



“I would do it again”

INTERVIEW Ten questions addressed to the shareholder of the VEM Group, Dr. Adolf Merckle

Ten years ago, on 1st January 1997, the four companies of the VEM Group were privatised – VEM Sachsenwerk in Dresden, VEM motors with production facilities in Wernigerode and Thurm near Zwickau, and the Keulahütte foundry in Krauschwitz. The takeover by the family business of entrepreneur Dr. Adolf Merckle from

Blaubeuren marked the beginning of a new and successful chapter in the history of these long-standing companies. Today, the VEM Group has a sound financial basis and is an internationally renowned group of companies providing employment and training for more than 1,500 people in Saxony and Saxony-Anhalt.

Dr. Merckle, when you took over the VEM Group 10 years ago, you were entering unknown territory in two respects: you were investing for the first time in the eastern part of Germany and in a sector that was new to you, electrical engineering. What motivated you to take this step?

Dr. Adolf Merckle: At the beginning of the 1990s I handed over the management of the pharmaceutical company to my two eldest sons. But at the age of 62 I did not yet want to retire, nor did I wish to risk interfering too much in what was now their business. Also, after the unification of Germany I wanted to do something to help the new federal states. I tried to acquire the company Jenapharm, but my bid was not accepted. Believe it or not, I then went to the Treuhand agency in 1996 and asked what was still on offer. And there was only one company left – the VEM Group. The Keulahütte foundry was not included; the Treuhand had not dared to offer it to me. But of course it was part of the group, and so I said: “If I take over the enterprise, then I will take all of it”.

Have you ever regretted that decision?

Dr. Adolf Merckle: Never! Looking back, I would do it again and again.

What were conditions like in the new federal states 10 years ago?

Dr. Adolf Merckle: All in all, quite good. The Treuhand agency had invested in the companies. The companies were relatively modern. But the most important factor for me was the workforce – their openness, their commitment, their diligence and their skills. You know, I was born here in Dresden and I grew up in Aussig. The Saxons have always been known as an innovative and hard-working lot. That was what I was relying on when I made the decision to buy up the companies.

Not everyone around you supported the decision, some people advised you not to invest in a machine building company. But you didn't listen to the doubters. Why was that?

Dr. Adolf Merckle: Because rather than putting me off, it spurred my desire to prove the doubters wrong. You must also consider the fact that the VEM Group was seriously in the red. The Treuhand agency had bailed them out year after year. Of course, that situation could not go on forever. And so I asked Mr von Rothkirch, who knows more about machine building than I do, whether he thought he could get the VEM Group back into



Dr. Adolf Merckle – an entrepreneur characterised by farsightedness, perseverance and unusual problem-solving strategies

the black. His confident “yes” paved the way for the signing of the takeover contract.

All in all, have your expectations concerning this not inconsiderable investment been fulfilled?

Dr. Adolf Merckle: Definitely. Of course, eight-figure sums have been invested in these companies, and in the first few years we were still making losses. But for the past few years the Sachsenwerk has consistently been in the profit zone, and the VEM motors companies in Wernigerode and Thurm have been breaking even. Even the Keulahütte foundry is on the right track and has already done a great deal of catching up.

And this success is felt by the whole workforce because the profits earned go first to the employees in the form of a 13th or 14th monthly salary, then into reserves for future investment; the shareholders do not receive any dividends. The profits from the Sachsenwerk, for example, flow into the wage packets of the employees and into funds for investment in new machines and production facilities.

Dr. Merckle, you are a successful businessman who has never been afraid to take risks and yet has never suffered any major setbacks. What is your secret recipe for success?

Dr. Adolf Merckle: There is no secret recipe; it is just the traditional mode of operation of a family business. It worries me to see the developments in some large companies that are listed on the stock exchange. Whereas the

managers of such companies sometimes only seek short-term success, a family business will always think in the medium to long term. Take VEM. Now – after 10 years – we are reaping the first fruits of our investment. Another aspect of my philosophy regarding a well-managed company is trust in one's employees. And I can only achieve that if I impart a feeling of confidence and if I ensure that the jobs are as secure as possible. In the contract with the Treuhand agency, I undertook to retain 1,100 jobs. We have not only managed to retain all these jobs but have even taken on more employees. Today there are around 1,500 people working in the companies of the VEM Group in Germany. And I should like to mention another premise for success, namely financial management – looking carefully at every item of cost, however small, and considering whether it is really necessary.

