

Shareholder's letter 1/2006

## Georg Fischer reports strong profit increase

In 2005 Georg Fischer increased sales by four percent to CHF 3.7 billion (previous year: CHF 3.5 billion). Operating profit (EBIT) rose by 33 percent to CHF 252 million (previous year: CHF 189 million). The EBIT margin increased from five to seven percent. The improved performance was driven by market successes, innovativeness and greater efficiency. The earnings targets of the 2003 structural programme were reached. Net debt fell steeply once again (from CHF 725 million to CHF 606 million). The Corporation closed the year with a net profit of CHF 175 million (previous year: CHF 105 million), up 67 percent. The Board of Directors will be proposing to the Annual General Meeting that a payout be made in the form of a par-value repayment of CHF 15 per share (previous year: CHF 10).

GF Machine Tools posted the steepest rise in sales, increasing revenues by eight percent. GF Piping Systems grew by six percent. GF Automotive lifted sales by one percent (3% with the same scope of consolidation) despite the lack of any stimulus from the European automotive industry. There was a further increase in the Corporation's profitability. GF Piping Systems achieved an EBIT margin of over nine percent, GF Machine Tools more than doubled earnings and posted an EBIT margin of seven percent, while earnings at GF Automotive (EBIT margin of 6%) were depressed by one-off costs.

The growth strategy is under way. The Corporation's innovativeness is being fostered and exploited. Further efficiency-boosting measures will enhance our competitiveness. Assuming similar economic conditions, a further rise in sales and earnings can be expected in 2006.

### **2005 financial year: Successful core businesses with diverse challenges**

In 2005 Georg Fischer came one more important step closer to achieving and maintaining its goal of an EBIT margin of eight percent by 2007 on annual growth of four percent. The structural programme completed at the end of 2004 made its full impact felt in 2005, bringing about a sustained improvement in the Corporation's profitability. Organic growth in local currencies came to five percent in 2005.

GF Automotive coped well during what was a difficult year. In a stagnating market environment, sales rose by one percent to CHF 1.77 billion. Adjusted for changes in the scope of consolidation, they grew by three percent. At CHF 100 million, EBIT is on a par with the previous year. The pressure die-casting plant in Munich was closed in an effort to safeguard the competitiveness of production. The costs incurred in closing the plant depressed the Corporate Group's EBIT margin by one percentage point. The closure was more time-consuming and costly than initially planned. However, production is now being relocated with the support of employees and works councils at the recipient sites. At the same time, production for the emerging Chinese market got under way at the new die-casting foundry in Suzhou, China. 2006 will see the second stage in the plant's expansion to build capacity for the new orders received from Chinese automotive manufacturers.

GF Piping Systems turned in a gratifying performance that showed an upward trend in the second half of the year. The Group lifted sales by six percent to CHF 0.87 billion, mainly by sharpening its focus on attractive market segments amid increasingly favourable economic conditions. Europe and America generated the highest growth rates. Sales growth, ongoing measures to improve efficiency and the sale of the metal pipe-jointing business pushed earnings up 29 percent to CHF 80 million. As a result the EBIT margin rose to over nine percent.

GF Machine Tools (AgieCharmilles GF) showed the biggest improvement. The Group increased sales by eight percent (7% in local currencies) to CHF 1.06 billion. Its high-speed milling machines are a growth driver. Cost-cutting measures were also instrumental in more than doubling EBIT, which comes to CHF 73 million, for an EBIT margin of seven percent. All market regions with the exception of southern Europe reported a positive trend. The Corporate Group further strengthened its presence in Asia.

### **Further reduction in net debt**

Free cash flow stands at CHF 184 million (previous year: CHF 193 million). Net debt was again reduced to CHF 606 million at the end of 2005 (previous year: CHF 725 million). This puts Georg Fischer on a firm financial footing.

