

Speech

Dr. Karl Tragl

2013-04-09

Chairman of the Executive Board, Bosch Rexroth AG

April 9, 2013, Hannover

- The spoken word applies –

Dear Ladies and Gentlemen,

It is also my pleasure to welcome you to our Annual Press Conference.

This past year, 2012, was not easy. But I can already say this much: Bosch Rexroth has held its own very well.

In recent years, we have time and again pointed to the fact that the volatility of the markets is significantly increasing. As a result, in 2012 we see substantial upswings in some key regions, but also some downswings. For example, machinery production in the USA increased considerably. By contrast, the excavator industry in China declined by around 40 percent. At the same time, almost all European markets, other than Germany, have slipped even deeper into recession.

Consequently, the order situation at Bosch Rexroth softened considerably toward the end of the year. Between the incoming orders from the first and fourth quarters of 2012, we are talking about a 28 percent difference. For sales revenue, it is 11 percent. We will still be feeling the effects in the months ahead. Some of our sites are not working at full capacity.

To address the issue right off the bat: we are monitoring the ongoing fiscal year with extreme caution and are anticipating more stagnation than growth. But for 2014, we see ourselves returning to a noticeable growth course.

There is a general expectation that China's economy will likely rally starting in the summer and will provide momentum to global machinery construction, but due to long time-to-market periods in our industry, this will only become visible in 2014. By contrast, we will continue to see positive motivation in the USA. While in Europe, the debt risks continue to have a negative impact on

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the investment climate. For that reason, as I have already mentioned, we are not anticipating growth for our company this year. Nevertheless, we are proceeding on the assumption that we will still be able to win additional shares in this temporarily shrinking market.

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Sales

Let us now take a look at the 2012 fiscal year in detail: due to the weak environment, Bosch Rexroth increased sales revenue by only 1.5 percent to EUR 6,539 billion. At the same time, that is still the highest value in the company's history. Due to the partially very difficult market trend, we are satisfied with what we have achieved – even if we have remained below our expectations. At the same time, we must also recognize that the global machinery construction market lost a considerable amount of momentum following the two turbulent recovery years of 2010 and 2011.

Incoming orders

Our number of incoming orders has been declining since the second quarter. Overall, it is around 24 percent behind the record value from the previous year. But to put it in clear terms: in China, we see only a temporary economic slump and not a structural market shift. The long-term growth trends are holding steady there. The situation in Europe, though, is different. In the crisis countries of this region, the industrial share of the gross domestic product has been declining for years. Accordingly, demand for machines has also been declining for years in these countries.

We were able to easily absorb regional setbacks last year thanks to our broad global presence. We were thus able to compensate for declines in China and Europe due to the good machinery construction economy in the USA. This fact makes it clear: our internationality helps us maintain a strong position in this volatile market structure.

Associates

We will be absorbing below-capacity utilization at several plants with all of the working-hour flexibility measures available to us. We counter significant capacity fluctuations using tried-and-tested instruments. That requires dedication on the part of all of our associates. And on this note, I would like to place a positive emphasis on how constructively our team has pulled together in the current economic situation.

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The number of associates at Bosch Rexroth around the world is relatively stable. At the end of the year, there were 37,735 associates. However, the number has declined slightly in Germany. With 18,891, there were around 800 fewer associates than in the previous year. That corresponds roughly to the natural fluctuation rate, and can be attributed in particular to associates entering retirement.

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R&D

Despite these weaker economic times, we continue to make investments in research and development. Doing so is a tradition at Bosch Rexroth. We invested EUR 374 million in research and development. Just under 19 percent more than in the previous year. That corresponds to a 5.7% share of sales revenue, which places us further above the industry average.

For customers, energy efficiency is becoming more and more important. Our development activities support that trend. For example, the new A1VO axial piston variable displacement pump significantly reduces tractor diesel consumption. With an average annual operating time of 6,000 hours, the savings total up to 10,000 liters.

