with a term of 10 years

Of this amount, a total of €102m is subject to floating interest rates and €98m is subject to fixed interest rates. In addition, a new revolving credit facility with a total volume of €500m and a term of 5 years was concluded between Carl Zeiss AG and a syndicate of banks in the prior year. The credit facility includes an option for prolongation on 2 occasions, by 1 year in each case. This option was exercised for the first time in the reporting period. The facility, which serves as a strategic liquidity reserve for the ZEISS Group, was drawn for the first time in the reporting period (BRL 35m). The loans arranged in 2011/12 with the European Investment Bank (€150m) and Kreditanstalt für Wiederaufbau (€45m) remain in place. The latter loan is subject to fixed interest rates and is being repaid on a quarterly basis over the period from 31 March 2014 until 30 December 2021. The residual carrying amount totaled €35m as of the end of the reporting period. The bullet loan from the European Investment Bank is subject to floating interest rates and has a term to maturity of 5 years.

[1] Cash and cash equivalents plus securities and fixed-term deposits
[2] Financial resources less loans payable

Goals and principles of financial management

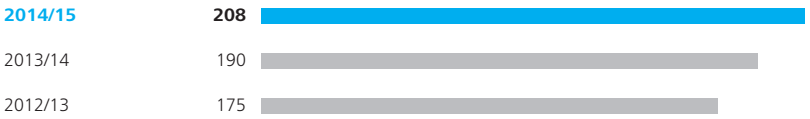
ZEISS has a global financial management system that incorporates all subsidiaries and is coordinated centrally at group level. This also includes monitoring and managing currency risks. The primary objective is to secure and effectively manage the liquidity of the Group. In addition, ZEISS strives to continuously improve its financial strength and minimize financial risks. Investments are made exclusively in securities with solid investment grade ratings. For ZEISS, the operations of the segments, with which the financial activities and strategic orientation are aligned, are the main source of liquidity. The Group has sufficient cash and cash equivalents and lines of credit to finance its operational and strategic objectives.

Results of operations

The income statement has been prepared using the cost of sales method that is widely used internationally.

The results of operations are characterized by increased revenue in comparison to the prior year, with the development of the currencies of importance to ZEISS playing a positive role. Thanks to the balanced corporate portfolio, the expected decrease in revenue in the Semiconductor Manufacturing Technology segment was almost fully offset. ZEISS achieved a consolidated profit totaling €208m (prior year: €190m).

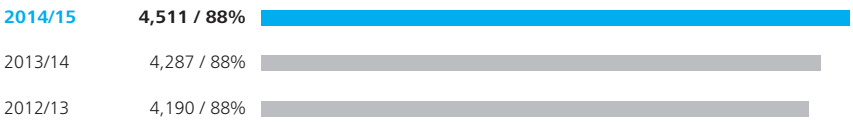
Consolidated profit/loss in € m



Revenue growth in a challenging market environment

In the reporting period, the ZEISS Group's revenue increased by 5% from €4,287m in the prior year to €4,511m, with the share of international revenue of 88% remaining unchanged at the very high level seen in prior years. Adjusted for currency effects, consolidated revenue was at the prior-year level.

Revenue in € m/international share as a %



Incoming orders came to €4,653m (prior year: €4,270m) and, adjusted for currency effects, an increase in incoming orders was recorded in virtually all segments. The increase of 9% (adjusted for currency effects: 3%) is attributable in particular to high demand in the Research & Quality Technology and Medical Technology segments. The cooling down of the investment environment in the equipment industry for semiconductor factories was reflected in a decrease in incoming orders in the Semiconductor Manufacturing Technology segment.

Consolidated revenue by segment

Revenue by segment	2014/15	2013/14	Change compared to prior year as a %	
	€ m	€ m		Adjusted for currency effects
Semiconductor Manufacturing Technology	893	1,047	-15	-16
Research & Quality Technology	1,356	1,217	11	4
Medical Technology	1,211	1,047	16	8
Vision Care / Consumer Optics	1,007	946	7	0
Other	44	30	47	47
ZEISS Group	**4,511**	**4,287**	**5**	**0**

Semiconductor Manufacturing Technology

The Semiconductor Manufacturing Technology segment generated revenue of €893m. That is equivalent to a decrease of 15% (adjusted for currency effects: 16%) compared to the prior year (€1,047m).

