

A grayscale topographic map of Europe and its surrounding regions, including parts of North Africa, the Middle East, and the British Isles. The map shows detailed terrain features like mountains, valleys, and coastlines. The text is overlaid on the right side of the map.

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GILDEMEISTER AKTIENGESELLSCHAFT
ANNUAL REPORT AND FINANCIAL STATEMENTS 2006

Grasping the future.
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GILDEMEISTER

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Preliminary Notes

GILDEMEISTER Aktiengesellschaft has no operative business but functions as the management holding company for the GILDEMEISTER group, operating in the machine tool manufacturing industry. The sales revenues shown for the parent company results almost exclusively from the exercise of the holding and service functions for the group as well as from rental income. The income situation of GILDEMEISTER Aktiengesellschaft differs from that of the group in terms of level and structure. It is primarily dominated by the profit and loss transfer and control agreements with the four domestic subsidiaries and the income and expenses incurred in connection with the holding functions.

This Management Report refers exclusively to the Annual Financial Statements of GILDEMEISTER Aktiengesellschaft which have been prepared in accordance with the provisions of the German Commercial Code (HGB) and German Companies Act (AktG). The GILDEMEISTER group is represented in detail in our Annual Report 2006 and the Consolidated Financial Statements contained therein, which were prepared according to the International Financial Reporting Standards (IFRS), as well as in the Group Annual Report contained therein.

Economic Situation and Course of Business 2006

Overall Economic Development

The world economy continued to grow in 2006. The cyclical dynamics in the USA remained high overall but slowed slightly towards year end. Sustained stimulus came from Asia once again, primarily China. The economic upswing in the European Union grew in strength. The German economy also performed distinctly better than in the previous year. According to provisional calculations by the Institute for World Economics (IfW) at the University of Kiel, aggregate output rose globally by 5.1% (previous year: 3.1%).

Development of the machine tool building industry

In 2006 the global market for machine tools continued its positive upwards trend. According to calculations of the German Machine Tool Factories (VDW) **global output** was € 47.4 billion. This represents an increase in output compared to the previous year of 10% (2005: € 43.2 billion). Japan maintained its worldwide leading position with € 10.8 billion. The Japanese market share of global output fell two percentage points to 23% (previous year: 25%). This was followed by Germany with an € 8.2 billion (17%) market share of machine tools produced worldwide (previous year: 18%). China once again took third place with output of € 5.6 billion (12% of the global market). Following the three leading nations in positions four to seven were Italy (output: € 4.4 billion, global market share: 9%), South Korea (€ 3.3 billion; 7%), Taiwan (€ 2.9 billion; 6%) and the USA (€ 2.9 billion; 6%). Together these seven countries produced 80% of all machine tools (previous year: 80%).

Income, Financial and Net Worth Position

In the financial year just ended, the result of GILDEMEISTER Aktiengesellschaft was essentially determined by the profit and loss transfers of the affiliated companies in the amount of € 54.4 million (previous year: € 50.3 million). GILDEMEISTER Aktiengesellschaft closes the financial year 2006 with an annual profit of € 14.9 million (previous year: € 26.8 million). After allocating € 7.5 million to revenue provisions and under consideration of the profit carried forward of € 9.1 million, GILDEMEISTER Aktiengesellschaft recorded a balance sheet profit on 31 December 2006 of € 16.5 million (previous year: € 13.4 million).

In the reporting year sales revenues (group cost allocations and rents) amounted to € 23.6 million (previous year: € 16.9 million). The extended holding functions led to an increase in income from group cost allocations. Other operating income increased from € 5 million to € 7 million in the same period. This difference is essentially due to profits arising from the disposal of fixed assets.

Expenses incurred for purchased services mainly include the maintenance area at the Bielefeld site. At € 3.7 million, this is about € 0.6 million below the level of the previous year (€ 4.3 million).

In the reporting year, personnel costs increased by € 2.3 million to € 12.1 million (previous year: € 9.8 million). This rise is essentially due to an increase in variable salary components. Depreciation of € 1.4 million (previous year: € 1.6 million) has changed only marginally compared to the previous year.

Other operating expenses amount to € 28.8 million and are thereby € 8.8 million above last year's figure (€ 20.0 million). The difference compared to the previous year is essentially due to accumulated expenses in 2006 for the extension of the syndicated loan as well as the higher leasing charges in the IT area.

Income from the profit and loss transfer agreements increased from € 48.8 million in the previous year to € 54.4 million in the reporting year, particularly due to the increased profit transfer of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER.

The financial result of € -5.7 million has deteriorated by € 1.0 million compared to the previous year (€ -4.7 million). The increased tax expenditure of € 18.1 million (previous year: € 5 million) results mainly from a positive taxable income from the GILDEMEISTER Aktiengesellschaft group of companies. Unlike the previous year, there were considerably lower utilisable tax losses carried forward so that the actual tax expenditure increased disproportionately. Current tax losses carried forward were set off in line with legally permitted limits.

The increase in the tangible fixed assets is primarily due to down-payments made for facilities under construction for land and buildings at the Bielefeld site.

GILDEMEISTER has completed its reorganisation of the legal corporate structure. The following major changes occurred in the holding structure of GILDEMEISTER Aktiengesellschaft:

Effective as of 1 January 2006, GILDEMEISTER Aktiengesellschaft transferred its interests in the production plants GILDEMEISTER Drehmaschinen GmbH, GILDEMEISTER Italiana S.p.A., FAMOT Pleszew S.A. and DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co. Ltd. to GILDEMEISTER Beteiligungen AG as a non-cash contribution. GILDEMEISTER Aktiengesellschaft transferred 94.73% of its interests in DECKEL MAHO Seebach GmbH as a non-cash contribution at tax book value to

GILDEMEISTER Beteiligungen AG effective as of 1 December 2006. This resulted in a profit of € 3.7 million. The target of positioning GILDEMEISTER Beteiligungen AG as the overall holding company for all group production plants has now been met. The investment book value of GILDEMEISTER Beteiligungen AG increased by € 166.9 million as a result.

Furthermore, the increase in the financial assets can primarily be put down to the increase in the investment book value of DMG Vertriebs und Service GmbH of € 42.5 million. This concerns capital contribution claims in the capital provisions according to Section 272, paragraph 2, no. 4 of the German Commercial Code (HGB).

