

Check against delivery

## **Speech at the balance sheet press conference of GILDEMEISTER Aktiengesellschaft on 17 March 2011, at 11.00 a.m. in Bielefeld-Sennestadt**

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Ladies and gentlemen,

Before the Executive Board reports on GILDEMEISTER Aktiengesellschaft's **financial year 2010** and on the current financial year, we would first of all like to begin with the cooperation with the Japanese machine tool builder, Mori Seiki, that is an essential part of our global corporate strategy. We have been profoundly shocked by the recent nature catastrophe. Earthquakes and tsunamis have caused enormous damage. The consequences in the nuclear power plants are unforeseeable. We remain in close contact with Mori Seiki and can report that none of the employees have been injured. We will remain resolute in supporting our partner during these difficult times with any means necessary.

Now, returning to today's agenda. I would like to commence with the development of the machine tool industry in the year just ended.

### **Industry development 2010**

#### **International development**

The world market for machine tools once again developed positively in 2010 - based on a weak comparison basis. The **worldwide machine tool consumption** rose in the reporting year 2010 by 25% to € 45.0 billion (previous year: € 36.1 billion). China was once again the biggest sales market at € 15.9 billion (35%). Germany was far behind in second place with € 3.7 billion (8%). Third place was taken by South Korea with € 3.2 billion (7%) followed by Japan and the USA. These five markets account for 61% of the worldwide consumption of machine tools.

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According to calculations of the German Machine Tool Builders Association (VDW), **global machine tool production** likewise amounted to €45.0 billion. Thus production rose in 2010 by 25%. For the first time China was the world's biggest producer of machine tools at €9.9 billion (22%). Japan developed into the second largest producer of machine tools at €8.5 billion (19%). At €7.4 billion (16%) Germany is only the third largest producer. Italy was in fourth place with €3.9 billion (9%). South Korea reached fifth place with €3.4 billion (8%). These five countries represent 74% of global machine tool production.

### **German machine tool industry**

**Order intake** of the German machine tool industry rose by 85% to € 11.5 billion (previous year: € 6.2 billion). Domestic demand rose by 75% (previous year: -61%). International demand rose by 90% (previous year: -50%).

**Production** fell by 3% to €9.9 billion and was thus below the previous year's level (€ 10.2 billion). Of the machine tools produced in Germany, 61% were exported.

### **Financial year 2010 of the GILDEMEISTER Group**

In financial year 2010 GILDEMEISTER again recorded a clear upwards trend. We have **two factors** to thank for this: The first is that the entire general economic climate has improved significantly. The worldwide machine tool crisis has been overcome. The other is that during the crisis we made the right strategic decisions. Following the slump in the market in September 2008, global demand for machine tools started gaining momentum again at the end of 2010.

We have managed to further build upon our position as a producer of cutting machine tools thanks to our international presence, innovative products and the **cooperation with Mori Seiki**. Our cooperation in the areas of production and components, purchasing, research and development, as well as in sales and services, and customer financing, was also successful in the reporting year. Together with the Japanese trading company, Mitsui & Co. Ltd., we have been offering our customers attractive, individual financing solutions since 2010.

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Machine tools are capital-intensive investment goods, which are not always easy to finance, especially for small and medium-sized companies. MG Finance GmbH makes purchasing easier for our customers.

With Energy Solutions GILDEMEISTER has built up a young business area, which we consider to have potential for growth. In addition to solar technology, through the majority investment in the Austrian company, Cellstrom GmbH (50.01%), we have gained entry into the promising future market of energy storage. The long-lasting and low maintenance “**cellcube**“ large battery offers a variety of deployment possibilities, for example as an emergency power system, for the storage of electricity from solar power plants and wind farms or as a solar fuelling station for the growing number of e-vehicles.

### Sales revenues

Sales revenues rose by €195.6 million (+17%) to €1,376.8 million (previous year: €1,181.2 million). Domestic sales revenues amounted to €499.1 million (+1%); international sales revenues rose to €877.7 million (+28%). The export share amounted to 64% (previous year: 58%).

### Segmental Reporting

Our business activities include the **Machine Tools** segment with a sales revenue share of 56% (previous year: 64%) and the **Service business** with about 27% (previous year: 26%), as well as since 1 January 2010 for the first time the **Energy Solutions** segment with 17% (previous year: 10%). As in the previous year, Corporate Services had a sales revenue share of less than 1%.