The volatile semiconductor market saw weaker overall growth in fiscal year 2014/15, which was also felt in the equipment industry. Demand for optics for Deep Ultra-Violet (DUV) lithography systems weakened considerably – as expected following the strong prior year – particularly as inventory levels were optimized in the equipment industry. In addition, cost and competitive pressure increased. Business with components and modules for lithography lasers was unchanged. Revenue generated with systems and solutions for manufacturing defect-free photomasks exceeded the prior-year figure.

Use of the future-oriented technology – Extreme Ultra-Violet (EUV) lithography – in mass production of microchips was delayed. ZEISS has been working with its partners on this technology for almost 20 years. Important improvements to the light source are necessary before EUV systems can go into volume production. The strategic partner ASML and other development partners are working intensively on this with support from ZEISS.

As of 30 September 2015, the segment had 2,836 employees worldwide (prior year: 2,898).

Research & Quality Technology

In fiscal year 2014/15, the segment increased its revenue by 11% (adjusted for currency effects: 4%) from €1,217m in the prior year to €1,356m.

Demand for metrology solutions from the Industrial Metrology business group developed steadily during the reporting period. The business group reported significant revenue growth above all in North America and APAC. Business in the European markets was robust. Increases in comparison to prior years were also recorded in the rapidly developing economies. Demand for services again grew in all regions and business groups. With the acquisition of the majority shareholding in Carl Zeiss Optotechnik GmbH, Neubeuern (Bavaria) (formerly: Steinbichler Optotechnik GmbH, Neubeuern), which ZEISS completed in August 2015, the Industrial Metrology business group has strengthened and accelerated its entry into optical 3D digitization.

Following a sluggish start, business with microscopy systems for research and teaching saw increasingly encouraging development during the reporting period due to the introduction of new light microscopy solutions. The industrial market continued to develop positively. The Microscopy business group benefited here from increasing investments in industrial research and production. By contrast, the area of materials analysis in the oil and gas industry was negatively impacted by the fall in the price of oil.

The services business developed very positively. The business group was particularly successful in North America and China. Earnings were buoyed by positive currency effects.

In fiscal year 2014/15, the business group launched a comprehensive program designed to increase its competitiveness. The aim is to achieve savings in cost of materials and non-personnel expenses as well as by means of personnel-related measures. This will also call for structural measures. A further aim is to significantly increase sales efficiency and customer satisfaction, putting the sales and service organization on a more customer-oriented footing. Implementation of the first personnel adjustment measures within the scope of a voluntary program has already begun at the German locations.

As of 30 September 2015, the segment had 5,869 employees worldwide (prior year: 5,753).

Medical Technology

The Medical Technology segment completed the fiscal year with a revenue increase of 16% (adjusted for currency effects: 8%) and benefited from a favorable currency development. Revenue rose to €1,211m (prior year: €1,047m).

Irrespective of the currency effects, all business regions contributed almost equally to the segment's growth. In the region of Europe, Middle East and Africa (EMEA), business development of individual markets was extremely diverse. The highest contributions to growth came from the core markets of Germany and the United Kingdom. The Americas region benefited in particular from the development of the US dollar/euro exchange rate, reporting double-digit revenue growth as a result. In the Asia/Pacific (APAC) region, revenue in Japan developed negatively in comparison to an exceptionally strong prior year. At the same time, the countries of China and India achieved high revenue growth rates.

As of 30 September 2015, the segment had 4,144 employees worldwide (prior year: 4,160). Due to different bases of consolidation, the figures for the Medical Technology segment deviate from those published for Carl Zeiss Meditec AG.

Vision Care / Consumer Optics

The Vision Care/Consumer Optics segment closed the reporting period with revenue of €1,007m (prior year: €946m). This means that revenue was 7% higher than the prior-year figure. Adjusted for currency effects, revenue is at the prior-year level.

In all regions, growth was achieved in particular with ZEISS brand eyeglass lenses and product innovations. In the EMEA region, the Vision Care business group reported a considerable increase in revenue. Following the termination of business with a major French customer in the past fiscal year, business increased again during the reporting period thanks to the signing of numerous agreements with independent eye care professionals. The business group also developed positively in the rapidly growing economies, in particular in China and India. An investment in Switzerland was sold, as a result of which sales and marketing in this country were

also focused entirely on the ZEISS brand. In the USA, progress was made in business development. However, this largest market continues to be a challenge. The American Environmental Protection Agency (EPA) has initiated investigations to determine whether individual manufacturing sites in the USA are consistently complying with requirements relating to waste water treatment.