But by that you do not mean the predominant trend of seeking higher profits by cutting the workforce? After all, in 10 years of involvement in eastern Germany you have not made any job cuts.

Dr. Adolf Merckle: Why should I reduce the amount of our most important capital resource? If you want to survive in the face of international



In June 1998 VEM motors celebrated the delivery of its ten-millionth electric motor. Among those present were: Mr Johannsen (2nd from left) representing the customer General Electric, Dr. Adolf Merckle (2nd from right) and Jürgen Sander, Managing Director of VEM motors (right).

Technical competence and top-class engineering

INNOVATIONS Over the past decade VEM has cornered a significant share of the world market

Over the past 10 years, the outstanding work of VEM's engineers has enabled the group to further broaden its range of products. The combination of a culture of innovation, technical skill and top-class engineering in the four companies has set new standards in the electric machinery sector. This is evidenced by references given by renowned companies from all over the world.

Success has many fathers, and so there are a number of factors that have contributed to this positive development. The decision by the Dr. Adolf Merckle's family business to build upon the long standing traditions of the VEM companies has proven to be a far-sighted policy. It is thanks to the know-how of the workforce that VEM has gained itself a leading position on the world market, has been able to attract new clients and to stand up to the competition on the marketplace.

When the entrepreneurial family from Blaubeuren took over the four production facilities, they secured around 1,500 jobs in various regions of eastern Germany. Investments to the tune of dozens of millions of Euros flowed into the four companies. More than 200 young people were able to undergo apprenticeships and were then offered employment by the companies after successfully completing their training. This resulted in economic impulses which benefit not only the VEM Group but also the regions in which the companies are located. For

the clients, the workforce and the regions, the name Dr. Merckle stands for continuity in company policy, perseverance in implementing long-term projects and the prospect of further top performance under the VEM trademark.

Requirements of large machines

VEM large and special machines are characterised by efficient use of electromagnetic optimisation combined with low space requirements. VEM Sachsenwerk produces asynchronous and synchronous machines in the voltage range up to 13.8 kV with a power output of up to 35.000 kW for individual applications. The spectrum of products ranges from compressor and rolling mill drives via wind and water power generators to traction drives for transport systems. The machines are mainly customised, combining top-class hand-made components and state-of-the-art technology. Its manufacturing depth makes Sachsenwerk largely independent of suppliers and guarantees flexibility as well as short project planning and delivery times.

A one-stop solution for all machinery needs

VEM's range of low voltage electric machines ranges from the standard motor to the special drive. VEM mo-



A 6 MW synchronous motor for a blooming stand drive: one of the top-quality products from VEM Sachsenwerk.

tors and VEM motors Thurm offer versatile, efficient and modular products and systems solutions for all sectors of industry. Particularly in the project planning business, both companies supply top-of-the-range electric machinery to end-users all over the world. The products are notable for their extraordinary operating reliability, longevity, efficiency and environmental compatibility due to their high motor efficiencies. VEM drives can be modified to every conceivable operation, making them universally applicable and opening up ever new areas of use. The production engineering and know-how of the companies ensure fast and reliable delivery of top-quality motors.

Numerous special casting products

High-quality casting products from Keulahütte complete the range of products supplied by the VEM Group. From pressure pipe fittings to customised castings, our products are supplied fully processed and ready to install. The standard range includes the whole spectrum of pressure pipe fittings for drinking water, gas and wastewater piping systems as well as hydrants and fittings. As an efficient, modern and flexible custom casting foundry, Keulahütte produces a diverse



A Sachsenwerk machine for the shipbuilding industry: a unit known as a POD drive enables cruise ships to manoeuvre in the restricted space of harbour basins.

range of spheroidal-graphite and grey cast iron qualities. Numerous special casting products are used in motor engineering in combination with VEM electric machines, such as motor, gear and bearing casings. Modern epoxy resin powder coating plants provide long-lasting and environment-friendly protection against corrosion.



