



IWKA Aktiengesellschaft Annual General Meeting

6 July 2001

Karlsruhe City Hall

Statement by

Hans Fahr

Chairman of the Board

IWKA Aktiengesellschaft

The spoken word shall be valid.

Dear shareholders and
shareholders' representatives,
honored guests,
ladies and gentlemen,

On behalf of my colleagues on the Board and myself, I would like to welcome you to today's Annual General Meeting of IWKA Aktiengesellschaft. We would like to thank you for your interest in and commitment to our company, which you have expressed by coming along here today.

We are reporting today on developments in fiscal 2000 and the first six months of the current year. And we want to demonstrate to you why it is worth investing in our company.

Ladies and gentlemen,

The Annual Report which you have before you shows how much IWKA has changed. We have opened a new chapter in the history of the company – 2000 was the first year without Defense Technology, and also the year in which the acquisitions of 1999 and 2000 were incorporated fully into the consolidated accounts. At the same time, the sale of Defense Technology produced an extraordinary income of € 35 million, giving us sufficient funds to help cope with the restructuring.

To strengthen its competitiveness on a long-term basis, the Group has undergone an intensive fitness program over the last two years. Our strategy is to further concentrate the areas of activity of the IWKA Group and to focus on high-growth markets with a potential for the future. In addition, it is important for the Group to adapt to the changing requirements of our customers. Our concept has been favorably received both by our customers and by the capital markets, and our staff are consistently implementing this concept with a high level of commitment.

Today, the Group is slimmer, more streamlined and, consequently, more powerful. The contours of the future IWKA have become clearer. Let me illustrate this on the basis of the following points:

- We have made further progress in optimizing our portfolio: Six divisions have become four: Production Technology, Manufacturing Technology, Process Technology and Packaging Technology.
- IWKA now focuses on machinery and equipment for customers close to the consumer in the automobile industry, the consumer goods industry and energy distribution.
- Although we have sold Defense Technology, we have, through our acquisitions in Packaging Technology in particular, but also through internal growth, been able not only to maintain our volume of business but actually to expand it further.
- At the same time, we have pushed ahead purposefully with the internationalization of our activities for our globally active customers. Today, we achieve over two thirds of our sales revenue outside Germany. Over half of our companies are now based abroad. In the USA in particular, we have been able to acquire an excellent market position.

Leading market positions, higher earning potential, growth areas and target-oriented management – these are the criteria on which we base our decisions. Each of our four divisions is well positioned in the relevant markets.

A few words on the most important figures for fiscal 2000:

The past year was a year of transition for us. After a time of acquisitions and disinvestments, the year 2000 was a period of consolidation. We spent much time and effort on integrating the new companies in particular, and this naturally left its mark on our operating profit.

In the year 2000, the IWKA Group achieved **sales** totaling € 2.22 billion, which is 20 percent up on the previous year. Part of this growth comes from the complete consolidation for the first time of the BWI Group, the newly acquired companies of the former Jagenberg Verpackungstechnik and acquisitions in the Production

Technology and Manufacturing Technology divisions. Internal growth was a good ten percent.

Foreign sales increased significantly

The **foreign share of the Group's sales** has increased significantly to 67 percent (1999: 55 percent). The increase in sales last year was shared by all the regions, with the highest increases being recorded by IWKA in North America.

At the end of 2000, the **order backlog** of the IWKA Group was € 1.11 billion, which is five percent below the previous year's level. The effects of shorter throughput and delivery times can be seen here.

Positive developments in Production Technology and Packaging Technology

Incoming orders in the Group increased by 21 percent to € 2.19 billion (1999: € 1.81 billion). The Production Technology and Packaging Technology divisions in particular developed positively, but Manufacturing Technology and Process Technology were also able to improve their incoming orders.

Once again, the **foreign share of incoming orders** has risen, reaching 65 percent, compared with 56 percent in the previous year. Europe remains the most important sales market, with EU countries (excluding Germany) accounting for 27 percent. North America ranks second, with 25 percent of the Group's incoming orders.