In 2012, we also expanded our regional R&D activities in Asia and America. It is becoming increasingly important to develop regionally adapted versions locally based on global product platforms – and to produce on a local scale, too. This "Local for Local" strategy taps markets for us that we would not be able to reach from Germany. The strategy also ensures higher capacity utilization for the long term.

Investments

We have continued to expand our production capacities in the growth markets of Asia and America. Bosch Rexroth has opened a new plant in Wujin, China, which employs approx. 1,200 associates. In order to be able to react to the special regional requirements even faster, the local development activities will be bundled in an internal R&D center starting in 2013. Overall, we are investing EUR 83 million into expanding our presence in this region – even despite the prevailing economic lull. That is because we do not think in quarterly statements, but instead pursue long-term strategies. China is, and will remain, the world's largest market for all types of machines. I am positive that we will already see the country swing back into dynamic growth within the course of this year.

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Bosch Rexroth has been producing in India for over 35 years and has established itself there as a permanent partner for machinery construction. That is why we have also launched the construction of a new plant in the Indian city of Ahmedabad. It will replace and expand the halls that we were previously renting.

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Fortunately, the investment bottleneck in the USA was resolved in 2012. In the USA last year, machinery construction production reached its highest value since 2007. During the years in between, production had fallen by up to 25 percent. We continue to consider the USA a very interesting future market. With the purchase of an additional building in South Carolina, we doubled the production area for our plant in Fountain Inn in 2012. Overall, Bosch Rexroth is investing around \$80 million USD within a time frame of five years.

At the same time, we have also modernized and expanded the existing plants in Europe. Worldwide, our total investment sum came to around EUR 304 million. That corresponds to a 4.8 percent share of sales revenue. Together with the R&D expenses, Bosch Rexroth has thus invested every tenth euro generated from revenue into the future. That shows that Bosch Rexroth is set up for the long term and is banking on continued growth in the years ahead.

Regional view

If we look at the regional sales revenue distribution, one noticeable aspect is the aforementioned negative trend in Asia. After many years of increasing growth – even during the global economic crisis – Bosch Rexroth had to report a decline in sales for the first time. That decline was 6.5 percent. The reason: weak economic performance in China. But to a certain extent, this kind of setback is completely normal. That makes it all the better, though, that we have been able to make gains in other key Asian markets. In Japan, one of the very large markets, we experienced growth of around 5 percent in 2012. In Singapore, a center of the international offshore industry, we nearly doubled our sales. That puts the business volume in Singapore even higher than in some European countries.

But the positive surprise of the year was our business in North and South America. It increased by nearly 20 percent. The American economy has again made significant investments in new machines following the recession years. In North America, we are also now seeing a clear change of consciousness when it comes to climate change. An increasing number of machine users are looking for solutions for increased energy efficiency. The most illustrative example of that is the John Lewis veneer plant in Canada.

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It produces over 26 million ice cream sticks per day. The installation of our Sytronix variable speed pump drives reduces energy consumption for the loading device by 91 percent. The company will be retrofitting other equipment accordingly.

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In South America, the expansion of infrastructures is creating increasing sales revenue. Brazil is one of the countries in the world with the strongest growth. The country will be investing around \$400 billion USD toward accelerating economic growth in the years ahead. But the other South American countries are also making heavy investments. Such as in the renewable energy source of hydroelectric power. This is yet another area in which Bosch Rexroth is an established and respected project partner.

The Mexican hydroelectric power station La Yesca, in which two generators generate an average of 1.2 gigawatt hours of electricity per year, was inaugurated in early November. Nearly \$1.3 billion USD were invested in the structure. With hydraulic cylinders and power units, mechanical position measuring systems as well as control and power supply consoles, Bosch Rexroth is making a decisive contribution to safe operations.

In Europe and Germany, we have been able to keep sales revenue stable, although machinery production experienced a decline here in the second half of 2012. Unfortunately, the trend is expected to increase. For 2013, we are expecting to see positive momentum in the second half of the year at the earliest.