The business of the Consumer Optics business group was characterized in all areas by fierce competition and high price pressure. New products such as full-frame autofocus lenses were successfully positioned in the market. Entry into the outdoor market unlocked additional growth potential. Business in the US market did not meet expectations.

As of 30 September 2015, the segment had 9,076 employees worldwide (prior year: 9,033).

Consolidated revenue by region

Revenue by region and cooperation partners	**2014/15**	2013/14	Change compared to prior year as a %	
	€ m	€ m		Adjusted for currency effects
EMEA	1,552	1,452	7	6
» thereof Germany	547	514	6	6
Americas	1,215	1,039	17	2
APAC	953	830	15	6
Cooperation partners	791	966	-18	-18
ZEISS Group	**4,511**	**4,287**	**5**	**0**

In the economic region of EMEA, ZEISS reported an increase in revenue of 7% (adjusted for currency effects: 6%) to €1,552m (prior year: €1,452m), with revenue in Germany increasing by 6% to €547m (prior year: €514m).

Business in the Americas region increased slightly. Revenue came to €1,215m, 17% (adjusted for currency effects: 2%) higher than in the prior year (€1,039m). The development of the US dollar had a positive effect in fiscal year 2014/15.

Revenue in the APAC region increased by 15% compared to the prior year (adjusted for currency effects: 6%) to €953m (prior year: €830m). The highest growth rates were achieved by India and, despite a weakening in the market compared to the prior year, also by China.

Business with cooperation partners decreased significantly in comparison to the prior year, falling by 18% to €791m (prior year: €966m). The main contributory factor was the cooling down in investment behavior in the semiconductor sector.

Functional costs

Cost of sales increased by €88m in comparison to the prior year and came to €2,431m (prior year: €2,343m). Gross profit improved by €136m from €1,944m to €2,080m in the reporting period. ZEISS pursues the goal of systematically increasing its competitiveness. In this connection, initiatives were launched that led to corresponding productivity enhancements. In the reporting period, these resulted in a further increase in the gross margin to 46% (prior year: 45%).

Sales and marketing expenses in fiscal year 2014/15 came to €929m (prior year: €840m), which is equivalent to a slight increase as a percentage of sales. General administrative expenses stood at €323m (prior year: €298m) and were at the prior-year level as a percentage of sales.

Research and development expenses came to €466m in the reporting period (prior year: €448m). As in the prior year, this represents 10% of revenue, testifying to the ZEISS Group's clear focus on innovation.

Development of earnings

Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to €572m in the reporting period (prior year: €572m).

Earnings before interest and taxes (EBIT) of €369m (prior year: €360m) with an EBIT margin of 8% (prior year: 8%) were generated in the reporting period. Due to the higher gross profit compared to the prior year, it was possible to compensate for expenses for necessary structural adjustments. Overall, this resulted in profitability at the prior-year level.

	2014/15	2013/14	2012/13
	€ m	€ m	€ m
EBITDA	572	572	512
» EBITDA margin	13%	13%	12%
EBIT	369	360	315
» EBIT margin	8%	8%	8%

The financial result came to minus €105m in the reporting period (prior year: minus €90m). The share of profit/loss from investments accounted for using the equity method includes the impairment loss recognized for the entire carrying amount of Oraya Therapeutics Inc., Newark (USA).

The interest result improved in the reporting period by €17m to minus €49m (prior year: minus €66m). The other financial result decreased by €21m to minus €44m (prior year: minus €23m). This is essentially attributable to measurement effects in connection with hedge accounting, exchange rate effects and the write-down of a loan.

The tax expense for fiscal year 2014/15 totaled €56m (prior year: €81m), which resulted in a group tax rate of 21% (prior year: 30%). This development is linked to an increase in the deferred tax assets recognized on unused tax losses due to improved business developments.
The consolidated profit thus came to €208m in the reporting period (prior year: €190m).

Economic value added generated

ZEISS measures value added generated using the Economic Value Added (EVA®) indicator. This is the internal measure of the company's success. In fiscal year 2014/15, EVA® amounted to €115m (prior year: €109m). ZEISS therefore once again achieved considerable value added and continued the positive development of the prior years. EVA® is calculated as the operating profit after taxes less cost of capital. The internal interest rate used to determine costs of capital ranges between 6.5 and 10%, depending on the business involved.