Incoming orders by customer group

In the year under review, the most important customer group was once again the automotive industry with its suppliers, accounting for 55 percent of our incoming orders. In second place is the consumer goods industry, with 17 percent, followed by energy distribution with around eleven percent and machine building with nine percent.

At the last Annual General Meeting, I reported on a number of reorganization and integration tasks that had to be tackled in the year 2000. In the year under review, **operating result (EBIT)** suffered under these special charges and also from the

higher goodwill depreciations which the acquisitions of 1999 and 2000 involved. Operating result fell from € 69.8 million to € 50.8 million.

Because of the extraordinary income from the sale of Defense Technology and a reduced rate of taxation, **net income** however, at € 31.0 million, reached the level of the previous year (1999: € 31.4 million). We therefore propose that an **unchanged dividend** of € 0.66 per share be paid, as was the case last year. We ask for your approval of this.

In the past year **investments in fixed assets**, that is to say excluding financial investments and goodwill, dropped by five percent in comparison to the high level of last year to € 61.5 million. One focal point was investments in the companies in the Packaging Technology division.

As of 31.12.2000, we employed a total of 12,859 **staff** in the IWKA Group, which is three percent down on the previous year. Whilst staffing levels in Production Technology and Packaging Technology rose, they fell in Manufacturing Technology and Process Technology. The number of staff abroad rose by three percent to 5,243. Around 41 percent of our staff now work abroad.

Ladies and gentlemen,

The annual financial statement of the IWKA Group was prepared in accordance with the same accounting and consolidation principles as in the previous year. There are 43 companies based in Germany and 47 companies based abroad, i.e. there are 90 fully consolidated companies in the Group.

Our **balance sheet total** rose compared with the previous year by € 79.3 million or 5.3 percent to € 1,589 million. This meant that the rate of capital turnover returned to normal, from 1.22 to 1.4. The increase in the balance sheet total was financed largely by the capital increase carried out in November 2000. **Equity capital rose** to € 353.8 million in total. The equity capital ratio improved from 19.8 percent to 22.3 percent.

The **net indebtedness of the Group** at the end of 2000 fell by € 27.0 million or 6.2 percent to € 405.1 million (1999: € 432.0 million). In order to create the necessary room for maneuver to allow further appropriate growth, we intend to reduce our net indebtedness further. Because our successful divisions are expanding their volume of business at the same time, however, this process will extend over several years.

We succeeded in limiting the increase in **working capital**. Despite a profit volume that had increased by a clear 20 percent, working capital only increased by three percent to € 364.5 million. The total capital employed in the company also rose by only three percent to € 868.5 million (1999: € 842 million).

Ladies and gentlemen,

I would now like to talk about developments in our divisions.

I will start with **Production Technology**:

The companies in Production Technology are among the world's leading suppliers of systems for the production of car bodies and chassis in the automobile industry. Sales in our largest business division rose last year by 34 percent to € 957 million (previous year: € 713 million). Incoming orders rose to € 923 million, marking an increase of 26 percent over the previous year (1999: € 732 million). Despite charges arising from the integration the companies acquired in 1999 and 2000 and the decline in prices of robots, Production Technology was able to improve its operating profit (EBIT) slightly compared to the previous year to € 45.6 million

The market in which the KUKA Schweissanlagen Group operates is driven by the intense product competition between the automobile manufacturers, leading to the expansion of existing body-in-white production plants and the construction of new ones.

In past years, the KUKA Robot Group has become the market leader for industrial robots in the European automobile industry. Worldwide, KUKA is number three amongst robot manufacturers.

Developments have also been satisfactory for the French ARO Schweissmaschinen Group, which, as a supplier to the automobile industry, has once again shown improvements both in sales revenue and incoming orders.

Varied business development in Manufacturing Technology

Sales revenue in **Manufacturing Technology** fell in the year under review by six percent to € 444 million whilst at the same time incoming orders rose by seven percent to € 459 million. The companies in our Manufacturing Technology division supply machines and systems for the manufacture of components to unit assembly and testing stations for engines and gear boxes.