Current assets increased compared to the previous year by a total of € 19.5 million to € 314.8 million. Due to profit and loss transfers, the backlog of receivables against affiliated companies increased in comparison with the previous year. Bank balances increased by € 15.3 million to € 22.5 million compared to the previous year.

Due to the increase in the balance sheet total as of 31 December 2006, the equity ratio of GILDEMEISTER Aktiengesellschaft decreased from 51.4% in the previous year to 47.8%. Net indebtedness of GILDEMEISTER Aktiengesellschaft fell by € 57.1 million from € 227.5 million to € 170.4 million in the same period. The increase in liabilities to affiliated companies is due to financial clearings.

The balance sheet total as of 31 December 2006 rose by 11.4% to € 678.5 million (previous year: € 609.3 million).

Dividend

Due to the positive business and profits development, the Executive Board and the Supervisory Board will propose to the General Meeting of Shareholders, to be held on 25 May 2007, to distribute a dividend of € 0.20 per share for the financial year 2006.

Employees

As of 31 December 2006, GILDEMEISTER Aktiengesellschaft was divided into four executive units (previous year three). Through the creation of an additional executive unit, the functional areas were newly subdivided as follows:

- _ Corporate Strategy / Purchasing / Key Accounting / Audit /
Personnel / Public and Investor Relations
- _ Controlling / Finances / Taxes / IT
- _ Technology and Production,
- _ Sales and Services.

On 31 December 2006, GILDEMEISTER Aktiengesellschaft had 62 employees, five employees fewer than on 31 December 2005.

Research and development

GILDEMEISTER Aktiengesellschaft is responsible for the research and development strategy. The research and development activities are conducted at the level of the group companies. Detailed information on research and development is included in the Group Management Report starting on page 76.

Corporate Governance

For years Corporate Governance has been a core element of corporate policy covering all areas of GILDEMEISTER. The Executive Board and the Supervisory Board have again issued a Declaration of Compliance confirming our full observation of all the recommendations of the German Corporate Governance Code of Practice as amended on 12 June 2006. The Compliance of 31 December 2006 can be viewed by our shareholders on a permanent basis on the company's web site www.gildemeister.com as follows: "GILDEMEISTER Aktiengesellschaft complies with all recommendations of the "Government Commission on the German Corporate Governance Code" as amended on 12 June 2006 and has complied with these since making the last declaration of compliance on 8 September 2005." Corporate Governance continues to represent a responsible and transparent form of leadership and control at the GILDEMEISTER group. Our corporate guidelines are aligned with these principles and rules, and these are adhered to in all areas of the company.

Remuneration of the Executive Board and Supervisory Board

Pursuant to clause 5.4.7 of the German Corporate Governance Code, we report on the remuneration of the Supervisory Board individually and broken down into components.

Remuneration of the Supervisory Board of GILDEMEISTER Aktiengesellschaft

The remuneration of the Supervisory Board was redefined at the General Meeting of Shareholders and is regulated under Section 12 of the articles of association of GILDEMEISTER Aktiengesellschaft. The new Supervisory Board remuneration was designed with the aim of ensuring a modern and appropriate remuneration that is aligned with the success of the group and provides transparency for the shareholders. The remuneration includes performance-related and non-performance related components. The remuneration components not dependent upon performance include the fixed remuneration that each member of the Supervisory Board receives and remuneration for committee work. The performance-related components comprise a short term incentive (STI) and a long-term incentive (LTI).

In the financial year 2006 the fixed remuneration for each individual member of the Supervisory Board was € 12,000; the chairman received 2.5-times that amount (€ 30,000) and the deputy chairman 1.5-times that amount (€ 18,000). The fixed remuneration therefore totalled € 167,967 (previous year: € 135,000).

Remuneration for committee work amounted to a total of € 86,368 (previous year: € 37,500). The individual members each received € 6,000. The chairperson of a committee also receives an additional remuneration of a further € 6,000 and the deputy chairperson € 3,000. In the financial year 2006 a Committee for Technology and Development was formed on 20 September 2006 in addition to the existing committees, namely the Finance & Auditing Committee, the Personnel, Nominations and Remuneration Committee, and the Conciliation Committee. The work of the Conciliation Committee did not receive any remuneration.

The performance-related remuneration components, STI and LTI, are based on index-oriented target values. The earnings per share (EPS) will be used in both remuneration components as the performance-related index. The EPS is an established index by which performance is fulfilled taking into account the respective share capital. It is calculated by dividing the annual profit less the profit share of minority interests by the weighted average number of shares.

The STI and LTI are variable, which means they are not a secured remuneration. Again the Supervisory Board chairman receives 2.5-times the amount in each component and the deputy chairman 1.5-times the remuneration amount of the other members of the Supervisory Board. Both the STI and the LTI are capped at the level of the respective fixed remuneration.

The STI is only paid if the EPS in the reporting year amounts to at least € 0.15. The STI calculated performance-based remuneration for the Supervisory Board totalled € 132,274. The LTI takes into account not only the reporting year but also the two previous years. The index is the mean average of the EPS values in the corresponding financial years. The LTI is only paid if the average EPS for the relevant three years amounts to at least € 0.15. The LTI calculated performance-related remuneration for the Supervisory Board totalled € 75,585. A comparison of the two remuneration components with the previous year is not meaningful due to the structural changes.

In 2006 the Supervisory Board remuneration was made up as follows:

	FIXED REMUNERATION €	COMMITTEE REMUNERATION FINANCE & AUDITING (F&P) €	COMMITTEE REMUNERATION PERSONNEL, NOMINATION & REMUNERATION (PNV) €	COMMITTEE REMUNERATION TECHNOLOGY & DEVELOPMENT (T&E) FROM 20 SEP. 2006 €	STI €	LTI €	TOTAL €
Hans Henning Offen							
Chairman SB,							
Chairman PNV	30,000	6,000	12,000	0	23,625	13,500	85,125
Prof. Dr.-Ing. Uwe Loos							
Chairman T&E	12,000	0	0	3,353	9,450	5,400	30,203
Günther Berger							
Chairman F&P	12,000	12,000	0	0	9,450	5,400	38,850
Dr.-Ing. Jürgen Harnisch	12,000	0	0	1,677	9,450	5,400	28,527
Ulrich Hocker							
(Resigned on 30 Dec. 2006)	11,967	0	5,984	0	9,424	5,385	32,760
Prof. Dr.-Ing.							
Walter Kunerth	12,000	6,000	0	0	9,450	5,400	32,850
Gerhard Dirr							
Deputy Chairman AR,							
Deputy Chairman PNV	18,000	6,000	9,000	1,677	14,175	8,100	56,952
Wulf Bantelmann	12,000	0	0	1,677	9,450	5,400	28,527
Harry Domnik							
Deputy Chairman F&P	12,000	9,000	6,000	0	9,450	5,400	41,850
Norbert Zweng	12,000	6,000	0	0	9,450	5,400	32,850
Günther Johann Schachner	12,000	0	0	0	9,450	5,400	26,850
Rainer Stritzke	12,000	0	0	0	9,450	5,400	26,850
Total	167,967	45,000	32,984	8,384	132,274	75,585	462,194

In the financial year 2006 the total remuneration of the Supervisory Board amounted to € 462,194 (previous year: € 174,910). Further to this, the provisions (€ 67,500) formed in the previous year for the former long-term variable remuneration components were dissolved upon the introduction of the new remuneration system.