Memory Motors with electronic tag: VEM motors make it possible to use RFID technology in electric machines.

FACTS & FIGURES

The results of the VEM Group

The takeover of the three electric motor manufacturers in Dresden, Wernigerode and Thurm along with the Keulahütte iron foundry in Krauschwitz by the entrepreneurial family of Dr. Merckle marks a turning point in the development of the four VEM companies. This is illustrated by the following facts and figures:

Number of jobs

The number of employees in 1996 was 1,501. No employees have been made redundant in the meantime, and this will remain a key element in the group's employment policy.

1998	1,490 employees including 81 apprentices
2002	1,490 employees including 82 apprentices
2006	1,724 employees including 95 apprentices

Investments

From the time of privatisation up to the end of 2005, a total of € 66.6 million was invested in the four companies. Of this amount, VEM Sachsenwerk GmbH received € 21.8 million, VEM motors € 17.1 million, VEM motors Thurm € 10.5 million and Keulahütte Krauschwitz € 17.2 million.

Whereas the factories in Dresden and Wernigerode used these funds mainly for equipment, in Thurm the investments flowed into the construction of new production facilities and in Krauschwitz into new equipment and the restructuring of the company.

Turnover

1998	€ 150.78 million, of which exports accounted for € 49.45 million
2002	€ 179.24 million, of which exports accounted for € 50.23 million
2006	€ 239.00 million, of which exports accounted for € 68.00 million



HIGHLIGHTS OF THE VEM GROUP'S RANGE OF PRODUCTS – A SELECTION FROM THE PAST 10 YEARS

Permanent field synchronous motor

Drive system with gearless applications on the basis of excitable permanent field synchronous motors, suitable for high efficiencies or in restricted spaces and is also usable with generator operation



Decorative overground hydrants

Modern round and cornered designs, developed as a modular system, can also be realised as vintage-style hydrants. The range is supplemented with an assortment of capped hydrants incorporating the latest technical solutions.



Traction generators

for mining trucks and diesel-electric locomotives up to 2600 kVA

Memory Motor

Motors incorporating RFID technology whose power parameters, maintenance instructions or customer specific data can be viewed or amended using a data storage and retrieval device

Wind power generator

As asynchronous short-circuit rotors, double-fed asynchronous machines or synchronous generators in the output range 1 to 6 MW for inverter operation with air/water and air/air cooling

Compressor drive for LDPE units

As brushless explosion-protected synchronous machines, e.g. the world's largest compressor drive with a power output of 23.5 MW in Basell



Compact drives

Basic motor in the modular system, in which motor and inverter are optimised in a single unit, offering a high degree of modifiability, short set-up times and high energy efficiency

Asynchronous traction motors

for trams, light-rail and electric trains

Water power generators

Two synchronous motor generators with a power output of 331 MVA (each weighing 815 tonnes) and two asynchronous motor generators with a power output of 311.8 MVA (each weighing 890 tonnes) for the Goldisthal Hydroelectric Power Station as the world's largest slip ring motors and power converters





“I would do it again”

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competition – with China for example – you have to supply top-quality products. And you can only do that with well-trained employees. That is why we give our apprentices a guarantee that they will be offered employment if they pass their apprenticeship with good marks. Of course, there may be cases where it is not possible to follow this path. So far, I have been lucky and have never had to take such measures, even in my companies in the western part of Germany. At Jenapharm, however, I would have had to make employees redundant. For that reason I am quite glad my bid for that company was not accepted.

What advice would you give to young entrepreneurs setting up their own business?