### **Net profit, distribution of profit**

Net profit for 2005 comes to CHF 175 million, 67 percent up on the previous year (CHF 105 million). This equates to earnings per share of CHF 46. The Board of Directors proposes to the General Meeting that a par-value repayment of CHF 15 (previous year: CHF 10) per share be made in lieu of a dividend distribution. This is equivalent to a payout ratio of 33 percent.

### **Strategy: Adding value through organic growth**

With its three core businesses, Georg Fischer has considerable potential for further growth in attractive market segments. It may underpin its strategy not only by continuing to grow organically, but also by making occasional acquisitions. Georg Fischer aims to safeguard its competitiveness in established markets, strengthen non-cyclical businesses and exploit market globalization by expanding its activities in growth regions (Asia, eastern Europe). With this aim in mind, it opened a modern light-metal foundry in Suzhou (China) and shut down pressure die-casting production in Munich during 2005.

### **Outlook for 2006: Living up to expectations**

The 2005 results mark a major milestone in Georg Fischer's progress towards its goals. We have demonstrated our competence and innovativeness and built trust in our markets, among our customers, in the capital market and among the public. Through a series of strategic and operational measures, we will further enhance our competitiveness and enterprise value. Provided economic conditions do not deteriorate significantly, a further improvement in sales and earnings remains in prospect for 2006.

People believe in our capabilities. It is the commitment and achievement of our employees the world over that has brought us this far. The confidence shown by our shareholders gives us strength and courage. We thank you all.



Martin Huber  
Chairman of the Board



Kurt E. Stirnemann  
President and CEO

Schaffhausen, February 28, 2006

Annual General Meeting for the fiscal year 2005:  
Wednesday, March 22, 3:30 p.m., Steel Foundry Assembly Hall, Schaffhausen  
Publication of mid-year report 2006: July 17, 2006

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# At a glance

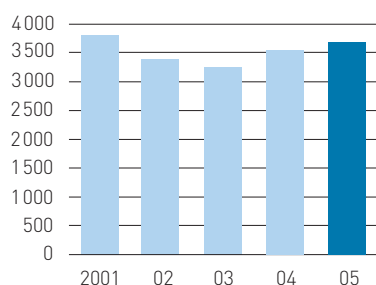
## Key figures as per December 31, 2005

| million CHF                                  | Corporation   |        | GF Automotive |       | GF Piping Systems |       | GF Machine Tools |       |
|--|---------------|--------|---------------|-------|-------------------|-------|------------------|-------|
|  | 2005          | 2004   | 2005          | 2004  | 2005              | 2004  | 2005             | 2004  |
| Order intake                                 | <b>3 783</b>  | 3 730  | <b>1 782</b>  | 1 877 | <b>907</b>        | 854   | <b>1 093</b>     | 995   |
| Sales  | <b>3 692</b>  | 3 540  | <b>1 765</b>  | 1 740 | <b>868</b>        | 818   | <b>1 058</b>     | 978   |
| EBITDA                                       | <b>403</b>    | 348    | <b>196</b>    | 197   | <b>113</b>        | 101   | <b>90</b>        | 57    |
| EBIT <sup>1</sup>                            | <b>252</b>    | 180    | <b>100</b>    | 101   | <b>80</b>         | 62    | <b>73</b>        | 31    |
| Return on Sales (EBIT margin) % <sup>1</sup> | <b>6.8</b>    | 5.1    | <b>5.7</b>    | 5.8   | <b>9.2</b>        | 7.6   | <b>6.9</b>       | 3.2   |
| Net profit                                   | <b>175</b>    | 105    |               |       |                   |       |                  |       |
| Number of employees                          | <b>12 403</b> | 12 324 | <b>5 870</b>  | 5 901 | <b>3 202</b>      | 3 188 | <b>3 178</b>     | 3 062 |