Notices from the members of the Supervisory Board of the company or other persons subject to reporting requirements on the acquisition or disposal of shares or related rights of purchase or disposal, such as options or rights that are directly dependent on the company's stock exchange price, were not received.

Insurance for Supervisory and Executive Board members of the GILDEMEISTER group

GILDEMEISTER has directors' and officers' liability insurance and legal expenses' insurance. Those covered by the insurance are all members of the Supervisory and Executive Boards and managers. The D&O insurance provides for a reasonable retention amount.

Remuneration of the Executive Board of GILDEMEISTER Aktiengesellschaft

The structure of the remuneration system for members of the Executive Board is discussed and decided by the Supervisory Board by its Personnel, Nomination and Remuneration Committee. The chairman of the Supervisory Board has provided members of the Supervisory Board with detailed information on discussions held by the Committee. The chairman also reports on this to the General Meeting of Shareholders.

Members of the Executive board receive direct and indirect remuneration components, whereby the indirect components primarily consist of pension plan expenses. The direct remuneration of the Executive Board members of GILDEMEISTER Aktiengesellschaft contains fixed and variable components. The criteria for the appropriateness of the remuneration include in particular the tasks rendered by each Executive Board member, his or her personal performance and the performance of the Executive Board, as well as the company's economic situation, success and future prospects in view of its comparative environment.

In the financial year 2006 two new members were appointed to the Executive Board of GILDEMEISTER Aktiengesellschaft. Direct remuneration of the members of the Executive Board amounted to € 3,974 K (previous year: € 2,489 K). Of this amount € 1,236 K were attributed to fixed remuneration (previous year: € 1,090 K), € 2,643 K to the management bonus (previous year: € 1,014 K), and € 95 K as payment in kind (previous year: € 85 K). In 2006 the direct remuneration of the Executive Board is made up as follows:

EXECUTIVE BOARD DIRECT REMUNERATION	FIXED € K	MANAGEMENT BONUS € K	PAYMENT IN KIND € K	TOTAL* € K
Dipl.-Kfm. Dr. Rüdiger Kapitza, Chairman	455	813	34	1,302
Prof. Dr.-Ing. Raimund Klinkner, Deputy Chairman (until 31 Dec. 2006)	350	813	28	1,191
Dipl.-Kfm. Michael Welt	299	813	25	1,137
Dipl.-Ing. Günter Bachmann (since 1 Oct. 2006)	63	102	6	171
Dipl.-Kfm. Dr. Thorsten Schmidt (since 1 Oct. 2006)	69	102	2	173
Total	1,236	2,643	95	3,974

* not including any special payments agreed

The fixed remuneration is the contractually defined basic remuneration that is paid in equal amounts monthly. The management bonus is based on index aligned target values. In the reporting year the earnings after taxes (EAT) provided the reference value used. The scale of the target values is redefined annually.

The management bonus is variable, which means it is not a secure remuneration. In addition, the bonus is capped at € 1,200 κ, respectively. In the financial year 2006 half of the target management bonus was contractually defined for new members of the Executive Board and was calculated pro rata. No project-related bonus was paid in the reporting year.

Payment in kind arises mainly from amounts for the use of company cars, which will be assessed in accordance with applicable tax regulations, and individual insurance contributions. Every member of the Executive Board is contractually entitled to payment in kind, which may vary depending on the personal situation and is subject to tax payable by each Executive Board member.

Pension commitments for members of the Executive Board are primarily implemented through a contribution-based pension plan. A defined-benefit pension commitment exists for the chairman of the Executive Board.

INDIRECT REMUNERATION FOR EXECUTIVE BOARD MEMBERS

	€ κ
Dipl.-Kfm. Dr. Rüdiger Kapitza, Chairman	63
Prof. Dr.-Ing. Raimund Klinkner, Deputy Chairman (until 31 Dec. 2006)	45
Dipl.-Kfm. Michael Welt	45
Dipl.-Ing. Günter Bachmann (since 1 Oct. 2006)	60
Dipl.-Kfm. Dr. Thorsten Schmidt (since 1 Oct. 2006)	50
Total	263

In 2006, provision expenses of € 63 κ (previous year: € 87 κ) arose for the defined-benefit contribution commitment. The payments restricted to the contribution-based pension plan amounted to € 200 κ (previous year: € 90 κ). Contribution payments for the new members of the Executive Board are due in the contractually defined amount and thus are not accounted for pro rata. To guarantee continuity and under a legally binding obligation of the company, the chairman of the Executive Board was paid an amount of € 379 κ. The deputy chairman was paid € 75 κ to wind up the contract terminating on 31 December 2006.

Advances and loans to Executive Board members or Supervisory Board members were not granted, nor were any declarations of liability in favour of any of the aforementioned members entered into. In the reporting year there are no stock option plans or similar security-oriented incentive plans of the company. Neither are there any stock option plans for the reporting year 2007. However, at the start of 2007 a long-term incentive (LTI) was introduced as part of the variable Executive Board remuneration for the members.

In future the total Executive Board remuneration will be composed as to approximately 20% of the LTI, as to 40% of the STI (bonus regulation) and as to 40% of the fixed and payment in kind remuneration. As a remuneration component with long-term incentive effect, the LTI combines the achievement of fixed targets in relation to the EBIT of the company with the performance of the GILDEMEISTER share. This involves a performance-units plan which is comparable to virtual shares and which does not include any dividend payments or voting rights. In addition the units may not be traded nor sold to third parties. The tranches offered at the beginning of each year have a term of three years, so that the first tranche will be allocated on 31 December 2009. The first payment will be made following the General Meeting of Shareholders in 2010 on the basis of the EBIT target achieved for the allocation year 2009 and the corresponding share price. A cap has been set at 2-times the annual fixed salary of each Executive Board member per tranche for the year in which the award takes place.