NON-FINANCIAL KEY PERFORMANCE INDICATORS

Employees

The total headcount of the ZEISS Group increased as of 30 September 2015 by 129 worldwide to 24,946 (prior year: 24,817). The number of employees increased most in the APAC region, where it rose by 264 to 4,227 (prior year: 3,963).

Around 56% (prior year: 57%) of the ZEISS workforce – equivalent to 14,051 employees (prior year: 14,044) – works outside Germany.

Education and training is a high priority at ZEISS. As of the reporting date, the Group had 433 apprentices and trainees in Germany (prior year: 474).

The focal points of HR policy at ZEISS are employee training and leadership development. The Group invested more than €4m to this end in Germany alone. Employees can select a large number of courses in the internal qualification program. In addition, ZEISS supports off-the-job training and personnel development measures.

Research and development

Optical technologies are key technologies of the future. Their technological and scientific applications will increasingly penetrate all areas of life. For 170 years, ZEISS has been synonymous with innovation. The specific ownership structure of ZEISS ensures the scope required to enable investments in new developments and solutions in the long term.

The Group's research and development departments have a total of 2,648 employees – 11% of the workforce – working on new solutions and technologies for the optics industry (prior year: 2,758 employees, 11%). The Group annually spends around 10% of revenue on its research and development activities. In fiscal year 2014/15, the associated expenditure came to €466m – equivalent to 10% of revenue (prior year: €448m, 10% of revenue).

ZEISS cooperates with global networks of renowned universities and research institutes on the development of new technologies and solutions.

ZEISS invests in innovations and solutions, and secures its innovative advantage by means of patents. As of the reporting date, ZEISS held 7,071 patents worldwide (prior year: 6,643). In the reporting period, the Group applied for new patents for 413 inventions (prior year: 415).

Responsibility

ZEISS plays an active role in society. The Group supports educational measures and scientific projects and institutions as well as selected social and cultural initiatives at company locations.

ZEISS attaches great importance to the sustainable and sparing use of resources and environmental protection. Sustainability is a key consideration – from the development and manufacture to the packaging and shipment, through to disposal of its products. The Group has also defined corresponding requirements for its suppliers.

All the major manufacturing sites in Germany and some international subsidiaries are certified to the international environmental management standard ISO 14001. ZEISS spent around €11m on environmental protection measures over the past year.

ZEISS promotes the health and performance of its employees with a health management system as well as through comprehensive occupational health and safety measures. Many of the ZEISS entities in Germany now have an occupational health and safety management system in accordance with the international standard BS OHSAS 18001.

RISK AND OPPORTUNITY REPORT

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

Risk management system

The central risk management system at ZEISS stipulates uniform rules and processes to detect, assess and manage risks at an early stage. The key objective is to minimize the negative effects of potential risks.

In the business groups, risk management coordinators apply the central policies and procedures. The management of the business groups and strategic business units detects and manages and reports on operating and strategic risks. Overall responsibility lies with the Group's Executive Board, which regularly assesses risks and opportunities and their management at group level. While the Executive Board examines the appropriateness of the risk management system, the Supervisory Board's Audit Committee monitors the effectiveness of the risk management system.

Internal control system

The internal control system (ICS) of ZEISS is based on the COSO Enterprise Risk Management Model (COSO ERM model). It integrates organizational, process-related and technical measures to ensure proper operating activities and correct reporting. This integrated enterprise risk management system covers strategic and operational risks, i.e. it does not merely monitor financial risks. For central processes, there are defined key risks and defined control mechanisms, which are evaluated with regard to their effectiveness.

The Group's Executive Board ensures that an adequate and effective internal control system is in place and that it is continuously enhanced. The Supervisory Board's Audit Committee monitors the effectiveness of the internal audit function, risk management and the internal control system as well as the financial reporting process.

Strategic and operational risks

ZEISS systematically analyzes and evaluates risks. 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 spread broadly.

General risks and opportunities
ZEISS regularly checks for risks and opportunities that can arise from changes in markets and within the supplier and customer environment, consolidation within the industry and technological developments. In addition, ZEISS analyzes economic, legal and political developments or economic sanctions in the economic regions relevant for the Group and evaluates possible scenarios. Opportunities and risks that could arise from major natural disasters are also evaluated. The international orientation, sustainable operating policies and balanced ZEISS portfolio help spread the risk.