The division recorded varied business developments in the past year: In the case of EX-CELL-O processing machines, both orders received and sales revenue went down, mainly as a result of the negative economic trend in the US market

It is true that worldwide demand for machine tools revived further in the year under review. However, it was mainly the manufacturers of standard metal-cutting machines who profited from this. We, on the other hand, are more at home with the construction of special machinery. In this area the market environment is still characterized by over-capacity. For this reason in the past year we have adjusted our capacities at our subsidiary companies to the reduced market volumes through a social welfare plan at EX-CELLO-GmbH and the closure of the plant in Canada, and we have further optimized the production process.

In contrast, developments have been positive in the assembly and testing technology companies and the Boehringer Group, which has, most importantly, been able to further expand its position as world market leader for machines for the processing of crank shafts for the automobile industry.

Continuing structural change in Process Technology markets

Sales revenue in the **Process Technology** division rose in the year under review by one percent to € 363 million. Incoming orders increased by 0.6%, also to € 363 million. In the year under review, this division achieved an operating profit (EBIT) of € 2.8 million.

The structural transformation continues in Process Technology's important markets, the transport and distribution of natural gas and water. With the deregulation of the energy markets, the process of concentration on the part of customers and suppliers continues apace. Domestic demand remains as weak as ever. At the same time, foreign suppliers are increasing the competition in the German market.

Against this background, the division is pushing firmly ahead with internationalization. The share of orders received from abroad has increased significantly to 53 percent (1999: 47 percent).

Packaging Technology is the second largest division for the first time

Following the takeover of the BWI Group in 1999 and of four companies from Jagenberg Verpackungstechnik in 2000, the Packaging Technology division is today one of the world's leading suppliers of packaging machinery and equipment to the food industry and the cosmetics and pharmaceutical industries. With a share of over 20 percent of group profits, Packaging Technology is now the second largest division of IWKA. Sales revenue rose in the year under review by 117 percent to € 453 million; incoming orders rose by 119 percent to € 441 million. The high rates of increase are largely due to acquisitions. Internal growth in incoming orders was still nine percent, however. Packaging Technology achieved an operating result before goodwill depreciation (EBITA) of € 14.6 million, an increase of 67 percent compared to the previous year.

The division achieves around 88 percent of its incoming orders abroad. The most important market is North America with a 38 percent share of the total Packaging

Technology incoming orders. Europe accounts for 27 percent. The Asian market has increased significantly and with ten percent is now ranked only a little behind Germany (twelve percent); Latin America accounts for eight percent.

Growth through innovation

After the restructuring of the Group, our companies are well positioned in the market. In addition, IWKA, as a company supplying equipment for production plant and machinery, is governed by a different growth law than the rest of industry. If the markets and products of our customers change, this creates a need for new production plants. If the frequency of change is high, the demand for our products and services is also high. Whether we are talking about cars, cosmetics, foods or pharmaceuticals – each of these markets is always looking for new products. That is to say: we are not overly dependent on the growth of our customers' markets. The elements that drive growth for our companies tend rather to be our customers' product developments and their rate of development.

The outlook continues to be positive: car manufacturers, for example, are launching new models in the market in faster and faster succession. In Europe alone, it is said that the number of models will increase by 27 percent by the year 2004. We must be brave in grasping the opportunities that are offered to us. I am certain that we will be successful. Three factors are crucial here:

- Firstly: the skills and commitment of our staff.
- Secondly: the efficiency of our research and development.
- Thirdly: the development of our services business.

I would therefore like to talk about these points separately.

I will start with the growing importance of services for our business:

Our customers can only take the road towards the global market if they are not burdened with excess baggage. For us, this means: we take on the additional work, such as the services that go alongside production. We are integrated in ongoing operations right from the planning stage, through production support and

maintenance. Service takes priority. This opens up all sorts of promising growth potential. The proportion of sales accounted for by "Services", which is now around 20 percent within the Group, will increase considerably in the medium term. The demands on our innovative skills and our system capabilities will increase.

Ladies and gentlemen,

We are aware that today's innovations will consolidate our position as a system partner to our customers in the future. An efficient Research and Development department gives us the competitive edge that will allow us to continue to be successful tomorrow, and will thus basically determine our future growth and profit potential.

