

The spoken word prevails

Speech to be delivered to the GILDEMEISTER Aktiengesellschaft Press Conference following the publication of Financial Statements on 31 March 2005, 11.00am, Bielefeld-Sennestadt

Dear Ladies and Gentlemen,

Before the Executive Board begins its report for the financial year 2004 at GILDEMEISTER Aktiengesellschaft and the current financial year, we would like to take this opportunity to describe to you recent trends in the machine tool industry.

Industry Development

International Development

For the first time since the year 2000, worldwide demand for machine tools has increased in the reporting year. **Consumption** amounted to € 36.4 billion. China continued to expand its leading position as the world's largest sales market for machine tools. Consumption in China amounted to € 7.4 billion; representing 20% of global consumption. Japan, with € 4.8 billion (13%) came second; and with € 4.3 billion (12%) Germany came third. Other important markets were the USA (11%) and Italy (7%). 63% of all machine tools in the world were consumed by these five industrial countries.

According to calculations by the VDW (German Association of Machine Tool Factories), **global output** also totalled € 36.4 billion, which is an increase of 12%. As in the previous year, at € 8.5 billion (23%) Japan was the largest producer. With an output of € 7.4 billion (20%), Germany maintained second place. With € 3.7 billion (10%) Italy was able to maintain its place of the previous year, as did China with € 3.2 billion (9%). At € 2.3 billion (7%) Taiwan was placed fifth, thereby overtaking the USA. These five major producer countries represent 69% of the global machine tool production.

German Machine Tool Industry

For the first time since the year 2001, **order intake** for the German machine tools industry also picked up . Against the previous year, incoming orders rose by 17% to € 10.3 billion (previous year: € 8.8 billion). This increase is due primarily to international orders, contributing 22%. Domestic orders increased by 10%.

Production also picked up again, rising by 8% to € 9.1 billion (previous year: € 8.5 billion). Of the machine tools produced in Germany, 59% were exported in the reporting year. The demand trend is reflected only to a limited extent in the **backlog of orders**. Towards the end of the year, the backlog covered 6.4 production months.

According to estimates by the VDW, the profitability of most companies in the German machine tools industry is unsatisfactory. This is primarily due to the increase in prices of raw materials and important intermediate products. A statement on this matter is difficult as only few companies publish their figures.

The Financial Year 2004 at the GILDEMEISTER Group

GILDEMEISTER, in the face of difficult market conditions, has achieved the highest order intake in the 134-year history of the company!

As at 31 December 2004 the GILDEMEISTER group was composed of GILDEMEISTER Aktiengesellschaft as parent company and the affiliated companies with their subsidiaries. The group includes 11 production plants and 57 sales and services locations. The consolidated company report includes all group companies controlled by GILDEMEISTER Aktiengesellschaft.

Sales Revenues 2004

The increased demand for machine tools had a positive impact on our sales development. Sales revenues increased by 8% to € 1,051.5 million (previous year: € 977.8 million). In the fourth quarter sales revenues increased by 15% to

€316.4 million (previous year €276.3 million). In 2004 domestic sales revenues increased by 6% to € 502.9 million and international sales revenues by 9% to € 548.6 million. Exports accounted for 52% of our total sales (previous year: 51%).

Consolidated Segmental Reporting

GILDEMEISTER business activities are divided into the **Machine Tools** segment with a sales revenues contribution of 71% (previous year: 72%), the **Services** segment with approximately 29% (previous year: 28%) and the **Corporate Services** segment with less than 1%.

The **Machine Tools** segment includes the new machines business. Sales revenues rose by 6% (€ 39.1 million) to € 743.3 million. The DECKEL MAHO milling technology represented 41% of total sales revenues (previous year: 46%), whilst the ultrasonic/laser technology represented more than 2% (previous year: over 1%). The GILDEMEISTER turning technology accounted for 28% of total sales revenues (previous year: 25%). The **Services** segment continued to perform well and contributed a major share of the positive business development by the GILDEMEISTER group. Sales revenues rose by 13% (€ 34.6 million) to € 307.6 million (previous year: € 273.0 million). Along with the service and spare parts business, our innovative service and software products business also recorded positive growth rates.

Order intake 2004

Order intake reached € 1,113.9 million, which is 13% above both the previous year (€ 981.8 million) and the record year 2001. In the fourth quarter, order intake of € 302.1 million (+8%) continued to rise considerably (corresponding quarter of the previous year: € 281,0 million). The fresh stimulus and major orders emanating from the autumn trade fairs was a major contributor to the positive development of the fourth quarter. At € 508.8 million domestic orders exceeded the previous year by 11% (€ 457.0 million); whilst the intake of

international orders increased by 15% to € 605.1 million (previous year: €524,8 million). The export share increased to 54% (previous year: 53%).