Russia

But let us now turn our attention to Russia, this year's partner country for the Hannover Messe. The Russian Union of Machine Builders determined that over one million machines that are 20 years old and older are in use in Russian factories. Around 30 percent of companies last updated their production means prior to 1991. The government in Moscow is thus pursuing a broad modernization strategy with a particular focus on the state sector. A well-known example of this is the complete renovation of the Bolshoi Theater, for which Bosch Rexroth served as the general contractor for the entire stage technology.

But we are also feeling a high degree of momentum for modernization in the other sectors. For example, we developed adjustment units that can withstand Arctic conditions for the natural gas fields in Siberia. Technicians are now able to make the necessary adjustments with a click of the mouse

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from the comfort of the heated control station instead of adjusting the instruments manually in temperatures of -50 degrees, as used to be the case. This is a further example for the development of regionally optimized system solutions.

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Sector view

Finally, let us take a look at our market segment trends.

Mobile Applications

For Mobile Applications, we kept our sales revenue stable for 2012. And that is a noteworthy feat: individual machinery construction industries in China reported temporary declines in production of up to 70 percent. We were able to compensate for this trend, though, especially due to high demand for agricultural machines and a rallying construction economy in the USA.

In the case of Mobile Applications, however, incoming orders have decreased the most as compared to our other markets. We have reacted to low capacity utilization with reduced and flexible working hours. However, these measures have since been retracted.

We introduced an entire series of innovative system solutions onto the market in 2012. That includes the new Hydraulic Traction Assistant (HTA) hydrostatic auxiliary drive. It allows utility vehicle drivers who drive across soft subsurfaces or who have to overcome slopes in winter to engage the advantages of all-wheel drive. Our hydraulic system, though, is around 400kg lighter than the equivalent classical mechanical drive. The low weight results in a corresponding increase in load capacity, reduces fuel consumption, and increases operating efficiency.

Machinery Applications and Engineering

In the Market Segment Machinery Applications and Engineering, we have accomplished several visible successes within our project business. Here I once again call your attention to the previously mentioned retaining dams in South America. In addition, we are also successfully involved in the research of foundational ideas. In April 2012, the University of Stuttgart dedicated the world's first adaptive shell supporting frame in order to examine simulation results for the ultralight design in real-life situations. The 10 x 10-meter overarching shell on a scale of 1:1 is moved at specific points of support using Bosch Rexroth hydraulic drives. The shells are thus able to reduce

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strains and deformations caused by external loads in a targeted way and actively dampen vibrations.

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In the Industry Sector Marine & Offshore, the construction of the world's largest mobile lifting mechanism for oil platforms is continuing. As an important engineering partner to the Allseas Group, Bosch Rexroth developed the key drive and control solution for it. The special vessel, which is equipped with a Topside Lifting System, can lift and transport topsides of offshore platforms weighing up to 48,000 tons in one piece. That allows Allseas to considerably reduce costs and risks for the assembly and disassembly of offshore platforms. The vessel will be ready for operation in early 2014.

Factory Automation

In the Market Segment Factory Automation, increased energy efficiency is high on machine users' specification lists. We support manufacturers in meeting these requirements with the Rexroth for Energy Efficiency, or 4EE, system. As an example, I would like to mention an application: a hard broaching machine. The installation of demand-oriented accumulator charge switching reduces energy consumption by half, from 210,000 to 102,000 kW/h. This measure amortizes our customers' investment after just 17 months.

To do so, Bosch Rexroth is connecting hydraulics with electronic control units to an increasing degree. Hybrid solutions, in which electric and hydraulic drives work together, are becoming increasingly important. They combine the physical advantages of hydraulics, such as high power density and direct generation of linear movements, with the energy efficiency and controllability of electric drives. In this area, we are applying our unparalleled expertise and mapping the special features of fluid technology in pre-installed software. That considerably reduces engineering time and effort for machinery manufacturers and opens up new applications for hydraulics.