Robotics is the focus of research

500 highly qualified employees work in Research and Development in our companies. In fiscal 2000, expenditure for R and D totaled € 60.5 million. 43 percent of this was spent on Production Technology. 72 percent of the R and D budget in Production Technology was invested, in turn, in developments in the KUKA Robot Group. This underlines the outstanding significance which we attach to robotics as a cross-divisional technology that is crucial for the development of all IWKA divisions.

Since January 2001, IWKA has been a partner in INPRO Innovationsgesellschaft für fortgeschrittene Produktionssysteme in der Fahrzeugindustrie mbH, Berlin. In this research company, together with DaimlerChrysler, Volkswagen, Thyssen Krupp Automotive und BASF Coatings, we are pushing ahead with important R&D projects in the area of manufacturing process and plant engineering for car body production in the automotive industry.

Research and development are extremely important for us in all four divisions: Whether we are talking about methods for testing engines in a cold state, high-performance tube filling machines, tablet presses or the new generation of flexible machining centers and turning machines, aseptic stick packing systems or a more

efficient range of robots – the list of innovations and refinements introduced by our companies in the last year alone is long.

In all these developments, we take into account the requirements that new services demand of our products. The solutions lies in a service-oriented product development process. For us, this means: We expand our machines into platforms for services. Two examples can be used to illustrate this – communication-capable machines and the Digital Factory.

The communication-capable machine

High availability levels for flexible production plants also require ongoing support in production, and communication-capable machines are essential for this. One of the preconditions for this is PC-based control, which KUKA Robots has been using in over 30,000 applications since 1996. Because of the strategic partnership that we entered into at the end of last year with Microsoft, our companies are now ready to take further step forward in development. The heart of the project is the networking of robots and of our machinery and equipment via TCP/IP-Ethernet – the technology on which the Internet is also based.

By combining our companies' expertise and Microsoft's technologies, we are able to create a platform for a large number of new intelligent services. The spectrum ranges from automation and visual displays during processing to remote monitoring and diagnosis or telemetrics. Possible areas include not only robots and systems for the automobile industry, but also our own tool and packaging machines or processing plants in the oil, gas and chemicals industries.

The Digital Factory: On the road to the future

Another way of consolidating our competitive advantages and opening up new markets are services based on what we call digital factories. As a communication and documentation platform, the Digital Factory maps not only the product generation process chain in "bits and bytes", but also the complex manufacturing relationships

between the end product, the production process and the plant. It thus supports the methodical procedure that we adopt in our cooperation with our customers: from planning the production system in the offer phase through the realization of the end product, production process and machinery right to the application phase.

It will be possible to use this innovative tool in the future to realize new end products and the production systems that go with them much faster and much more effectively. Our engineers are constantly developing more components for the Digital Factory. One example of this is the continuous modeling of all the operations in a plant and of the related communication platform for complete technical planning and implementation using KUKA welding systems.

Let me now come to the crucial success factor - our **staff**:

In the era of the knowledge-based society, value creation is a matter of brain power. Our success is based on the commitment, the performance and the skills of our staff. And to remain successful in the future, we need the best people. Attracting them to us and keeping them with us in the long term is a major challenge. The fight for talent is increasing all the time. We therefore increased our college marketing activities yet again last year and further intensified our cooperation with important departments in selected colleges and universities.

We would like to draw particular attention to the systematic, continuous development of our management trainees, aimed at ensuring that key positions can be filled as far as possible from our own ranks. In the past year, we also increased the number of staff working in personnel development in Germany and abroad.

We can offer our staff great opportunities and challenges. A medium-sized structure in a worldwide network – this is a decisive advantage that we are able to throw into the balance. Skilled staff have the chance to take responsibility at an early stage and to realize their own ideas. This also includes the opportunity of taking interesting work in our companies abroad.