Despite improved economic trends, GILDEMEISTER continued to operate in an environment dominated by tough competition. Due to the continuing weakness of the dollar and a strong increase in commodity prices (particularly steel), the standard machine business in the lower price segment constituted a particular challenge to us. The order intake for technology machines on the other hand increased noticeably. In **Germany** our order intake increased by more than the market trend. The above average increase in orders taken in **Europe** resulted in an increased significance of this market in comparison to other regions. The intake of new orders from **America** developed particularly well, despite unfavourable movements in the US dollar exchange rate; we succeeded in achieving a noticeable increase in our sales figures and more than doubled their volume. Particularly in the USA the demand for innovative technology machines has increased. In **Asia** on the other hand, demand for standard machines in the lower price sector remains high, with significant competitive and pricing pressures. In the past financial year, our order volume in this market region declined slightly for the first time.

Order Backlog 2004

By the end of the year, order backlog amounted to € 321.8 million. Arithmetically, this corresponds to a production capacity utilisation of a good three months.

Results 2004

GILDEMEISTER has recorded an **annual profit** of € 5.6 million (previous year: € -3,6 million). **EBITDA** amounted to € 71.2 million (previous year: € 71.1 million). Gross yield totalled € 499.4 million (previous year: € 470.4 million). Increases in personnel costs and other operating expenses that were due primarily to sales-related cost increases and an increased presence at trade fairs in the autumn of 2004 had a negative impact. **EBIT** amounted to € 41.9 million (previous year: € 34.7 million). **EBT** amounted to € 12.0 million (previous

year: € 10.3 million). However, the results development is still not satisfactory. In the previous financial year, extraordinary items and additional expenditure incurred by the group's long-term financial restructuring and re-organisation were largely offset by one-off positive effects arising from valuations and the use of the IFRS 3 option. The Executive Board and Supervisory Board will propose to the general meeting of shareholders, to be held on 20 May 2005, that no **dividend** is distributed for the financial year 2004.

Capital Measures 2004

In anticipation of improved business developments over 2005, GILDEMEISTER has **increased its share capital** to the ratio of 2:1, in order to strengthen its financial base. The subscription price per share was € 4.15; the gross proceeds received amounted to € 60.1 million. Following the issue of 14.4 million new owner shares, the number of shares rose to 43.3 million and the company's registered capital from € 75.1 million to € 112.6 million. To further improve its financial structure, GILDEMEISTER has placed a **long-term corporate bond** with a size of € 175.0 million and a remaining term of seven years. In addition, a syndicated loan facility to the value of € 141.0 million has been extended until June 2007.

The GILDEMEISTER Share

In early 2004, the GILDEMEISTER share traded at an average level of approximately 8 €. Its annual high of € 8.94 was recorded on 29 January 2004. Following the press conference on financial statements held on 29 March 2004, our share fluctuated at a price level of € 7.60. Following the announcement of the capital measures, our security was traded at € 5.83 (12 May 2004). On 2 June 2004 the trading of the subscription rights began and the share was quoted ex-rights at € 5.39, reaching its annual low of € 5.00 on 10 June. Following completion of the capital increase our security recovered and, by the end of the first six months was traded at € 5.93 (30 June 2004). By the end of November the market price was running at a level of € 6. At the end of the year,

the closing price was € 5.20 (30 December 2004). Our share is currently quoted at € 5.38 (21 March 2005).

The GILDEMEISTER Bond

Following the successful offering on 19 July, the bond's price performed well, rising to an interim high of € 107.00 on 2 September 2004. On 11 November 2004, after a consolidation phase, the price exceeded the € 108.00 mark and settled at a stable rate over the ensuing weeks. The year-end closing price was € 108.13 (31 December 2004). The price continued its upward trend at the start of the current year and the € 110.00 mark was reached on 25 January. On 21 February our bond reached its highest price of € 113.75. It is currently traded at € 110.00 (21 March 2005).

Some explanatory notes on the Annual Financial Statements 2004 of the GILDEMEISTER group are set out below:

Equity

The annual profit and the changes in revenue reserves and in subscribed capital resulted in an increase in equity of 33.0% (€ 61.9 million) to € 249.5 million (previous year: € 187.6 million). The **equity ratio** has thereby increased to 26.5% (previous year: 21.4%).

Net Worth and Financial Position

Compared with the previous year, the **balance sheet total** of the GILDEMEISTER group increased by € 65.1 million to € 940.0 million (previous year: € 874.9 million). As planned, **fixed assets** decreased by € 8.1 million to € 262.5 million (previous year: € 270.6 million). **Inventories** showed an increase of € 12.2 million to € 276.6 million (previous year: € 264.4 million).

