



Press Release

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Statement

Dr. Josef Spichtig

Chairman of the Management Board of Leica Camera AG

Dear shareholders and shareholder representatives,
dear representatives of the media and banks,
dear guests of the company,

On behalf of the company management I would like to welcome you to the company's AGM today. For the first time, this is being held shortly after the issue of the financial statement of the business year ending on March 31st and therefore has a greater degree of immediacy.

In preparation for today's AGM, I looked through the speech I held at the special shareholders' meeting of Leica Camera AG on May 31st, 2005 and the AGM on 23rd November 2005. Allow me to start by recapitulating the targets that were set then. At the first of these two meetings, I tried to enlist your support – seven weeks after taking on my assignment at Leica Camera AG – for the capital increase that was urgently necessary for restoring an orderly, stable financing. I then drew a mental picture of the structures of a new Leica Camera AG geared to the future:

I quote: “The company will be continued in its entirety. It will be led by a small, newly formed management team.“

Then, referring to the search for a new manager for Marketing and Sales, I said that this person was to carry on with “the already begun process of a quality-oriented redesign of our sales organization structure“.



With regard to Production and Logistics, I underlined that (quote) “we are examining the processes with respect to minimizing the tie-up of capital in production and stocks“ and also “reviewing the production volume with respect to the expected demand.“

Concerning the product portfolio, I demanded that “the backlog in the Photo division is caught up with in the medium term“ and “the intact market opportunities in the Sport Optics division are expanded.“

“The intensification and optimization of the content of our partnership with the Japanese Matsushita Group is a key goal“ I said at the second of the shareholder meetings.

Ladies and gentlemen,

The picture I drew of your company then is still exactly the same model for me now. And I would like to show you in my presentation today that we have come significantly closer to achieving it.

So where do we stand in the Leica Camera Group at the end of business year 2005/2006?

I shall begin with the topics of financing and the capital structure, especially because these assumed a key significance in the past business year.

The capital measures resolved at the special shareholder meeting have been implemented. After the capital reduction and grouping of the shares, we managed to realize the capital increase at the end of August 2005 in spite of all the resistance. I would like to thank the shareholders once again whose contributions made this possible.

The measures were necessary because the equity capital in the commercial balance sheet of Leica Camera AG was completely used up for a time due to the high losses. The combination of measures was effective and led the company back to an orderly financial situation. On the balance sheet date on March 31st, 2006, equity was 16.4 m Euro. This is equivalent to an equity ratio of 18.3%.



In our estimation, the Group's equity capital covers the planned business operations in this and the following business year. Even though we are expecting a small operative profit for the operative business in this business year, the Group result will be negative due to the financing costs and the taxes according to our conservative estimate. Naturally, the management team is taking every opportunity to effect improvements in this respect. However, a sustained increase in equity can only be achieved with the profits we are planning to make in the following years. The medium-term prospects are therefore positive. And we are equipped with the equity to reach these targets.

What about liquidity? At the end of the business year we had cash resources of 13.8 m Euro. At the same time, short- and medium-term amounts due to banks totalled 12.1 m Euro. Rather than making short-term repayments, we preferred to take the opportunity to put the financing of the company on a sound medium-term footing.

In June, 2006, the company signed financing agreements to the amount of 16 m Euro with Heller Bank, part of the GE Commercial Finance Group. Part of this loan will be used to repay the existing debts with the financing banks. The banks were still our contract partners, even though they had transferred their receivables to the finance investment company Lone Star. We have come to an agreement with the financing banks on the terms of repayment and the release and transfer of the securities. At the same time, we have made equivalent arrangements with the GE Commercial Finance Group for our subsidiaries. The creation of a reliable financing within the framework of an overall concept is therefore making progress.

At the same time we are consistently continuing with the measures for limiting financial requirements. One of our prior concerns is the reduction of our inventories. Total inventories have been reduced by more than a quarter from 39.4 m Euro to 28.8 m Euro. We also aim to make further improvements, of which the most important is the introduction of job-oriented single-piece production. The so-called 'one-piece-flow' process leads to inventory reductions both in the unfinished products store and the sales warehouse.