All the training measures in our companies are characterized by the fact that our business activities are international. This situation forms the basis for the international exchanges of specialists and management staff that we organize within the company. In addition, a successful – and I believe unique - exchange program for trainees has also been running for three years. Trainees from within our Group spend several weeks at a time with our companies in France, England, Spain, Brazil and North America, which gives them the chance to learn about how people in other countries think and work. In return, young employees from IWKA companies abroad spend time in associated companies in Germany.

As in the previous year, we once again gave our staff the opportunity to buy IWKA shares on preferential terms in the year 2000. We are delighted that around 40 percent of those entitled once again made use of this chance to acquire an interest in our company. This underlines the large extent to which the staff identify with the IWKA Group. In addition, the success of the staff share program demonstrates our employees' level of interest in the success of the company.

In order to be able to make use of synergies in our decentralized network of companies and to appear as a system partner in the market, it is crucial that we share our knowledge worldwide. Effective **knowledge management** must therefore interactively convey the three components of services, research and development and the market to our staff. Staff must be provided with all the information that they need to deal with their work in the best possible way. To this end, we have developed a knowledge management system. Knowledge islands are linked together to forge a closely woven knowledge network that is open to all staff – an important precondition for staying that vital step ahead in our competitive environment.

Developments in the first half year 2001

Ladies and gentlemen,

The positive developments that we were able to record in incoming orders in the first three months of the year have continued in the second quarter. However, the rate of growth has eased off slightly. In the first half year 2001, incoming orders for the IWKA

Group rose by 5.5 percent to € 1.108 million. The order backlog also rose clearly, increasing by eleven percent to € 1.258 million. In terms of sales, we were not able to reach last year's high levels, resulting from major orders. As a result of settlement conditions, sales, at € 964 million, were 7.5 percent lower. Operating profit is also well above the value for the first half-year 2000.

Let me now move on to the individual **corporate divisions**:

Production Technology is looking very healthy. The KUKA Schweissanlagen Group and the ARO-Schweissmaschinen Group are continuing to develop satisfactorily. In spite of the economic downturn in the United States, this division was able to increase its incoming orders from the US automobile industry. KUKA employs 380 staff there, and is therefore in an ideal position to take on new projects in this important market.

The KUKA Robots Group also recorded positive business figures. Robots are being increasingly used not only in the automobile sector but also in the rest of industry. Logistics applications, for example, are very promising at the moment.

In the current year, we are expecting incoming orders of over € 950 million in the Production Technology division.

In **Manufacturing Technology**, the Boehringer Group and the assembly and testing technology group were able to considerably increase incoming orders in the first six months. We have fundamentally restructured EX-CELL-O according to the concept of the "breathing company" in order to be able to absorb the fluctuations in demand that occur periodically in the special construction of machine tools. The break-even point was lowered considerable. The company concentrates on its core skills of development, construction, final assembly and services supporting the product, and is creating a new type of partnership with its suppliers. A product offensive is supplementing the restructuring process, which has made considerable progress.

The system approach that we pursue at IWKA is now beginning to bear fruit in our Manufacturing Technology division too. One of the milestones here is an order which DaimlerChrysler said just a few days ago that it would be placing with us. They require a flexible manufacturing system for new three and four cylinder engines. The order covers the delivery and start-up of 47 machining centers and 5 transfer machines, plus the complete engineering.

We are expecting incoming orders of over € 460 million for the complete Manufacturing Technology division for the fiscal year 2001 as a whole.

In order to further streamline the situation under company law and the organization of the IWKA Manufacturing Technology division, and thus to improve our competitiveness in the long term we have incorporated EX-CELL-O Holding AG into IWKA Aktiengesellschaft with retroactive effect from January 1, 2001. As a result of the **incorporation**, the IWKA Group is additionally able to make use of EX-CELL-O Holding AG's brought-forward tax losses.

In January 2001, we purchased a total of 136,827 IWKA shares in the market at an average price of 14.44 euro/share in order to offer these to former EX-CELL-O shareholders within the scope of the agreed exchange ratio of 1:3. The countervalue of the shares is around € 1.98 million, and their calculated share of the capital stock is around 0.5 percent.