Notices from the members of the Executive Board of the company or other persons subject to reporting requirements on the acquisition or disposal of shares or related rights of purchase or disposal, such as options or rights that are directly dependent on the company's stock exchange price, were not received.

Neither did the companies of the GILDEMEISTER group pay any remuneration to officers for services personally rendered, in particular consulting and introduction services. Former members of the Executive Board and their surviving dependants received € 591 K (previous year: € 586 K). Pension provisions for former members of the Executive Board and their surviving dependants amounted to € 5,889 K (previous year: € 5,997 K).

Opportunities and Risk Report

Our group-wide risk management system enables us to clarify changes in the overall risk position of the group by means of a simple, aggregated index at the group level. This index presents the accumulated risks in relation to equity. Risks are an integral element of our business activities and a necessary pre-condition for our corporate success. Through a controlled and conscious manner of dealing with risks, we can seize opportunities and achieve competitive advantages.

A sustained leadership in technology and innovations together with market leadership in quality of products offer opportunities to secure and further expand our leading position in numerous markets. Through intensifying market development in the sales markets in the USA, China, Japan, South Korea, India, Taiwan and the Asian Pacific region, we see further potential to increase market leverage. Growing legal certainty and political stability in the Asian and eastern European growth markets also provide more opportunities to achieve higher market shares in these regions. In the traditional industrial markets, market share can only be achieved through squeezing out competition. We consider our "virtual sales" to be a successful sales activity. This is where customers who have not purchased from us for quite some time are gathered into virtual sales territories and are attended to by sales engineers. The sun is well-known to be our greatest source of energy. We, too, have recognised the economic and ecological opportunities offered by solar power technology. Taking advantage of these opportunities through our group companies paves the way for greater profit transfer for GILDEMEISTER Aktiengesellschaft.

In principle, our risk management system uses the group's existing organisational, reporting and management structures, and supplements these with specific elements required to secure the proper management of risks.

Limiting financial and valuation risks is one of the core operational tasks of GILDEMEISTER Aktiengesellschaft. We do not expect any substantial restrictions on business development from the current development of the capital markets and the interest rate level. Currency-related risks arise due to the international orientation of our business activities. We limit these risks through the use of derivative financial instruments, among others. GILDEMEISTER has specified the hedging instruments permitted in a currency guideline. We use these hedging instruments exclusively to safeguard underlying transactions but not for trading or speculative purposes. According to our evaluations currency-related risks are low. In the reporting year the balance of currency gains and losses amounted to € -0.9 million. We use financial planning and analysis instruments, which we are continually developing, in order to control and monitor liquidity. Outside finance has been secured long-term through the issue of a fixed interest-bearing corporate bond which matures in July 2011. In addition we have a syndicated loan facility with a total volume of € 175 million and a term until June 2011. For this purpose indices (covenants) were agreed based on our corporate planning. If any of the covenants is breached, creditors are entitled to terminate the agreement. At the balance sheet date all covenants were observed. We consider the risk of a termination of the agreement to be low. An improvement in the indices will reduce the credit margin agreed with the banking consortium. About three-quarters of our outside financing volume is secured against risks arising from changes in interest rates by agreements for long-term fixed interest rates or interest derivatives. A 1% increase in the interest rate pertaining to the non-hedged portfolio on the balance sheet date would result in an increase in interest expenditure of about € 0.4 million.

With respect to the assets of GILDEMEISTER Aktiengesellschaft, risks primarily arise through the accounting and evaluation of financial assets. Financial assets are shown on the balance sheet at their acquisition costs or the lower fair value. Financial assets are checked annually for impairment with the use of the 'discounted earnings method', which is based on the affiliated companies' forecasting. The figures defined did not result in a possible adjustment requirement at the reporting date. If the planned results are not achieved, an adjustment to the lower fair value may be required. Due to current forecasts, impairment in value is not expected in 2007.

Our internal risk management system, which is integrated into the ordinary operation of our business, serves the early identification, assessment and control of risks and opportunities in the GILDEMEISTER group. In this context both the Executive Board and the Supervisory Board are regularly informed of the current risk situation of each group company. In addition, we have defined threshold values which, when exceeded, immediately alert the Executive Board. The risk management policy has been audited by the auditor.

Statements in accordance with Section 289 paragraph 4 German Commercial Code (HGB) as amended by the Takeover Bids Directive Implementation Act

The adoption of the Takeover Bids Directive Implementation Act in July 2006 has resulted in an amendment to Section 289 of the German Commercial Code (HGB), which has been extended to include a new paragraph 4. As a result, GILDEMEISTER must provide the following supplementary information in the Management Report according to Section 289, paragraph 4 HGB:

As per Section 289 paragraph 4 no. 1 HGB

The share capital of GILDEMEISTER Aktiengesellschaft amounts to € 112,586,507.80. It is divided into 43,302,503 owner shares with an accounting par value of € 2.60 per share.

As per Section 289 paragraph 4 no. 6 HGB

With respect to the appointment and dismissal of members of the Executive Board, reference is made to the statutory provisions in Sections 84 and 85 of the German Companies Act (AktG). Moreover, this authority is specified to that effect in Section 7 paragraph. 2 of the Articles of Association of GILDEMEISTER Aktiengesellschaft as amended on 19 May 2006, by which the Supervisory Board appoints the members of the Executive Board, determines their number and assigns their duties.

The provisions on amendments to articles of association are regulated in Sections 133 and 179 of the German Companies Act (AktG) in conjunction with Section 15 (4) of the Articles of Association.

As per Section 289 paragraph 4 no. 7 HGB

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital by up to € 56,000,000 in nominal terms during the period until 15 May 2010 by issuing new owner shares for contributions in cash and/or in kind (authorised capital).

The Executive Board is authorised to issue shares to company employees and business persons affiliated with the company with respect to a partial amount of € 5,000,000. The shareholders' statutory subscription rights are excluded to this extent.

In addition the Executive Board is authorised, with the approval of the Supervisory Board, to exclude the shareholders' statutory rights in certain cases that are stipulated in detail in the Articles of Association.