Dr. Adolf Merckle: You need to have the courage to take risks, a willingness to work beyond the norm and a very understanding family. Without the support of my wife, I could never have led my life in the way I have done. In the early years I never took any holidays; my wife went with the children on her own. While they were spending three weeks in Denmark, for example, I visited them for a long weekend and we went to Legoland together. For the children, this weekend is what they remember about the

holiday in Denmark. And that is when their father was with them. Eventually my body told me that I couldn't go on like that. Then we went on annual hiking tours in mountainous regions around the world. This strenuous activity and the training we did beforehand was a form of active recreation for me. I couldn't stand lying on a beach in the sun – not for a single day.

What will be your feelings when you go to Dresden at the beginning of December to take part in the celebrations to mark the 10th anniversary of your takeover of the VEM Group?

Dr. Adolf Merckle: Oh, you know, I am not too keen on big celebrations. I am glad that we have managed to retain and safeguard jobs. That always requires a certain amount of luck. And we have been fortunate, for the situation in the sector as a whole is not bad. I am also glad that our trust in the workforce and the management, almost all of whom are from the original VEM staff, has more than paid off.

Where do you see the VEM Group in 10 years' time? What do you think its prospects are?

Dr. Adolf Merckle: With the best will in the world, I cannot say where we will be in 10 years' time. As far as possible, we will continue along the path we have taken. I can only hope that the VEM Group will continue to devel-



Dresden-born entrepreneur Dr. Merckle and his wife Ruth in front of the Frauenkirche in Dresden

op so well. And, after all, the decision to invest in all the companies is clear testimony to my confidence in the future of the group.

Herr Dr. Merckle, thank you for the interview.

The interview was conducted by Jürgen Schnell.



On 29th November 2004, Dr. Adolf Merckle was decorated with the Saxon Order of Merit by Prime Minister Prof. Dr. Georg Milbradt. By awarding him with this high honour, the Saxon government showed its appreciation of Dr. Merckle's commitment to the safeguarding of jobs and training places in Saxony. As pointed out in the press release, his companies are not just extensions of West German enterprises but undertake their own design and development, giving a free rein to the spirit of inventiveness for which Saxony is famous. The award ceremony was held in the Tapestry Hall of the Old Masters Picture Gallery in Dresden.



In 2003, VEM Sachsenwerk was able to reflect on a history going back 100 years. Dr. Dietmar Puschkeit, Managing Director of the VEM Group, Baron von Rothkirch, Dr. Merckle and Gerhard Freymuth, Managing Director of VEM Sachsenwerk (from left to right) at the jubilee press conference.



During a visit to the factory, Dr. Merckle (centre) talks to Managing Director Dieter Bellstedt (right) about work in the prefabrication section at VEM motors Thurm.



Admission approved: Mario Mackowiak, Managing Director of Keulahütte, ceremonially admits Dr. Merckle and Baron von Rothkirch into the foundry guild by tapping them with a forming stamper.

NEWS

“Haus der VEM” opens in Dresden

VEM Group. The former Sachsenwerk club house in the Dresden district of Niedersedlitz will be filled with life once again as of 5th December. The surviving part of this listed complex of buildings will be reopened as a cultural monument with the name “Haus der VEM”. The reopening is taking place on the occasion of the 10th anniversary of VEM's privatisation by the entrepreneur Dr. Merckle. In future, cultural events will take place in the building's carefully restored rooms.



Photo: Karin Wagner

New exhibition on the history of VEM

VEM Group. A new exhibition on the history and productivity of the VEM Group will also be opening on 5th December. It will be on display in the Forum sax.ona Business Park in the former Sachsenwerk headquarters in Straße des 17. Juni. In an area covering approximately 350 square metres, various exhibits and information panels will illustrate and explain important stages and events in the history of all four companies in the VEM Group. The exhibition will be further expanded in the future and it will also function as a documentation centre for this aspect of the history of the electromotive and ironworking industries.



Photo: Karin Wagner

Barbara Tower opened

Keulahütte. The ceremonial opening of the Barbara Tower (Barbara-Turm) on 4th December was the first celebration in Krauschwitz of St. Barbara's day, St. Barbara being the patron saint of miners and foundry workers. The former water tower, which is a listed building, has a chapel on the ground floor with a plaque listing the names of the 37 employees of the Keulahütte foundry who fell or went missing in the two world wars, as well as a bronze statue of the patron saint. In 2007, another plaque will be unveiled in the same place for the inhabitants of Krauschwitz who fell in the wars.