At € 12.8 million the **cash flow** from running operations was positive in the reporting year, but € 15.9 million lower than the previous year's level of € 28.7 million.

Investments

With regard to investments, GILDEMEISTER has continued the consolidation course begun in the previous year and has reduced additions to fixed assets by 40% to € 21.8 million (preceding year's figure: € 36.4 million). Investments in tangible fixed assets and intangible assets totalled € 15.2 million. Further intangible fixed asset additions were due to the capitalisation of development costs (€ 6.2 million) and leased assets (€ 0.4 million). Depreciation amounted to € 29.3 million and was therefore below the preceding year's figure of € 36.4 million, as expected.

Research and Development

The requirements of the global markets and the expectations of our customers have a major influence on the development of our new products. This ensures that GILDEMEISTER is able to maintain its innovative lead. In the financial year 2004 we developed 16 high-tech machines, which were successfully exhibited to the trade at international trade fairs and exhibitions, such as the IMTS in Chicago, the JIMTOF in Tokyo or the AMB in Stuttgart. In the reporting period, investment spending on R & D totalled € 37.8 million (previous year: € 43.1 million). Our high number of construction engineers is maintained at 399; representing about 13% of staff working in the production sites. This continued commitment safeguards our innovative technical expertise.

Employees

On 31 December 2004, GILDEMEISTER had 5,174 employees (previous year: 5,028), 190 of whom were trainees (previous year: 205). Taking on 161 additional employees, most of whom were in the Services segment, is aimed at enabling us to meet our customers' requirement worldwide. Staff levels particularly at our international sales and service companies in Asia and America, but also at locations in Germany and Europe, were increased. In the

course of its ongoing internationalisation measures, GILDEMEISTER has also increased the number of employees at the Shanghai production site and in the promising ultrasonic/lasertec division. Staff adjustment measures were directly related to business development in each of the companies. One of the focal points of these measures was the restructuring process at the Geretsried production site, completed in collaboration with the product companies in Pfronten and Seebach.

At the end of year 3,151 employees worked at the national companies and 2,023 at our international companies. The percentage of staff working abroad was 39% (previous year: 37%). The number of employees working in the Services segment increased by 129 to 1,846. The percentage of staff in this segment was 36% (previous year: 34%). In the reporting year, personnel costs amounted to € 282.5 million (previous year: € 270.6 million). The personnel quota decreased slightly from 27.2% to 26.8%.

Forecast for the Financial Year 2005:

According to economic experts, **global economic development** is likely to continue to improve throughout the current financial year. A key position is still held by the USA, where the economic revival is expected to continue. China has turned into the second major driving force.

The **worldwide market for machine tools** will continue to grow in 2005. According to forecasts by the ifo Institute and the German Association of Machine Tool Factories (VDW), they expected 10% growth in October 2004. We currently estimate the worldwide machine tools market will grow by approximately 6% in 2005. As for the **German Machine Tool Industry**, the VDW forecasts an increase in production of 4%.

For the financial year 2005, **GILDEMEISTER** are planning for our order intake to exceed € 1,150 million. For the first quarter of 2005, we expect **order intake** to exceed the previous year's level (€241.0 million).

Based on the expected order intake for the current financial year and our current order backlog, we intend to increase **sales** in 2005 to just under € 1.1 billion. With regard to the first quarter of 2005, we expect sales to be above the previous year's level (€222.7 million).

The first quarter will close with slightly negative EBT. With respect to the entire year 2005, we expect a noticeable strengthening of our profitability due to an ongoing optimisation of our cost and process management. The "GILDEMEISTER 2010" efficiency programme is intended to result in sustained earnings growth. We expect **EBT to exceed €25 million** and an **annual profit of more than € 10 million**. Due to the positive business and performance prospects, we are planning to distribute a **dividend** for the current financial year.

At GILDEMEISTER, 2005 will be dominated by the **EMO**, which will take place from 14 to 21 September in Hanover. This is the most important trade fair in the world and plays a trendsetting role for the industry and its customers. The EMO trade fair will be the industry's highlight of the year. 1,600 exhibitors from 35 countries have already registered. This event provides GILDEMEISTER with a perfect forum to present its innovations and almost the entire production programme. We will present our latest developments at this event. Our strong orientation towards innovation will again be confirmed during the current financial year with **19 new developments**. Our excellent technical knowledge and many years' experience are the basis ensuring that our company remains the global market leader among producers of cutting machine tools. Our goal is also to play a leading role among the machine tool manufacturers in terms of profitability. In 2005 we will take an important step in this direction.

Bielefeld, 31 March 2005

Dr. Rüdiger Kapitza

Chairman of the Executive Board