Innovation risks and opportunities
The results of operations and reputation of ZEISS are heavily dependent on the development of innovative products and solutions. New trends and current findings from science and research can give rise to abrupt technology shifts, new customer requirements, and also make new business models necessary. To utilize opportunities in this area at an early stage and to keep the probability of risks occurring and their economic impact low, ZEISS cooperates with research institutes, enters into targeted development partnerships and also makes targeted technology acquisitions.

Personnel risks and opportunities
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. These give rise to moderate economic risks. ZEISS counters these with a global recruitment strategy, which leads to a low probability of occurrence. In order to retain 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.

Risks and opportunities in procurement and production
ZEISS ensures compliance with national and international standards, laws and regulations by means of an integrated management system that addresses the issues of quality, environmental protection, occupational health and safety, and energy management.

The increase in the prices of commodities and materials, the growing complexity of purchased parts and the limited number of suppliers (single source) for some technologies give rise to a moderate procurement risk. ZEISS 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. ZEISS systematically leverages opportunities that arise from bundling procurement activities.

Risks and opportunities of information technology
ZEISS constantly examines and utilizes the opportunities of digitization in order to offer customers additional and enhanced services. At the same time, the Group constantly updates its existing information technology (IT) systems, and its IT protection and security systems. Some ZEISS IT systems are operated by external partners. For these service providers, the Group has defined high technical and legal standards regarding the hardware and software deployed as well as process monitoring and data security. ZEISS continuously monitors the implementation of and compliance with these standards. The probability of IT risks occurring is estimated to be low. However, the economic impact can be considerable.

Risks and opportunities from acquisitions
Acquisitions or investments offer ZEISS the opportunity to enlarge its competencies and technology portfolio or to increase its access to regional markets. ZEISS systematically checks the associated risks and opportunities. Due diligence reviews aimed at assessing the business development that can be expected are a key element prior to closing transactions. The economic impact and probability of occurrence are therefore low.

Goodwill totaling €582m from acquisitions is shown in the consolidated statement of financial position. This goodwill is subject to regular impairment tests. It cannot be ruled out that impairment losses on goodwill may need to be recognized on account of changes in economic conditions, business models or technologies.

Legal risks, patents and intellectual property
ZEISS 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. The probability of such cases occurring is low.

When developing new products and technologies, ZEISS 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. Due to the complexity of possible industrial rights and the increased activity of institutional patent assertion entities there is a moderate risk of litigation with a moderate economic risk. Appropriate provision is made in the statement of financial position for any claims arising from unclear patent situations.

There is no pending litigation that poses any risk to the continued existence of ZEISS at present. ZEISS appealed a penalty notice issued to Carl Zeiss Vision GmbH by Germany's Federal Cartel Office in fiscal 2009/10. This litigation is continuing.

ZEISS 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, ZEISS has established a corporate-wide compliance organization.

Financial risks and opportunities

The overall financial risks of the ZEISS Group are classified as moderate. The measures listed result in a low probability of occurrence.

The financial activities and the associated opportunities and risks of the ZEISS Group are managed centrally. The Group uses defined risk strategies to minimize risks resulting from changes in exchange rates, interest rates or the value of assets. Furthermore, the Group is generally exposed to credit and liquidity risks. On account of its global orientation, the ZEISS Group is exposed to risks from exchange rate fluctuations in its operations and the financial results and cash flows reported. Interest rate risk arises from fluctuations in market interest rates.

The ZEISS Group exclusively uses derivative financial instruments to hedge interest rate and currency risks. For this purpose, it enters into interest rate swaps and standard currency options and forward exchange contracts. These cover the underlying goods and services transactions of group entities and non-derivative financial transactions (hedged transactions).

Credit risk stems from an adverse development in the economic conditions of the company's borrowers or counterparties. On the one hand, this gives rise to the risk of default, in full or in part, on contractually agreed payments or performance and, on the other, potentially a need to recognize credit-risk-related impairment losses on financial instruments. The maximum credit risk position of the ZEISS Group as of the end of the reporting period is equivalent to the carrying amount of the financial instruments disclosed as financial assets and the guarantees issued to non-consolidated group entities.