Moreover there has been a conditional increase in the registered capital up to a further € 37,500,000 through the issue of up to 14,423,076 individual shares in the name of the holder (conditional capital I). The conditional capital increase is to be effected only insofar as the options or conversion rights relating to warrant or convertible bonds, issued or guaranteed pursuant to the authorisation resolution of the General Meeting of Shareholders of 14 May 2004, in the period until 31 March 2009 are exercised or any conversion obligation or obligation to exercise an option under the aforementioned bonds are fulfilled.

As per Section 289 paragraph 4, no. 8 HGB

As significant agreements that are subject to a change of control condition in the event of a takeover, the syndicated loan agreement and the corporate bond issue of GILDEMEISTER Aktiengesellschaft must be mentioned. In the event of a change of control (acquisition of 50% or more of the voting rights), a claim may be made to recover the syndicated loan (if necessary also in part amounts) or to pay back the corporate bond.

For more details we refer to the corresponding information in the Notes to the Consolidated Financial Statements.

In addition, a resolution was passed by the Germany Legislator, which requires the Executive Board to issue an explanatory report on the information required pursuant to Section 315 paragraph 4 of the German Commercial Code (HGB):

The registered capital of the company as at 31 December 2006 amounts to € 112,586,507.80 and is divided into 43,302,503 individually registered ordinary shares. Each share carries the right to one vote and is authoritative for the share of profits.

The Executive Board is responsible for managing the company and representing the company in dealings with third parties. The Supervisory Board appoints and dismisses members of the Executive Board pursuant to Section 84 of the German Companies Act (AktG). With effect from 1 October 2006, Dipl.-Ing. Günter Bachmann and Dr. Thorsten Schmidt were appointed to the Executive Board of the company by the Supervisory Board.

The Articles of Association were last amended at the 104th Annual General Meeting on 19 May 2006 when Section 12 of the Articles of Association was amended. In the reporting year the Executive Board did not make any use of the authorisations provided.

The conditions relating to a takeover correspond to customary agreements for the market. They do not lead to an automatic termination of the aforementioned agreements but merely provide our contractual partners with the possibility of terminating these, if necessary, in the event of a takeover.

Events occurring after the close of the accounting period

No events subject to reporting requirements have occurred in the period since the start of the new financial year until the date of this Management Report.

Forecast 2007

In the current financial year the global economy continues at an overall lower pace but at a high level. Current forecasts for the machine tool construction industry expect further growth in 2007. The German machine tool builders' association (VDW) expects an increase in worldwide consumption of 5% and in Germany of 8%.

Our financial structure will also be optimised further this year. In the current financial year we are anticipating a reduction in the credit margin as this reduces successively with an improvement in the covenants (indices). We will complete the ABS (Asset Backed Securities) programme in the course of the year and completely achieve our financial leeway. Our activities continue to be focused on further reducing working capital and our dependency on traditional bank financing. Our decisions and measures in this respect have been confirmed by the results achieved so far.

For the financial year 2007 we expect an increase in EBT and in the annual profit. We plan a further increase in the dividend for the current financial year.

A. General Declaration

The Annual Financial Statements of GILDEMEISTER Aktiengesellschaft for the year ending 31 December 2006 were prepared in compliance with the regulations stipulated in the German Commercial Code (HGB) and the German Companies Act (AktG). The form of the previous year's statement, particularly the subdivision of the Balance Sheet and the Income Statement, has been retained.

B. Accounting and Valuation Principles

The intangible assets and tangible fixed assets were shown at their acquisition costs, reduced by scheduled depreciation/amortisation. For depreciation the straight line method was applied in accordance with the useful life expectancy.

USEFUL LIFE OF ASSETS

Intangible assets	3 to 4 years
Office and factory buildings	10 to 50 years
Factory and office equipment	5 to 13 years

Additions to intangible and tangible fixed assets were depreciated pro rata temporis during the year of purchase. Additions at an acquisition cost of up to € 410 (low value assets) were fully depreciated in the year of addition. The depreciation/amortisation method has not changed from the previous year. The rates of depreciation/amortisation also remained unchanged with respect to intangible assets, office and factory buildings and factory and office equipment. Financial assets were shown in the balance sheet at their acquisition costs or the lower fair value.

Receivables and other assets with a term of up to one year were shown at face value, receivables and other assets with a term of more than one year were shown in the balance sheet at their present value. An adjustment to the lower fair value for identifiable individual risks was not required in the accounting period. Receivables in foreign currencies were translated at the exchange rate at reporting date. If the exchange rate at the reporting date falls below the rates prevailing at the time of origination, receivables are adjusted to the lower exchange rate at the reporting date.

The valuation of pension provisions was carried out on an actuarial basis in accordance with Section 6a EStG (German Income Tax Law) with an assumed rate of interest of 6%. For this purpose, the new reference tables by Prof. Dr. Klaus Heubeck, which were published in July 2005, were used. The pensions are not insured by an external pension fund. Provisions for obligations arising from old-age part-time agreements include expenses for wage and salary payments to employees during the pre-retirement lay-off phase and additional compensation. These provisions are accrued rateably from the start of the active phase of the part-time retirement and assessed at the present value. The remaining provisions were assessed so that they take into account all identifiable risks and contingent obligations. The valuations were made on the basis of proper commercial judgement. In each case the anticipated cost of fulfilment was taken into account. Provisions for anniversary bonuses were discounted at an interest rate of 5.5% p.a.. Liabilities are assessed at their amounts repayable.

C. Notes to individual balance sheet items

Assets

The movements of the individual fixed assets are set out in the fixed-asset movement schedule, which is attached in the Balance Sheet supplement.

1 INTANGIBLE AND TANGIBLE FIXED ASSETS The value shown for industrial property rights and similar rights includes mainly data processing software. Land and buildings are mortgaged for the security of long-term bank loans.

2 FINANCIAL ASSETS The changes in financial assets of GILDEMEISTER Aktiengesellschaft are set out in the Balance Sheet supplement. The companies included in the “Shares in affiliated companies” account, and the corresponding information on principal places of business, equity capital, capital shares and results as of 31 December 2006 are set out in a separate summary at the end of the Notes. In the reporting year GILDEMEISTER completed the reorganisation of the legal corporate structure. The following major changes occurred in the holding structure of GILDEMEISTER Aktiengesellschaft:

With economic effect as of 1 January 2006, DECKEL MAHO Geretsried GmbH was merged with DECKEL MAHO Pfronten GmbH at book value pursuant to commercial law. The merger resulted in an increase of € 2,904 K in the book value of the interest in DECKEL MAHO Pfronten GmbH from € 3,556 K to € 6,460 K.