Bosch Rexroth successfully restructured its Pneumatics division in the past several years. On this basis, business trends in that area are developing positively. As a next step, the product group will operate as an independent company under the umbrella of Bosch Rexroth as of June 1. This new structure will allow pneumatics customers and markets to be served faster and with more flexibility. That also leverages new potential for growth that is also located beyond our target factory automation industries. Examples include medical technology, heavy industry, or the tractor trailer market. The

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course for further growth in new industries has been set, for example, through the DIVO project. For this project, expertise from industrial pneumatics can be used to develop an application in the rapidly growing sport diving market. The sales options for Pneumatics will continue to be pursued.

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Renewable Energies

The wind energy market has recently experienced major changes. The market environment is characterized by new legal parameters and reduced energy needs in southern Europe. There are overcapacities across the entire supplier industry on a global scale. In addition, this market is characterized by even greater volatility and more pricing pressure than is standard in machinery construction. Growth is currently turning out to be lower than expected, especially in China. Despite that fact, these business units were able to increase sales revenue. At the same time, they are also benefiting from one-time special effects in the USA.

With advanced products and services, we are able to offer our customers in this market segment new options for reducing operating costs and improving plant availability. A concrete approach for that is our Condition Monitoring System. Let me explain what I mean: in the winter, the rotor blades on wind energy plants ice over. Large chunks of ice can break free and pose a risk to the surroundings. BladeControl from Rexroth detects such icing conditions using an innovative mechanical vibration system. It switches the system off and the danger is avoided. But beyond that, BladeControl also holds a decisive additional advantage for economic efficiency: after a shutdown due to icing, operators used to have to individually restart every system during daylight hours, check the rotor blades for icing, and then turn them back on manually. By contrast, BladeControl is certified to automatically restart the system after the icing is gone. That saves costs and personnel expenses. At the same time, the effective duration of power generation also increases.

Rexroth 4EE

Ladies and gentlemen, as long as power generation still produces CO₂, greater energy efficiency will be the most effective contribution toward climate protection. An increasing number of machine users are asking for greater energy efficiency with at least the same degree of productivity. We have put ourselves in a leading technological position with the Rexroth for Energy Efficiency approach. This system leverages the potential of all drive and control technologies across all applications with at least the standard level of productivity. Rexroth 4EE is also the foundation for the energy optimization of

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our own plants. There has been excellent feedback from other industrial users, and it has brought us several awards.

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Energy efficiency consulting

Bosch Rexroth makes these experiences from its own plants available to other industrial concerns in the form of systematic energy efficiency consulting. Our specialists optimize complete production lines and uncover potential for greater energy efficiency. One example is the roll compaction control system for rolling raw materials for one of the world's leading seal manufacturers. Following detailed analyses, our energy efficiency consultants suggested and implemented the conversion from constant speed drives to variable speed pump drives. The result: a 78 percent reduction in energy consumption. The measure is amortized in less than two years.

Interconnectedness

Another market trend is the theme of this year's Hannover Messe: Integrated Industry. Connecting all production processes is becoming increasingly important. Until now, the direction and the speed were dictated mainly by IT experts and end users. But from our perspective, machinery manufacturers with their process and engineering expertise should be the ones in the driver's seat.

Until now, however, many good ideas, were not able to be achieved in the real world for the following reasons:

1. In general, automation suppliers do not permit any access to the control kernel.
2. A large gap exists between the automation and the classic IT worlds due to the different programming languages.
3. There is a general timidity on the market to break free from ingrained patterns of thinking and to go new "connected" directions.

The solution to the problem being described requires integrated open control units. Bosch Rexroth has always seen itself as a pioneer for an open automation world. For that reason, we are now turning to complete openness and taking entirely new paths. What does that mean? Effective immediately, we are opening our control core and thus closing the gap between the different programming languages. Via a new interface from Bosch Rexroth,

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engineers and software developers are now able to access the control kernel using nearly any high-level language in the IT world and to program new machine functions.

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That allows our customers to easily integrate superordinate systems into the machine based on classic IT technologies. They have a wide range of possibilities for independently implementing new features through software programs and to seamlessly integrate mobile devices such as smartphones and tablets. For example, they can write their own smartphone apps that directly access the control unit. That is the future of automation. And it is the way machinery manufacturers stand out from the competition with innovative ideas.

Thank you very much!

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