Within the framework of the capital increase, we had undertaken to do everything in our power to group the new and old types of shares. This project was successfully completed



when joint listing began on June 19th, 2006. We set this date because it allowed us to take the year-end financial statement 2005/2006 into consideration, thereby somewhat limiting the workload which was costly enough anyway.

Planning the timeframe was a tremendous challenge, because it coincided with the changeover of the group accounting method from German HGB standards to the international IFRS standard. You will get an impression of the amount of work involved if you pick up the printed version with its 400 pages or download the whole document from our Internet homepage. It contains details of the company's economic situation over the last three years. We have mastered this enormous task and in doing so have created more legal certainty for the company.

Taken together, the success of the capital measures, capital resources and liquidity of the company are leading us out of a phase of dramatically increasing gravity and more and more towards an orderly and stable basis for our business targets – just as I described in the picture of a future-oriented company. Of course, we can't make any great leaps forward yet, but anyway our objective is to progress step by step with perseverance.

The second component of the picture I drew at the beginning of my speech is the building of a small, newly formed management team. We are making good progress with this task, too.

The first post to be definitely filled in this team was that of Director of Marketing and Sales with the appointment of Dr. Ralph Nebe on March 1st, 2006, who studied and took his doctor's degree at Augsburg University and the renowned Wissenschaftlichen Hochschule für Unternehmensführung WHU in Vallendar. He has several years of professional experience in different lines of industry. During this time he took on various national and international management positions, mainly in Marketing, Sales and Business Development.

Ralph Nebe and his team are forging ahead with the process of a quality-oriented redesign of our sales organization structure. A key component of this is the setup of a selective sales system based on a close partnership between our dealers and Leica Camera AG. This guarantees that dealers present the Leica product range in a way that is compatible with our quality expectations.



The new Leica shops in Tokyo and Berlin are true flagships for this development. Leica Ginza is the first international shop to be directly established by our Japanese subsidiary and thus by the Group. Sales have been good ever since it opened on April 21st, 2006. Another important aspect, however, is its communicative effect in the relevant Japanese market, which also benefits the independent trade partners, who continue to be important for us.

On June 16th, Leica Berlin opened at Fasanenstrasse 71, in the immediate vicinity of the Kurfürstendamm in one of Berlin's most attractive shopping streets. Together with Hamburg dealer Martin Meister, we have achieved a first-class Leica brand presence in the German capital. I would like to take this opportunity to thank him for his enterprise and willingness to take on a pioneering role. This shop, it must be emphasized, is also the beginning of an international shop concept. Together with the French interior architect Gilles Leborgne, we are presenting the brand to reflect Leica's value, authenticity and uniqueness. New customers and – I am told – also customers of many years feel at home in the new ambience, where they can experience excellent advice, product presence and top-level service. If you happen to be in Tokyo or Berlin, take the opportunity to visit one of these shops to get an impression.

Parallel to the quality-oriented redesign of the sales organization structure, we are implementing communication measures such as a new website within the next few weeks, an international institutional advertising campaign and an attractive stand at the photokina imaging fair in Cologne in September.

But let us go back to the new management team:

On July 1st, 2006, Wolfgang Keller started work as Technical Director. Our new team member is a qualified engineer of general precision mechanics. He has undergone advanced training in management and business administration at the Business School of St. Gallen and the INSEAD in France. For the last 15 years, he has held management positions in reputed companies in the electric industry, including Schneider Electric GmbH and BERU AG. He therefore has an excellent overview of how to make technical divisions competition-oriented. We are expecting him to make a substantial contribution to gearing the company to the



future. Our core competences optics, mechatronics and the integration of digital image processing are to be developed and better linked up, in research and development just as much as assembly and inspection of our products and technical service. In areas where we have a backlog, he is to develop the structures and the team to catch up with it.