The **Machine Tools** segment includes the new machines business. Sales revenues grew by 2% to €769.9 million (previous year: €757.7 million). The milling technology of DECKEL MAHO accounted for 36% (previous year: 42%); ultrasonic/lasertec accounted for 3% (previous year: 3%). The turning technology of GILDEMEISTER amounted to 17% (previous year: 19%). The **Services** segment also developed positively: Sales revenues rose by 18% to €367.2 million

(previous year: €311.0 million). In **Energy Solutions** we were able to double sales revenues at +113% or €127.2 million to €239.5 million (previous year: €112.3 million).

### **Order intake**

We were able to record increasing success in order intake over the course of the year. It rose by 24% to €1,418.4 million (previous year: €1,145.9 million). The machine tools business increased by 50% to €854.2 million. The Service business rose by 60% to €419.2 million. In Energy Solutions we booked order intake of €144.8 million (-54%). Due to the high order backlog, order intake progressed as planned below the previous year's level.

In **Germany** orders rose by 56% to €537.7 million (previous year: €343.9 million). In **Europe** order intake was still restrained. In **America** orders increased markedly. In **Asia** business was above the previous year's level. Particular growth stimulus was noted in **China**. The export share amounted to 62% (previous year: 70%).

### **Order backlog**

As of 31 December 2010 the order backlog amounted to €628.3 million; it was thus 7% above the previous year's figure (€586.7 million). The backlog development varied in the individual segments. In Machine Tools the order backlog rose by 34% to €335.0 million (31 Dec. 2009: €250.7 million). In machine tools this represents a calculated production capacity utilisation of an average of about four months. In Services, the order backlog amounted to €126.7 million (same date in the previous year: €74.7 million). We have reduced the high order backlog in Energy Solutions in line with plans by 36% to €166.5 million (previous year: €261.2 million).

## **Profitability 2010**

**GILDEMEISTER achieved a positive result and thereby confirmed its goals for financial year 2010.** The group **annual net income** amounted to €4.3 million (previous year: €4.7 million). **EBITDA** amounted to €74.5 million (previous year: €60.9 million); **EBIT** reached €45.0 million (previous year: €31.8 million). **EBT** amounted to €6.5 million (previous year: €7.1 million). **We consider the results achieved to be positive against the background of the most difficult machine tool crisis in history and the structural changes in the competitive environment.**

Earnings per share amount to €0.09 (previous year: € 0.10). The Executive Board and Supervisory Board will propose to the annual general meeting on 13 May 2011 that no dividend be distributed for financial year 2010 - we already announced this at this point last year in view of the difficult economic situation. In the current financial year we intend to return to a solid profits basis.

## **GILDEMEISTER Share**

The GILDEMEISTER share made clear gains in value in the first eight months of the year and especially in the fourth quarter. With an increase of 47% in the stock market year 2010, the GILDEMEISTER share outperformed the MDAX (+35%). In the 2010 stock market year, the share was quoted at the start of the year at €11.62 (4 Jan. 2010) and reached its highest value of €17.10 on 13 December 2010. The share closed the year on 30 December at €16.70.

## **The following provides some explanatory notes on the GILDEMEISTER Group Consolidated Financial Statements for 2010**

### **Net worth and financial position**

The **balance sheet total** increased to €1,357.5 million (previous year: €1,152.7 million). The change arose mainly from the rise in trade receivables as of the reporting date. They rose by €66.5 million to €306.0 million; these include sales revenue recognition in Energy Solutions of €146.4 million.

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The changes in the group's financial position were positive in the reporting year. **Free cash flow** was positive and amounted to € 45.2 million (previous year: € -100.5 million). We have primarily used the free cash flow to reduce net financial liabilities by €36.5 million to €208.4 million (previous year: €244.9 million).

### Equity

**Equity** rose by €32.0 million to €412.9 million (previous year: €380.9 million). The **equity ratio** changed due to the increase in the balance sheet total to 30.4% (previous year: 33.0%).

### Investments

Investments in property, plant and equipment and in intangible assets amounted to €39.0 million (previous year: €26.5 million). Despite the difficult past two years, we have pushed our development projects in order to also be able to offer our innovations in the market in the future. Depreciation of property, plant and equipment, taking into account capitalised development costs and finance leases, amounted to €29.5 million (previous year: €29.1 million). The main focus of investments was the majority equity interest in Cellstrom GmbH and therefore entry into the energy storage solutions market. Additions to financial assets amounted to €11.0 million, through the purchase of an equity interest in MG Finance (33%) and in Younicos (5%) – the former parent company of Cellstrom – as well as through a 50% equity investment in DMG / Mori Seiki Australia Ltd. Investments amounted in total to €50.0 million (previous year: €57.8 million).