1 Previous year before special charges

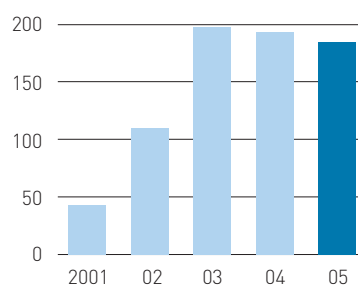
**Sales 2001-2005**

million CHF



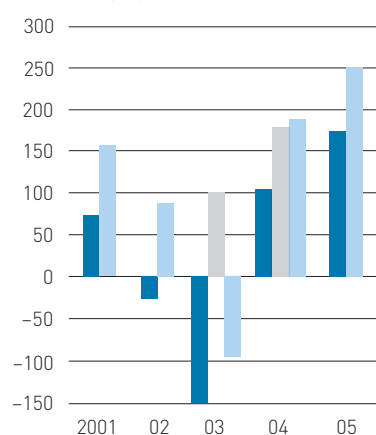
**Free cash flow 2001-2005**

million CHF



**Results 2001-2005**

million CHF



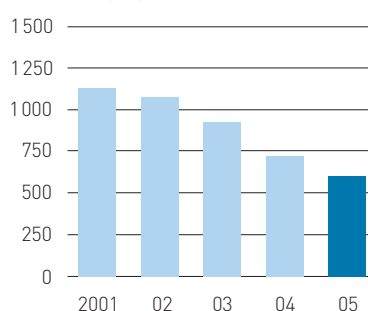
Net profit

EBIT

EBIT before special charges

**Net debt 2001-2005**

million CHF



# Financial Overview

|   | million CHF<br>2005 | million CHF<br>2004 |
|---|---------------------|---------------------|
| <b>Corporation</b>                                    |                     |                     |
| Order intake  | 3 783               | 3 730               |
| Orders on hand at year end                            | 947                 | 897                 |
| <b>Income statement</b>                               |                     |                     |
| Sales   | 3 692               | 3 540               |
| EBITDA  | 403                 | 348                 |
| EBIT  | 252                 | 189                 |
| Net profit for the year                               | 175                 | 105                 |
| <b>Cashflow</b>                                       |                     |                     |
| Additions to property, plant and equipment            | 128                 | 182                 |
| Cash flow from operating activities                   | 298                 | 272                 |
| Free cash flow  | 184                 | 193                 |
| <b>Balance sheet</b>                                  |                     |                     |
| Assets  | 3 074               | 3 188               |
| Net Operating Assets (NOA)                            | 1 656               | 1 605               |
| Equity  | 1 202               | 1 023               |
| Net debt  | 606                 | 725                 |
| <b>Key figures</b>                                    |                     |                     |
| Return on Equity (ROE) %                              | 16                  | 11                  |
| Equity %  | 39                  | 32                  |
| Return on Net Operating Assets (RONOA) % <sup>1</sup> | 15                  | 11                  |
| Return on Sales (EBIT margin) % <sup>1</sup>          | 6.8                 | 5.1                 |
| Cash flow from operating activities in % of sales     | 8                   | 8                   |
| Employees at year end                                 | 12 403              | 12 324              |
| <b>Holding</b> (statutory accounts)                   |                     |                     |
|   | million CHF         | million CHF         |
| Net profit for the year                               | 91                  | 74                  |
| Share capital   | 315                 | 350                 |
| Market capitalization as per December 31              | 1 549               | 1 016               |
| <b>Key figures</b> per registered share               |                     |                     |
|   | CHF                 | CHF                 |
| Net profit for the year                               | 46                  | 28                  |
| Distribution (proposed) <sup>2</sup>                  | 15                  | 10                  |
| Equity  | 326                 | 278                 |
| Share price at year end                               | 449                 | 295                 |

<sup>1</sup> In 2004 before special charges

<sup>2</sup> In 2004 and 2005 a dividend payment in form of a reduction in par-value

**Disclaimer:** The statements in this publication relating to matters that are not historical facts are forward-looking statements that are not guarantees of future performance and involve risks, uncertainties and other factors beyond the control of the company.