Wolfgang Keller already has a good team which we have been building up over the last few months. The team at the German site is partly composed of successful managers from within the company, such as Stefan Daniel in product management, Andreas Schlein in production and Peter Kurtscheidt in customer service. Another member of the team is Dr. Ulrich Ehmes, manager of the factory in Portugal, who also brings a great deal of experience to the job. Joining the team from outside of Leica is our new R&D manager Jürgen Hess. A passionate Leica photographer and therefore having intimate knowledge of many of our products, Jürgen Hess comes from a background of research and development at Nokia and was therefore another ideal candidate for fitting the company for the future with old and new strengths in a radically changed market. Our product management has also been substantially strengthened through the recruitment of new, highly qualified staff. a process that is currently happening in the development departments.

Our challenge is not only to design technically outstanding products. It is also a matter of realizing products that are optimized with a view to their efficient production. In this respect, a difficult road lies ahead of us which we will overcome with our own strength and good partners in research and development. In this spirit, I wish Mr. Keller a good start in the Leica Camera Group.

The management team is completed by a qualified person for Finance and Accounting. Mr. Andreas Lobejäger signed his contract in June 2006. He will join the company in autumn. Continuity will be ensured by the work of Robert Feij, who is head of Finance and Accounting. As reported, when Mr. Feij started his assignment at Leica Camera AG a time limit was not defined.

With the management team we have created the second component of my picture of a future-oriented Leica Camera AG.



As the third component of this picture, I spoke of routines and structures in production and logistics. I had already mentioned the reorientation of routines to job-oriented production. One of our most important tasks in the further development of structures is to prepare ourselves for the new challenges of technology. This is why we are planning investments to the amount of 15.4 m Euro in Germany and another 2.2 m Euro in other countries for this business year 2006/2007. By comparison, the investments of the Group in the last business year were only 6.6 m Euro. The planned investments concern tools for new products, machinery and technical facilities such as those required for the development of cleanroom technology.

We plan to make more economic use of the capacities and the know-how at both production sites by projecting the factories as suppliers of components, modules and products that compete with other manufacturers and even work for other companies. This ongoing measurement against the competition gives the pressure to work in an economically effective way. Competence and motivation is also improved by continually looking beyond the end of our own noses and applying our technology in additional areas. Finally, the value of the company is enhanced by such a measure, and we are prepared to leave the beaten track to this end. In the business year 2005/2006, outside contracts already accounted for an amount of 2.6 m Euro in our Portuguese factory as against only 1.8 m Euro the year before.

However, the company's willingness to develop the German site in particular for us must be reconciled with the necessity to make our Solms factory competitive with other German companies. Due to the still inadequate utilization of capacities, which is causing us considerable concern, and also decrepit structures, we are at a disadvantage here. Plant agreements for making work more flexible by extending the number of hours employees are allowed to have in their flexitime accounts, for example, are a step in the right direction but not nearly enough to secure economic efficiency in the long term. We are working on strategic measures to effect sustained improvements in this area. I hope that this will be accepted openly by our staff. After all, the focus on competitiveness means that we are facing reality and being honest. We must not be satisfied with below-average achievements. Only the team that plays in the top league nationwide secures its position in the long term and offers attractive jobs with a permanent future.



In total, we are making progress with the orientation of processes and structures in production and logistics. We may not be progressing at the speed I would like and consider possible, but we are moving in the right direction and we **are** moving!

I would now like to proceed to the fourth component: our product portfolio. Our products are at the core of the value creation. The company only has a future if we can rouse our customers' enthusiasm with outstanding and innovative solutions. The definition of the product range was therefore the top priority for me when I started working for Leica Camera AG. Our dynamic market environment is full of ideas for attractive products and possibilities of their technical realization and sales potential. We take every opportunity to exploit the potential of our brand with first-class products.

Undoubtedly, the innovation with the greatest potential for the company is the development of a digital rangefinder camera. We are planning to launch it in the second half of this year. We have already announced that it will be a 'real' Leica rangefinder camera in terms of weight, size, material and design, with the decisive difference that it will take digital photos. All the originality and fascination of Leica M photography will then be available to the digital world. It was important for us to follow the principle of system compatibility. Nearly all the lenses of the Leica M system ever since its introduction in 1954 can also be used for digital photography.