In the financial year 2006, GILDEMEISTER Aktiengesellschaft made contributions to the capital provisions through the contribution of claims against DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER totalling € 42,500 K. These amounts increased the book value of the holding.

Effective as of 1 January 2006, GILDEMEISTER Aktiengesellschaft transferred its interests in the production plants GILDEMEISTER Drehmaschinen GmbH, GILDEMEISTER Italiana S.p.A., FAMOT Pleszew S.A. and DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co. Ltd. to GILDEMEISTER Beteiligungen AG as a non-cash contribution at a book value of € 149,320 K.

With economic effect as of 1 December 2006, GILDEMEISTER Aktiengesellschaft transferred 94.73% of its interests in DECKEL MAHO Seebach GmbH as a non-cash contribution at tax book value of € 17,613 K to GILDEMEISTER Beteiligungen AG. This resulted in an accounting profit of € 3,550 K from a nominal disposal value of € 13,953 K.

Moreover, on 6 April 2006, GILDEMEISTER Aktiengesellschaft acquired the remaining share (1.2%) in SAUER GmbH at a purchase price of € 1,447 K. The other shares (98.8%) are held by DECKEL MAHO Pfronten GmbH.

In the financial year 2006, GILDEMEISTER Aktiengesellschaft entered into control and profit and loss transfer and control agreements with the following companies:

- _ GILDEMEISTER Beteiligungen AG,
- _ GILDEMEISTER Drehmaschinen GmbH,
- _ DECKEL MAHO Seebach GmbH,
- _ DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER.

3 RECEIVABLES AND OTHER ASSETS Amounts owed by affiliated companies of € 288,548 K (previous year: € 281,655 K) are primarily due to profit and loss transfer agreements, income from investments and costs and finances allocations. A claim of € 2,999 K (previous year: € 2,088 K) is due in more than one year.

Other assets include asset values from reinsurance for the social protection of employees of € 2,386 K (previous year: € 1,932 K), creditors with a debit balance to the value of € 574 K (previous year: € 529 K) and tax refund claims of € 457 K (previous year: € 417 K).

Other assets to the value of € 2,386 K (previous year: € 2,461 K) have a remaining term of more than one year.

4 OTHER SECURITIES There were no marketable securities as of the balance sheet date (previous year: € 99 K).

5 CASH ASSETS, BANK BALANCES The statement pertains mainly to bank balances.

6 PREPAID EXPENSES The prepaid expenses pertain to accrued rents and fees for data processing maintenance and funding and maintenance costs of software licenses.

Equity and liabilities

Subscribed capital

7 EQUITY The company's share capital is € 112,586,507.80. It is divided into 43,302,503 owner shares with an accounting par value of € 2.60 per share.

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital by up to € 56,000,000 in nominal terms during the period until 15 May 2010 by issuing new owner shares for contributions in cash and/or in kind (authorised capital). This authority can be exercised on one occasion or, in partial amounts, on more occasions.

The new shares may be taken over by one or more banks designated by the Executive Board, with the obligation to offer them to the shareholders for subscription (direct subscription right).

The Executive Board is authorised to issue shares to company employees and business persons affiliated with the company with respect to a partial amount of € 5,000,000. The shareholders' statutory subscription rights are excluded to this extent.

In addition the Executive Board is authorised, with the approval of the Supervisory Board, to exclude the shareholders' statutory rights in the case of:

- a) capital increases through non-cash capital contribution so as to acquire, in applicable cases, companies, sections of the company or participating interests in companies for the transfer of shares,
- b) to the extent required for dilution protection purposes, in order to grant the holders of warrants or the creditors of convertible bonds issued by the company or its associated companies, as part of an authorisation of the Board by the general meeting of shareholders, a subscription right to new shares to the extent they would be entitled to following the exercising of the option or conversion right or the fulfilment of conversion obligations,
- c) to exclude any residual amounts from the subscription right, and
- d) capital increase through cash contribution, if the issue price of the new shares is not significantly lower than the exchange price at the time the issue price is finally defined by the Executive Board within the meaning of section 203 paragraphs 1 and 2, and section 186 paragraph 3 sentence 4 of the German Companies Act (AktG), and the prorated amount of the share capital relating to the new shares that are subject to the exclusion of the subscription right in aggregate does not exceed 10% of the share capital at the time the new shares are issued. The limit of 10% of the registered capital includes shares that are sold during the lifespan of the authorised capital to the exclusion of the shareholders' subscription rights pursuant to section 71 paragraph 1 no. 8 sentence 5 and section 186 paragraph 3 sentence 4 of the German Companies Act (AktG), and shares with respect to which a conversion right or option right or a conversion obligation or option obligation due to option and/or convertible bonds exists and that were issued by virtue of authorisation of the general meeting of shareholders from 14 May 2004 to the exclusion of the subscription right pursuant to section 221 paragraph 4 and Section 186 paragraph 3 sentence 4 of the German Companies Act (AktG). The Executive Board is authorised, with the approval of the Supervisory Board, to lay down further details for the capital increase and its implementation.

The share capital has been conditionally increased by up to a further € 37,500,000.00 through the issue of up to 14,423,076 owner shares (conditional capital I). The conditional capital increase is to be effected only insofar as the options or conversion rights relating to warrant or convertible bonds, issued or granted by the company or a 100% indirect or direct holding company of the company pursuant to the authorisation resolution passed at the General Meeting of Shareholders held on 14 May 2004, in the period until 31 March 2009, are exercised, or any conversion obligation or obligation to exercise an option under the aforementioned bonds are fulfilled. The new shares will be issued at an option or conversion price to be determined in accordance with the aforementioned authorising resolution. The new shares will profit as of the beginning of the financial year in which they are issued following the exercising of options or conversions rights, or the fulfilment of conversion or option obligations. The Executive Board is authorised, with the approval of the Supervisory Board, to lay down further details for the implementation of the conditional capital increase.

Capital provisions

The capital provisions of € 71,297,862 have not changed since the previous year.

Revenue provisions

Statutory provisions

The statutory provisions of € 680,530 have not changed since the previous year.

Other revenue provisions

Due to the transfer of € 7,470,000 of the annual profit to other revenue provisions, these provisions increased to € 122,802,901 when compared to the previous year.