### Employees

As of 31 December 2010, GILDEMEISTER had 5,445 employees, of whom 213 were trainees (previous year: 5,450). The number of employees has practically remained the same as in anticipation of an improvement in business development we have purposely retained our highly-qualified specialist personnel. We succeeded in offsetting fluctuations in personnel capacities by making use of short time working. Over the course of the third quarter, due to

business development, we were able to terminate short time working at all domestic sites. On average, 16% of employees within the group were affected by short time working during the reporting year (previous year: 30%); the extent was 20% of the weekly working time.

The employee expenses ratio improved to 24.3% (previous year: 30.3%). Employee expenses fell by €12.9 million to €333.2 million (previous year: €346.1 million).

## **Research and Development**

In the reporting year, GILDEMEISTER presented 17 new developments at 64 national and international trade fairs and exhibitions. Despite the difficult year, we have kept research and development expenses of €48.1 million at the high level of the previous year (€47.9 million). The industry highlights were the four main autumn trade fairs: the AMB in Stuttgart, the BIMU in Milan and the JIMTOF in Tokyo. These were started off by the IMTS in Chicago. There we exhibited innovative technology and future trends together with Mori Seiki for the first time. In research and development, we are driving innovations in order to set the trends with top technological performance. In the **energy efficiency** of machine tools, for example, we set the benchmark for production processes that save resources. In the area of software, through the **DMG process chain** we offer our customers a solution that is unique worldwide. From the idea until the finished workpiece, our customers can simulate the workpiece machining 1:1. The DMG Virtual Machine integrates geometry, kinematics and dynamics of DMG machines as well as all the functionalities of the control 1:1 on a PC. In doing so, the 3D machine model is not remodelled but instead is based on the original CAD construction data of the workpiece. This enables the highest possible level of reliability in planning and implementation, and offers significant potential for improving cost-effectiveness.

The existing product portfolio in turn-mill machines has been further extended through the cooperation with Mori Seiki. In the new business area of **DMG XXL machines**, a first step has been taken towards expanding our product range in the large machine area with a turning-milling centre from Mori Seiki. A total of

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451 employees are working on the development of our products (15% of the workforce at the plants).

### Forecast for financial year 2011

Current forecasts for the **global machine tool market** for 2011 assume further growth. The German Machine Tool Builders Association (VDW) expects worldwide consumption to rise by 20% and in Germany to increase by some 30% even.

**GILDEMEISTER** had a good start to financial year 2011. Order intake further developed positively in January and February. With the success at our **traditional in-house exhibition** in Pfronten, order intake has already reached €291.8 million (+67%) in the first two months (previous year: €173.9 million). With order intake of €107.7 million (+102%) and 391 machines sold, the traditional in-house exhibition at DECKEL MAHO in Pfronten was the most successful in-house exhibition of all time. DMG presented a total of 63 exhibits, including 5 world premieres. Some 5,022 national and international trade visitors gathered information on the full spectrum of cutting edge technologies as well as industry-specific solutions for the “Aerospace”, “Automotive”, “Medical” and “Energy Solutions“ sectors.

For the first quarter of 2011 we are now expecting **order intake** of more than € 350 million (previous year’s quarter: €302.3 million). For the whole year we are anticipating growing demand for our machine tools, services and energy solutions. For the entire year we intend to achieve order intake of more than € 1.6 billion. We are expecting specific impetus to come from the industry’s international trade fairs. The most important machine tool trade fair in Asia is the **CIMT** in Beijing, where GILDEMEISTER will present 28 exhibits from 11 to 16 April. From 19 to 24 September, the most important trade fair for machine tools worldwide – the **EMO** – takes place. GILDEMEISTER will present 70 exhibits in Hanover, 10 of which will be world premières.

For the first quarter we are planning **sales revenues** of more than €300 million (previous year’s quarter: €244.4 million). Order intake has risen markedly in the



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core segment of Machine Tools. As a result, over the whole year sales revenues in Machine Tools will be significantly higher than in the previous year. In

Services we are assuming an increase in sales revenues. We also expect to be able to increase sales revenues again in Energy Solutions. Overall for financial year 2011 we plan sales revenues of more than € 1.5 billion.