However, I will not give any further details on the name, price and availability of the product today. We have learned from past experience and only make statements when they can be relied upon a hundred per cent. However, I can assure you already that the product we are creating is something really special and will give the company a lot of tailwind. At the present there are no more points in the product development process that seem unsolvable. We are well on the way to being ready to market a technically extremely sophisticated product.

We have already managed the plunge into digital technology with the LEICA DIGITAL-MODULE-R in the Leica R SLR range. The unique creative possibilities and application details are featured in the special issue of Leica Fotografie International which you have received



here at the AGM. The further development of the Leica R system with its powerful and universal lenses is a key component of our product planning. Feasibility studies for further digital camera bodies within this system are also being conducted.

Together with our partner Panasonic we are also devoting our attention to the open industry standard of the FourThirds system. It offers the possibility of making what is special about Leica photography accessible to a wider target group and can therefore be a sensible addition to the already existing systems for us. As a first step, we already introduced a lens for the FourThirds system at the American PMA fair in February 2006 that was designed and produced with our partner Panasonic.

So now it's the right time to talk about intensifying and optimizing the content of our partnership with the Japanese Matsushita Group. On February 24th, 2006 we had reported on reaching an agreement on the intended continuation and intensification of the cooperation with Matsushita Electrical Industrial in a Memorandum of Understanding. The negotiations of the detailed contracts are making good progress and we are aiming to sign them soon in the current third quarter of the calendar year.

As a result of the cooperation we are now able to offer our own optical competence in attractive digital compact cameras. However, Leica's current digital products LEICA C-LUX 1 and LEICA D-LUX 2 also stand for a superb package offering the benefits and the technical service of a first-class sales organization and original decisions on details such as the basic settings of the camera.

We are extremely satisfied with the success of the camera models. Apart from the pure economic significance for the company with their sales and margin, they also play a significant role for the development of our sales network because they are a bestseller for our trade partners. We will continue to launch new products in the compact camera market which will be presented in detail by our international Marketing and Sales team at a suitable time. What's important is that we plan our new products on a continuous basis. The new bestsellers in the various product categories will appear in a coordinated sequence so that Leica always has a new and exciting product in its range.



Despite all the focusing on the digital products which are crucially important for the company's future, we will continue to work on the further development of our analog products. Our position as highly specialized vendor gives us the possibility of offering enthusiasts of classic, particularly emotional photography on silver halide film attractive products for a long time to come. People who consciously opt for analog photography want the best lenses and cameras. And this is exactly what Leica has to offer.

In Sports Optics we have worked hard on innovations to obtain good market opportunities. Our success in this field is based on our close ties with our target groups. We talk about 'grass root support' here, i.e. deeply rooted support by our customers. We discover market trends early on or start them ourselves. The greatest change in the last few years has undoubtedly been the significant rise in the presence of our brand in our main target group hunting, which we have achieved through the consistent integration of laser-aided distance measurement. Starting with the first LEICA RANGEMASTER LRF 800, we have built up a whole product family of first-class observation instruments featuring distance measurement.

We also provide unique products for our second main target group, birdwatchers, with the ultra-light and powerful Leica Ultravid binoculars or Leica Duovid binoculars with two different magnifications.

At the moment we are working on the extension of our product portfolio with complementary products for our main target groups. We have different ideas here which are being consistently worked through. Here too, we have decided to wait until the market launch before disclosing the fascinating details.

Ladies and gentlemen,

you have received the business report for the financial year 2005/2006 and we already reported on the main points of the year-end financial statement on 23rd May, 2006. However, allow me to summarize them once again at this point.



In view of all the turbulent activity surrounding the financial situation of the company at the beginning of the business year, we have done well to increase the turnover for the business year by 15.9% to 107 m Euro.

The best growth was attained in Sports optics (20.5% to 36.4 m Euro). Particular success was achieved by new members of the Leica Geovid family with a specially large entrance pupil of 56 mm. A product offering the option of 8x and 15x magnification which assumes a leading position in this segment. Another introduction in the business year was that of the ultra compact laser rangefinder LEICA CRF 1200.