Proposed appropriation of profits

The financial year 2006 of GILDEMEISTER Aktiengesellschaft closes with a profit for the year of € 14,947,368.59. It will be proposed to the General Meeting of Shareholders on 25 May 2007 that, following the transfer of € 7,470,000 to other revenue provisions, and taking into account the profit carry forward of the previous year of € 9,108,563.05, the remaining profit of € 16,585,931.64 be appropriated as follows:

- _ To distribute € 8,660,500.60 to the shareholders by payment of a dividend of € 0.20 per share,
- _ To carry the remaining balance of € 7,925,431.04 forward to new account.

DEVELOPMENT OF NET PROFIT		€ K
Net profit as of 31.12.2005		13,439
Distribution of dividend		-4,330
Profit brought forward		9,109
Annual profit 2006		14,947
Transfer to other revenue provisions		-7,470
Net profit as of 31.12.2006		16,586

- 8 TAX PROVISIONS** Tax provisions include liabilities for corporation tax of € 2,004 K, trade tax of € 3,437 K and provisions for turnover tax of € 13 K (previous year: € 13 K) and wage tax of € 20 K (previous year: € 20 K) from the wage tax audit for the years 2000 to 2004. Furthermore, a deferred tax provisions of € 43 K (previous year: € 87 K) for tax differences from pension provisions is also included.
- 9 OTHER PROVISIONS** Other provisions primarily include expenses for management bonuses to the value of € 3,269 K (previous year: € 1,788 K), expenses for legal and consultancy fees and costs for the preparation of accounts to the value of € 1,971 K (previous year: € 1,532 K), for other personnel costs of € 699 K (previous year: € 748 K) and remaining other provisions of € 830 K (previous year: € 852 K).

10 LIABILITIES

	REPORTED IN THE BALANCE SHEET AS OF 31.12.2006 € K	OF WHICH DUE WITHIN UP TO 1 YEAR € K	OF WHICH DUE WITHIN 1 TO 5 YEARS € K	OF WHICH DUE WITHIN MORE THAN 5 YEARS € K	REPORTED IN THE BALANCE SHEET AS OF 31.12.2005 € K
1. Corporate bond	175,000	0	0	175,000	175,000
2. Liabilities to financial institutions ¹⁾	17,902	6,309	10,859	734	59,684
3. Trade payables	4,233	4,233	0	0	2,588
4. Liabilities to affiliated companies	118,643	118,643	0	0	26,651
5. Other liabilities ²⁾	12,604	12,604	0	0	12,172
	328,382	141,789	10,859	175,734	276,095
Outstanding in each maturity period at 31 Dec. 2005		43,262	57,106	175,727	276,095

¹⁾ of which secured by mortgages: € 1,901 K (previous year: € 3,752 K).
²⁾ of which from taxes: € 3,990 K (previous year: € 4,079 K), of which social security contributions: € 0 K (previous year: € 67 K),
of which accrued interest payments: € 8,479 K (previous year: € 7,681 K)

In the financial year 2004, GILDEMEISTER Aktiengesellschaft issued a long-term, secondary corporate bond. The bond with a nominal volume of € 175.0 million and a coupon of 9.75% p.a. will mature in July 2011. Other liabilities include € 7,631 K (previous year: € 7,631 K) from accrued interest paid on the corporate bond.

The group companies DECKEL MAHO Pfronten GmbH, DECKEL MAHO Seebach GmbH, GILDEMEISTER Drehmaschinen GmbH, GILDEMEISTER Beteiligungen AG, DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, FAMOT Pleszew S.A. and GILDEMEISTER Italiana S.p.A. are guarantors in relation to the bond agreement. In addition, the shares of the above companies to the nominal value of € 124,712 K (previous year: € 101,195 K) are secondarily pledged in favour of the bond holders. Of this GILDEMEISTER Aktiengesellschaft is directly affected as to € 70,995 and indirectly through GILDEMEISTER Beteiligungen AG as to € 53,717 K. In addition, the claims to the respective dividend in the pledged shares, including any interest, have been pledged, each in second place, to the bond holders.

Until 30 June 2006 GILDEMEISTER Aktiengesellschaft was guaranteed a credit line to the value of € 141.0 million. The lending volume contained three tranches, which differed in terms of amounts, usability, maturity and the agreed interest rates. This agreement had a term until 30 June 2007, however it was prematurely cancelled as of 30 June 2006 and has been replaced by a new loan agreement on improved terms with a total volume of € 171.0 million and a term until 30 June 2011. The lending volume contains two tranches, which differ in terms of amounts, usability and maturity, drawing terms and the agreed interest rates. The aforementioned group companies are also guarantors for the new loan agreement. In favour of the lending banks, the shares of DECKEL MAHO Pfronten GmbH, DECKEL MAHO Seebach GmbH, GILDEMEISTER Drehmaschinen GmbH, DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, GILDEMEISTER Beteiligungen AG, FAMOT Pleszew S.A. and GILDEMEISTER Italiana S.p.A. at a nominal value of € 124,712 K (previous year: € 101,195 K),

were pledged in first place to the national banking consortium. Of this GILDEMEISTER Aktiengesellschaft is directly affected as to € 70,995 κ and indirectly through GILDEMEISTER Beteiligungen AG as to € 53,717 κ. In addition, the claims to the respective dividend in the pledged shares, including any interest, have been pledged, each in first place, to each of the lending banks. The above group companies are also guarantors for the loan agreement.

Liabilities to the value of € 16,001 κ (previous year: € 55,932 κ) to lenders from the banking consortium are set off against balances of € 22,506 κ (previous year: € 7,218 κ) on current accounts at these banks.

**11 CONTINGENCIES AND
OTHER FINANCIAL
OBLIGATIONS**

At the balance sheet date the following contingencies and other financial obligations existed, shown at their face value:

CONTINGENCIES	STATUS 31.12.2006 € κ	STATUS 31.12.2005 € κ
Guarantees	165,083	140,416
Warranties	7,296	7,069
	172,379	147,485
OBLIGATIONS FROM TENANCY AND LEASE AGREEMENTS DUE		
within 1 year	6,510	3,409
within 1 to 5 years	7,429	5,362
after 5 years	633	886
	14,572	9,657
Fixed assets commitments	0	9,521

The guarantees of GILDEMEISTER Aktiengesellschaft include maximum-amount guarantees of € 58,395 κ (previous year: € 65,757 κ) for affiliated companies. As of 31 December 2006, the corresponding bank liabilities amounted to € 22,805 κ (previous year: € 21,979 κ). At the balance sheet date GILDEMEISTER Aktiengesellschaft is jointly and severally liable for liabilities of € 21,448 κ (previous year: € 15,670 κ).