The liquidity risk of the ZEISS Group represents the risk that Carl Zeiss AG or a subsidiary may not be able to meet its financial obligations (e.g. to repay financial liabilities or make interest payments). ZEISS has sufficient liquidity reserves in the form of cash and lines of credit. The Group's investment strategy is conservative: the focus here is on security and short-term availability. In addition, ZEISS ensures that the investments are broadly diversified.

Risks of default are limited by choosing counterparties with excellent credit ratings given by external rating agencies. Concentration risks are limited and managed by generally entering into transactions with various banks.

In the context of pension obligations, high risks arise from the increasing life expectancy of the beneficiaries, from general interest rate developments and from the obligation to regularly adjust the amount of the pensions paid. The existing pension agreements could give rise to risks with regard to equity. The provisions negatively impact the statement of financial position and could therefore restrict scope for strategic action. In light of this, the pension rules were revised during the reporting period and adapted to the changed conditions on the financial market. By doing this, ZEISS is countering the risks that could arise in particular from the development of interest rates. The new pension rules will come into effect as of the beginning of fiscal year 2015/16.

ZEISS has transferred the funds to cover pension obligations toward active employees in Germany to a contractual trust arrangement (CTA).

Market risks and opportunities

The broad and balanced ZEISS business portfolio helps spread risk. The economic risk arising from the differing development of the segments is classified as moderate with a moderate probability of occurrence. In order to further reduce both the probability of occurrence and the economic risk, ZEISS has launched programs designed to increase competitiveness in individual areas.

The volatility and increasing consolidation of the semiconductor sector entails risks and opportunities for the Semiconductor Manufacturing Technology segment, to which ZEISS adapts in a flexible manner. In the reporting period, the business group responded to the changes in market and technological demands over the past years by optimizing its organizational structure. In particular, the profitable use of EUV lithography for volume production of semiconductor chips holds considerable opportunities and presents high inherent technological risks for the business group. ZEISS therefore collaborates closely with its strategic partner ASML and other development partners in order to jointly steer this future-oriented technology to success.

The Research & Quality Technology segment is exposed to risks arising from the Industrial Metrology business group's dependence on the capital goods industry and particularly the automotive and the associated supplier industry. These are reduced by the development of new applications and by expanding the business group's business with customer services. Opportunities arise for the business group from increasingly networked production processes (Industrial Internet), from its positioning as a one-stop provider as well as from the expansion of local value chains in the key economic regions.

The business development of the Microscopy business group depends heavily on government budgets for education and research, and on an innovative product portfolio. The business group is therefore enhancing its product portfolio in order to open up new markets and customer segments through industrial applications. Increasing industrial requirements, new materials and the growing scarcity of resources call for new analytical methods in microscopy and offer new sales opportunities for the business group. Megatrends such as the aging population are triggering additional growth opportunities in the area of microscopy for research and routine biomedical applications; for example, in pharmaceuticals research or in diagnosis of diseases.

In the Medical Technology segment, political and regulatory decisions can have a long-term effect on the reimbursement of costs for medical treatment and thus on willingness to invest in new treatment systems. Cuts in public budgets can have similar consequences. Furthermore, new product launches can be delayed or even rejected due to changes in product approval requirements. Patients may be injured due to malfunctions or incorrect operation of medical devices. This can result in substantial litigation costs and cause long-term damage to the company's reputation. The steadily rising world population and higher life expectancy, which is likely to lead to increased demand for medical technology, are giving rise to growth opportunities for the Medical Technology segment. Further growth potential is inherent in the rapidly developing economies due to the growing demand for basic medical care.

Within the Vision Care/Consumer Optics segment, the Vision Care business group is exposed to risks arising from fundamental changes in the market, ongoing consolidation in the industry and the concentration of customer structures. Other risks include the continued fall in the price of eyeglass lenses, as well as new competitors who use online sales channels or deploy new technologies to establish their own production capacity. Opportunities continue to be offered by the growing importance of the brand for consumers, freeform technology and the associated new business fields, optimization of the value chain, and new business models resulting from digitization.

The Consumer Optics business group is subject to risks in the market for cine lenses due to increasing competitive and price pressure. Opportunities can arise from new developments and from sector and technology trends in this market. In the market for camera lenses, there are risks due to an increasingly weak market for single-lens reflex cameras, which also results in opportunities in the market for mirrorless cameras. The licensing business depends on the attractiveness of the ZEISS brand for partners of the business group. ZEISS counters this risk by means of a consistent brand strategy.