In **Process Technology**, the group centering on IWKA Balg- und Kompensatoren GmbH, the former IWKA Regler & Kompensatoren GmbH, is developing well. After the sale of its control division for district heating, it is concentrating on providing flexible elements for industrial applications. The essentially product-oriented organization has now been replaced by a market-oriented structure. The individual companies focus on different market segments, such as stationary motors, power stations or the vehicle industry.

The RMG Group, with its focus on control and measurement equipment as well as plant for the supply of gas, was able to maintain its position as market leader in Germany. The proportion of foreign sales is rising all the time.

The safety fittings division of Bopp & Reuther is still suffering from the decline in power station business. In individual countries, such as Canada, Russia or China, new products seem to be appearing on the horizon. In Germany, the water valve division retains its position at the top of the market. Prices are still under pressure, however. The situation in Measurement Technology continues to be difficult. We have organized the units in such a way that they are able to build up a stronger position in their market segments of refinery products and general industry.

In our Process Technology Division we are following a clear strategic line: we intend to consolidate the areas in which we have a good starting position in Germany. Building on this we will systematically strengthen our position abroad and make targeted use of opportunities for growth especially in Eastern Europe and Asia.

For the fiscal year 2001, we expect Process Technology to achieve sales revenues and incoming orders of over € 360 million.

In the current year, IWKA **Packaging Technology** expects growth in the world packaging machine market to be somewhat restrained. The crucial factor here will be economic developments in the USA. Against this background, the division forecasts that the volume of business will remain unchanged over the previous year. The prime uncertainty factor is the further development of the economy in the United States. In the long term, the continuing increase in population, the increases in life expectancy, medical progress and increased hygiene requirements will, however, lead to further growth.

The reorganization of BENHIL-GASTI Verpackungsmaschinen GmbH, which was taken over by Jagenberg, has now been successfully completed. We have now split off company, with effect from January 1, 2001, into the independent firms Benz & Hilgers GmbH based in Neuss and GASTI Verpackungsmaschinen GmbH, Schwäbisch Hall. Both companies are concentrating on their core businesses, i.e.

filling and closing machines for the dairy industry at GASTI and butter packaging machines at Benz + Hilgers. Both companies are making satisfactory progress.

Given these background conditions, how does the year 2001 look for the Group as a whole?

Despite the cooling off of the economic situation in recent weeks, we are expecting a further increase in incoming orders for the IWKA Group this year of two percent. At the same time, we are also expecting sales revenues to remain at the level of the previous year, that is around € 2.2 billion. Operating profit will be much better.

Ladies and gentlemen,

Where are we going? What is our **vision**?

Let me summarize this in five core sentences:

Firstly: We want to work on a highly profitable basis and increase corporate value. Our operating result will be much better even in the current year.

Secondly: We want to be the world's leading system partner for our customers - with all-round competence in the areas of software and engineering. On the basis of our machine and plant construction, we are therefore developing IWKA into a service-oriented technology group.

Thirdly: We want to be both a global and a local company at the same time - active globally and yet rooted in our markets locally, i.e. close to our customers. We want to further expand our business in Asia too through intensifying our sales activities.

Fourthly: As IWKA, we want to be an attractive employer. Our aim is to attract skilled, committed people to work for us throughout the world.

Fifthly: We will continue to be committed to our decentralized management principle in the future. This means that we can combine the power of a large group with the speed, flexibility and proximity to the market of our decentralized companies.

Ladies and gentlemen,

Our customers' markets have changed fundamentally. Our customers react to these changes by merging, by globalizing their business activities, by concentrating on their core skills and, increasingly, using responsible system partners to carry out certain tasks. This applies for the automobile industry, the consumer goods industry and the energy sector. The towering significance of technology in the areas in which we work can also be felt in the area of services, where it is beginning to determine what happens in the market itself.

This creates a wealth of new, attractive opportunities for us. The development of communications-capable machinery and equipment will lead to the creation of hitherto unknown services. We can and will grasp these opportunities, by generating added value for our customers. We are certain: IWKA is on the right course. By reorganizing our Group into four divisions with strong market positions, we have created the foundations for further growth and above-average earnings in the future.

Thank you for your attention!