The upper storeys of the tower will in future house items illustrating the history of the Keulahütte foundry, which a group of enthusiasts has been collecting for the past two years. The tower is probably located at the point where the Keula forge hammer was set up and where the region's ironworking industry began at least 566 years ago.

An entrepreneurial success story

FROM MY POINT OF VIEW *A caring management ethos and a striving for high performance*

After the reunification of Germany, Dr. Merckle wished to use his business skills to help the central region of Germany adapt to the conditions of a market economy.

In October 1996 Mr Heise, Controller of the FHH group, and I visited the four production facilities of what is now the VEM Group in Dresden, Krauschwitz, Thurm and Wernigerode. Dr. Merckle had asked me to investigate whether and how quickly and at what financial risks it might be possible to modernise these companies. Our initial findings were that there was sufficient technical equipment and a well-trained workforce but cumbersome or under-developed marketing and sales structures. We also encountered an atmosphere of almost universal resignation among the employees. Two core questions were at the focus of our deliberations:

the former main markets in Eastern Europe had collapsed. However, we were equally convinced that we would soon win the trust of the employees, since we were unreservedly honest in our intentions. A series of difficult processes of adaptation - which have now been completed - were begun in 1999 in order to guide the group towards success. Measures such as the introduction of a 40-hour working week, a freeze on annual pay rises and the replacement of fixed special payments in accordance with collective bargaining agreements by a profit-sharing scheme were major contributory factors.



Baron von Rothkirch

Germany. This is undoubtedly a success story for business in central Germany. This success has been determined by the following factors:

Dr. Merckle, as an entrepreneur, was prepared to provide venture capital and to entrust it to me and the managing directors of the four companies. He's a businessman who thinks in the long term and invests countercyclically. Whatever economic constraints he may face, as a Christian he never neglects the humanitarian side of business. The employees have accepted the new style of management. In the "Central Germany" project, I myself have been

to queries and delays. I am grateful for having been able to help safeguard the future of more than 1,500 employees and their families.

What about the future?

After the official opening of the Barbara Tower and the memorial to the victims of both world wars in Krauschwitz for the Keulahütte on 4th December 2006, a smaller-scale celebration was held on the next day to mark the 10th anniversary of the takeover of the VEM Group by the family business of Dr. Adolf Merckle. We will celebrate this anniversary with the employees and Dr. Merckle as part of a company festival in early summer 2007.

After that, we will continue our work to further enhance the success of the VEM Group. Customer service, punctuality, reliability, constant technical improvements, growth, profitability, training apprentices and then taking them on as employees, fostering the development of students of electrical engineering and foundry technology and procedures are all on the agenda for next year.

Our goal for 2007 is to promote the steady growth of the group and continue the development of healthy earnings.

We will retain our established and successful management style of caring for employees while expecting high performance, and we will cultivate and further develop our corporate culture in collaboration with the works' councils and the workforce as a whole.

All employees can rest assured that their jobs are secure and by working hard they can ensure that they remain so.

Our customers can continue to rely on us and to benefit from our fast response to customer requests and our market proximity. Our rivals will continue to have to reckon with us as a fair player in the market.

I look forward to collaborating with you, dear Readers and dear Employees. Together we will go on taking up the challenges and finding successful solutions.

I feel assured of your assistance and thank you accordingly.