Another risk is presented by product delays in Sports Optics, which could result in customers opting for a competitor. This could give rise to idle capacity at manufacturing sites.

Overall statement on the risks faced by the company

When this report was prepared, no risks were discernible that could jeopardize the ability of the ZEISS Group to continue as a going concern. There are no significant differences for the overall assessment compared to the prior year. The Executive Board believes that the Group has a solid foundation for further development and uses a systematic strategy and planning process to provide the resources required in order to leverage the opportunities.

SUBSEQUENT EVENTS

There were no significant events after the end of the fiscal year.

REPORT ON EXPECTED DEVELOPMENTS

Future conditions of business development

Moderate economic growth is currently still expected for fiscal year 2015/16. However, the growth indicators for the global economy show clear signs of a future weakening of the markets.

According to forecasts, the market growth of the industrial nations will see moderate development. In the USA, good labor market figures will fuel consumer demand and growth.

The high growth rates of the past will not be repeated in China. A “new normality”, with moderate growth rates and a process of transformation in industry, is expected in the world’s second-largest economy. The effects of this on national and global economic growth cannot be accurately predicted.

According to forecasts, the Indian economy will see above-average development. Brazil will emerge from recession with marginal growth.

Continuing political uncertainties in the euro zone, in Russia and Ukraine, as well as in the Middle East, could negatively impact growth.

Expected development of the markets and industries relevant for ZEISS

Semiconductor Manufacturing Technology

ZEISS expects demand for microchips to continue in fiscal year 2015/16, but with significantly slower growth in some cases. The main remaining growth drivers are constantly rising storage requirements due to the rapidly rising data volumes and increasing digitization in all areas of life. The classic growth drivers – PCs, tablets and smartphones – will see negative (PCs) or low positive (tablets and smartphones) development. The Group therefore expects the investment requirements of chip manufacturers as regards lithography technology to stagnate in fiscal year 2015/16.

Research & Quality Technology

The Group expects business development in industrial metrology to be stable overall. ZEISS expects cautious investment behavior for Europe and the Asian market – while there are positive indicators for business in North America. Moreover, ZEISS expects the business group's service business to continue to grow and also anticipates additional impetus from the expansion of the portfolio.

For the microscopy business, it is apparent that the public subsidies for research, which are on the whole restrictive, will result in stagnating global growth in the academic environment. Positive impetus is expected for the industrial application of microscopes. The Group expects that this robust market environment will remain in place for the Microscopy business group.

Medical Technology

Medical devices and medical equipment will remain an attractive business field in the healthcare sector. ZEISS expects that growth drivers in the market for the Medical Technology segment, such as demographic trends and population growth as well as rising demand from the rapidly developing economies, will continue to exist. They will be supplemented by new technologies and applications, particularly in the area of minimally invasive surgery, that will contribute to the dynamism of the industry. From the customer's perspective, a better cost-benefit balance of medical technology products and increasing digitization and systems integration are playing a key role in day-to-day work in doctors' offices and hospitals.

Vision Care / Consumer Optics

For the business of the Vision Care/Consumer Optics segment, ZEISS expects global growth to remain stable. Major drivers of the development of the markets for the Vision Care business group are demographic trends, increasing income in the rapidly developing economies and rising demand for individualized precision eyeglass lenses. The Group expects the increasing digitization in lens fitting and production, logistics, marketing and customer service to result in major changes. ZEISS expects the Consumer Optics business group to face tougher competition. In addition, the Group assumes that the US market will recover. With the size of the market for cine lenses set to remain constant, increased competitive pressure is expected due to the entry of new competitors from Asia.

Overall statement on anticipated development

When these consolidated financial statements for 2014/15 were prepared, slightly stronger global economic growth with differences between the various regions was becoming apparent. In light of the global economic development forecasts currently available, the Executive Board of Carl Zeiss AG regards the goals planned for fiscal year 2015/16 as challenging. In light of the initial signs of increasing market uncertainty, ZEISS expects less dynamic growth in the rapidly development economies in Latin America and Asia compared to prior years, with a slight decrease expected for China. Thanks to the solid positioning of the segments in their respective markets, which ZEISS established and expanded in the past, mainly through its innovative strength, the Group expects slight increases in revenue and EBIT margin for fiscal year 2015/16, despite stagnation in the Semiconductor Manufacturing Technology segment.