**Earnings** will clearly improve in the first quarter in a year-on-year comparison with the previous year. GILDEMEISTER is strategically well-positioned to continue growing profitably. We are expecting clear growth in EBT and in annual net income. Based on the positive outlook for business and earnings, we are planning to pay a dividend for financial year 2011.

A highlight of 2011 will be the presentation of high-speed machining with our high-precision high-speed cutting machines (HSC). Just next week, from 22 to 25 March 2011, the opening will be held of the “**HSC Center**“ in Geretsried. Here we will present to our customers the complete process chain of high-speed cutting. Moreover, we expanded the spare parts centre at the Geretsried site and optimised the logistic processes.

Subsequently, from 29 March to 2 April, GILDEMEISTER will present the latest generation in modern machine tools at the Bielefeld in-house exhibition 2011. Under the motto “100% green energy“, we will display an **e-fuelling station** of the future for the first time in the “Energy Solutions Park“ as a complete solution for efficient e-mobility. Electric mobility is only as clean as the electricity that powers it. Only electricity generated from renewable resources also makes electric mobility a viable alternative ecologically. The new e-fuelling station can be quickly set up without any pre-existing grid connection. With two SunCarrier 250 installed, up to 24 four-person households can be supplied annually with electricity from renewable energy sources. The cellcube FB 10-100 large battery ensures that this electricity is available to use as required around the clock.

We are well-positioned in the USA and in Asia through the cooperation with Mori Seiki. In the **Indian growth market** we are planning to open a joint technology

center with a large showroom from 17 to 20 May 2011. With a total of 17 DMG and Mori Seiki machines, we will present innovative high-tech products, which are precisely tailored to customer needs and requirements in the Indian market.

The main focus of our activities at GILDEMEISTER Energy Solutions is extending the product range in the area of energy technology. At the most important solar trade fair worldwide – the **Intersolar** in Munich – we will present innovative new developments to the trade public from 8 to 10 June 2011. Further major steps are building up the future markets of India and the USA.

Our motto for the year 2011 is: **Cooperation sustains innovation**. We intend to intensify our cooperation with Mori Seiki sustainably. It is progressing successfully and we have it to thank for numerous ideas, suggestions and impetus. Streamlined structures and flexible processes place us in a position to act even more competently and efficiently in the marketplace.

### **News: Capital increases**

Two days ago, on 15 March 2011, the Executive Board and the Supervisory Board of GILDEMEISTER passed a resolution to carry out a capital increase with the participation of Mori Seiki. Within the framework of this capital increase, through the part utilisation of authorised capital, the share capital is to be increased by €11,851,320 through the issue of up to 4,558,200 new no-par value bearer shares (no-par value shares) in exchange for cash. The **ten percent capital increase** is to be carried out with the exclusion of existing shareholders' subscription rights. The new shares from this capital increase were subscribed by Mori Seiki. The placement price amounted to €18.22 per new share, this corresponds to a premium of about 27% measured against the volume-weighted average price of the GILDEMEISTER-share on the date of the resolution or 20% measured against the volume-weighted average of the last ten days.

It is intended to carry out a second expected **20% capital increase** promptly and with the **participation of all shareholders** (subscription rights issue). Through the utilisation of authorised capital, the share capital is to be increased by



€26.072,904 through the issue of 10,028,040 new no-par value bearer shares (no-par value shares) in exchange for cash. The shares from both capital increases will be fully entitled to dividend from 1 January 2010.

The net issue proceeds are to be used quite predominantly to reduce financial debt and thus to strengthen the equity base. Moreover, the remaining amount of the net issue proceeds from the issue of the new shares will be used to secure growth in the core Machine Tools business and in Services, and also to build up the Energy Solutions segment.

We will notify further details timely in accordance with statutory requirements in the relevant journals for stock exchange announcements and in the electronic Bundesanzeiger.

GILDEMEISTER looks forward optimistically to **financial year 2011**. We expect further growth in global demand for machine tools and in the service business. The “Energy Solutions“ business area should also continue to develop positively. We are also expecting positive, dynamic growth in **financial year 2012** in all our business areas. We are assuming another rise in order intake, sales revenues and earnings.

We will use our full endeavours to ensure that GILDEMEISTER returns to a profitable growth trend.

Bielefeld, 17 March 2011

Dr Rüdiger Kapitza

Chairman of the Executive Board