The trend for the system cameras was also positive with growth of 12.2% to 34.5 m Euro. Besides the already mentioned digital component in the Leica SLR system, the new LEICA APO-SUMMICRON-M f/2/75 mm ASPH. proved to be an important and successful addition to the range of lenses.

I have already mentioned the two current digital models in the compact camera segment, the versatile LEICA D-LUX 2 and the ultra compact LEICA C-LUX 1. However, only the LEICA D-LUX 2 and the now discontinued digital model LEICA DIGILUX 2 were considered in the turnover figure for the past business year, which rose by 6.6% to 16.9 m Euro. Sales of the analog model LEICA CM are being supported by promotion campaigns such as an attractive special edition with external flash unit, but are continuing to decline overall.

From a geographical point of view, there is growth in all sales regions. The most significant growth was the 28.3% achieved in Asia/Australia, where particularly strong development was recorded in Korea and China with Hong Kong and Taiwan. Europe excluding Germany grew by +17.6 % to 30.1 m Euro, faster than the German market with its + 1.1 % growth to a high level of 20.4 m Euro.

The net operating result before restructuring costs was 0.6 m Euro and thus 11.2 m Euro better than last year's figure of -10.6 m Euro. At this point I would like to say that all figures



are according to the international standard IFRS. For the sake of comparison, last year's figures have been converted to this standard as well.

Restructuring costs amounted to 6.8 m Euro, which was 2.8 m Euro more than last year. They included dismissal pay for 100 jobs in the factories of Solms and Famalicao and the subsidiaries to the amount of 4.2 m Euro. The restructuring costs also included legal, consulting and executive search fees in connection with the turnaround strategy to the amount of 2.6 m Euro.

The unadjusted operative result was therefore -6.2 m Euro compared with -14.7 m Euro the year before. Due to interest and tax amounting to 3.0 m Euro there was a deficit for the Group result for the year of 9.2 m Euro compared with 18.1 m Euro in the previous year.

These figures for the turnover and result are much as expected and in some cases even better than forecasted. We have fought hard to achieve this result – please remember the turbulence I mentioned. However, we are all aware that we are still a long way from being the company into which Leica Camera AG has to develop.

For the current business year we expect a small operative profit. Due to the burdens in the financial and tax result, however, our planning foresees a negative Group result again. I have already mentioned that we will not simply take this as given. In the management team we are working hard to achieve all the improvements possible. We know that only a positive result is a genuinely good achievement and this is therefore what we are aiming at. However, we can only set ourselves the concrete target of real profit for the following years.

We have got off to a good start in the new business year. The turnover of the first three months is well over that of last year and in line with our own budgeting.

Before I finish my speech, allow me to express a few words of thanks. I have already emphasized the significance of the support of you as shareholders. I would like to express special thanks to our staff, who have worked for the company with a high level of commitment and loyalty despite personal fears in view of the economic problems.



I would like to especially thank Supervisory Board member Herbert Kauffmann, who has helped us greatly with his expert knowledge and is not standing for re-election. Special thanks are also due to the long-standing retiring chairman of the Supervisory Board, Dr. Hans Friderichs. Besides his supervisory role, he was always ready to give advice and as chairman has mastered many a critical situation with great skill. Besides his expert knowledge from leading positions in business and politics, he has also contributed in-depth knowledge of photography and sport optics in his work for Leica Camera AG. Our company doesn't have a product that Dr. Friderichs does not know from the perspective of the enthusiastic user. And many of our staff know Dr. Friderichs personally, because the human dimension of the company was also important to to him. Many thanks to both of you on behalf of us all for the work you have done.

To sum up:

We have made progress in all the components of our aim to gear the Leica Camera Group to the future. However, there are still major hurdles to be taken on the way to sustaining long-term profit. We accept these challenges as a team.

Can I hold a speech in the frenzy of FIFA World Cup enthusiasm without making references to King Football? To avoid the risk of invoking unsuitable images just before the final, I would rather not make such comparisons. Instead, I will stick with our familiar imagery. Not long ago, the company's prospects were not clear. Now, the optics are right and our future is back in focus. We have not yet reached our target, but we are back on the tracks of success.

I have now arrived at the end of my speech and am looking forward to the discussion with you.

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