Baron von Rothkirch



"Klassik und Innovation" - the companies of the VEM Group at the Hanover Trade Fair in 2006

how quickly we would be able to win the trust of the disaffected people in the factories, and how quickly we would be able to gain the trust of the market and win sufficient contracts to meet the capacities of the companies. Dr. Merckle and I both realised that it would take years to gain acceptance on the market, especially since

Since 2002, the VEM Group has been in the profit zone. The employees feel secure in their jobs and are confident that their management is fair and humane. We have proven that with the right products it is possible to successfully supply demanding markets with products developed for the world market and manufactured in

able to make use of my many decades of experience in management and restructuring measures. I knew that I had, and still have, the unreserved trust of Dr. A. Merckle and his family. I therefore had a free rein and was able to guide the managing directors without having to go through official channels and being subject

AT A GLANCE

The VEM Group's range of products

Wherever customers need electric machines, the VEM Group is ready to support them with guidance and advice for their projects. The group incorporates four production facilities in Dresden, Wernigerode, Thurm and Krauschwitz as well as subsidiaries in Finland, Britain, Norway, Austria, Sweden and Singapore, along with a complex network of sales and service centres in more than 40 countries.

VEM supplies top-quality products:

Low voltage machines

- Three-phase asynchronous motors with squirrel-cage and slip-ring rotors up to 500 kW
- Roller table motors up to 160 kW
- Explosion-protected motors up to 630 kW
- Crane motors and marine motors
- Special motors with brake, forced ventilation, encoder
- Compact drives up to 22 kW
- Energy-saving motors
- Smoke extraction motors
- Permanent field synchronous motors
- Built-in motors
- Single-phase motors
- Railway auxiliary drives
- Furnace motors
- Motors with diecast casings
- Three-phase asynchronous generators

High voltage machines

- HV asynchronous motors up to 28 MW
- HV synchronous motors up to 35 MW
- HV synchronous generators up to 45 MVA
- Traction machines
- Wind power generators up to 6 MW
- High voltage and special machines

Foundry products

- Customer castings
- Fittings, hydrants
- Slide valves, flap valves
- Art casting "Fürst Pückler Edition"

Commitment to the training of the next generation

TRAINING *Vocational training is a firmly established aspect of company policy in all four locations*

A well-qualified and highly motivated workforce is one of the factors in the success of the VEM Group. In order to ensure that this remains so in the future, the companies attach a great deal of importance to the development of their own specially trained employees. Over the past 10 years a total of 207 apprentices have successfully completed their training in the four production facilities.

The individual locations have a long tradition of providing vocational training. Sachsenwerk, for example, had an apprentice workshop as early as 1911. In GDR times, thousands of young people underwent vocational training here. In Wernigerode, Zwickau and Krauschwitz training is also an important aspect of company history. A total of 15 to 20 apprentices are taken on by VEM each year. The number depends on how many specialists each company anticipates requiring over the next few years. VEM motors,

VEM motors Thurm and Sachsenwerk mainly train apprentices in the fields of electronics for machine and drive technology, industrial mechanics, cutting operations, tool making and production mechanics, whereas Keulahütte trains foundry workers and cutting mechanics.

Good prospects are a motivating factor

Apprentices in the fields of metal working and electrics have to train for 3 1/2 years before they obtain their skilled worker's certificate. Industrial clerks and BA students can also obtain vocational qualifications at VEM. The companies of the VEM Group also give many young people and students the opportunity to undertake internships - ranging from a two-week practical training placement for school pupils, via a one-year course of training at a Fachoberschule, to a practical

training semester or support in conducting research for a dissertation. If holiday jobs are also counted, around 180 young people per year become acquainted with the company and its workforce.

The young people whose applications are successful spend their first year primarily in the apprentice workshop where they learn the basic skills of their chosen occupation. After that they spend periods of time in all the relevant production sections. Vocational schools and other educational institutions provide the necessary theoretical background knowledge. From the outset, the apprentices also are involved as much as possible in the operations of the company and its production practices. In this way, they contribute to the achievement of the company's goals even during their training period. Trainers and the personnel department carefully follow each individual's progress -

including taking advantage of the opportunities provided under the house remuneration agreement, because good marks result in higher pay for the apprentices. Young people are par-

ticularly motivated, however, by the prospect of being offered employment by the company if they successfully complete their apprenticeship with good marks in the final examinations.



Experienced and specially trained employees are responsible for the apprentices in the companies. Dr. Knut Stutzkowski (centre) has been in charge of vocational training at VEM motors in Wernigerode for more than 16 years.