The guarantees of GILDEMEISTER Aktiengesellschaft also include guarantees for affiliated companies for contingent claims of a factoring bank amounting to € 54,859 κ (previous year: € 46,000 κ).

Advance guarantees of € 5,759 κ (previous year: € 2,283 κ) were given to customers of several group companies.

GILDEMEISTER Aktiengesellschaft also has a guarantee line, which can be used for advance and performance guarantees of the domestic subsidiaries with secondary liability of GILDEMEISTER Aktiengesellschaft. As of 31 December 2006 an amount of € 55,119 κ (previous year: € 48,589 κ) of this was drawn down.

In addition, GILDEMEISTER Aktiengesellschaft issued letters of comfort to the value of € 9,652 K to DECKEL MAHO Pfronten GmbH, DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, SAUER GmbH, a & f Stahl- und Maschinenbau GmbH, DMG Europe Holding GmbH, DMG Benelux B.V. and DMG Malaysia SDN BHD. The relating liabilities were fixed at 31 December 2006 at an amount of € 4,402 K.

In addition, GILDEMEISTER Aktiengesellschaft has entered into two building leasing arrangements for DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg, and DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bad Homburg. The monthly lease installment for these contracts amounts to € 83 K. The contracts will end in 2024.

12 DERIVATIVE
FINANCIAL INSTRUMENTS

The face and fair market values of derivative financial instruments existing at the balance sheet date are set out below:

	FACE VALUE		FAIR MARKET VALUE	
	31.12.2006 € K	31.12.2005 € K	31.12.2006 € K	31.12.2005 € K
Forward exchange dealings	75,671	13,858	40	-390
Currency swaps	937	0	0	0
	76,608	13,858	40	-390

The face values correspond mainly with the non-balanced total of the currency portfolio. The fair market values shown correspond with the price at which third parties would assume the rights or obligations arising from the financial instruments. The fair market values are the current values of the derivative financial instruments excluding any adverse trends in value from underlying transactions. The fair market values of the derivative financial instruments used are determined on the basis of quoted market prices or through accrual methods based on customary models.

The fair market values of the forward exchange dealings are balanced at € 40 K and comprise positive market values of € 993 K and negative market values of € 953 K. If the pre-conditions exist, the forward exchange dealings are combined in valuation units per currency. Due to the negative fair market values after forming the valuation units, a provision of € 13 K (previous year: € 390 K) for anticipated losses relating to incomplete contracts was made on 31 December 2006.

GILDEMEISTER Aktiengesellschaft enters into intragroup forward exchange dealings with the production plants to the value of anticipated cash flows from order intake. The anticipated cash flows are hedged externally with financial institutes.

The conclusion and processing of derivative financial instruments is based on binding internal regulations defining scope, responsibilities, reporting and controlling.

The forward exchange dealings carried out mature within two years and serve the hedging of receivables from group companies in foreign currencies such as USD, CAD, SGD, JPY and AUD.

D. Notes to individual items in the Income Statement

13 SALES REVENUES Sales revenues of € 23,589 κ (previous year: € 16,939 κ) primarily pertain to sales arising from the group-wide holding functions.

14 OTHER OPERATING INCOME Other operating income consists mainly of income from cost allocation and refund of expenses. In addition, it includes income unrelated to the accounting period from the disposal of financial assets amounting to € 3,660 κ (previous year: € 0 κ) and income from the retransfer of provisions amounting to € 285 κ (previous year: € 579 κ).

15 PERSONNEL COSTS In the financial year 2006, the employee pension plan contributions amounted to € 1,975 κ (previous year: € 1,565 κ).

In the financial year 2006, direct remuneration of the members of the Executive Board amounted to € 3,974 κ (previous year: € 2,489 κ). Of this amount € 1,236 κ were attributed to the fixed remuneration (previous year: € 1,090 κ), € 2,643 κ to the management bonus (previous year: € 1,014 κ), and € 95 κ to payment in kind (previous year: € 85 κ). In addition, an amount of € 263 κ (previous year: € 177 κ) was spent on pension commitments. Former members of the Executive Board and their surviving dependants received € 591 κ (previous year: € 586 κ). Pension provisions for former members of the Executive Board and their surviving dependants amounted to € 5,889 κ (previous year: € 5,997 κ).

Advances and loans to officers were not granted. No liability arrangements were entered into in favour of any officers (Section 285 no. 9c HGB).

In comparison with the previous year, the average number of persons employed has developed as follows:

	2006	2005
Salaried employees	67	65

16 OTHER OPERATING EXPENSES Other operating expenses result mainly from external services to the value of € 6,701 κ (previous year: € 4,580 κ), rental and lease expenses to the value of € 5,554 κ (previous year: € 2,353 κ), expenses for legal and consultancy fees and costs for the preparation of accounts to the value of € 3,731 κ (previous year: € 4,235 κ), costs of money transactions and capital procurement to the value of € 3,355 κ (previous year: € 191 κ), investor and public relation expenses to the value

of € 1,885 κ (previous year: € 2,130 κ) and travelling and entertaining expenses to the value of € 1,449 κ (previous year: € 1,672 κ). Software leases and costs for the newly concluded syndicated loan resulted in an increase in rental and leasing expenses and also in an increase in the cost of money transactions.

Auditor's fees and services

The fees recorded as expenditure in the financial year 2006 for the audit of the annual accounts of the auditors KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main amount to € 311 κ (previous year: € 286 κ) and include the fees for the audit of the annual and consolidated statutory financial statements. An amount of € 226 κ (previous year: € 403 κ) was also charged in expenditure for other services.

Remuneration of the Supervisory Board

In the financial year 2006, € 462 κ (previous year: € 175 κ) were transferred to provisions for Supervisory Board members' remuneration. Further details on the remuneration of the Supervisory Board are given in the Group Management Report.

- 17 INCOME FROM PROFIT TRANSFER AGREEMENTS** The income from profit and loss transfer agreements of GILDEMEISTER Aktiengesellschaft of € 54,356 κ (previous year: € 48,849 κ) was allotted to by four (previous year: four) affiliated companies.
- 18 OTHER INTEREST AND SIMILAR INCOME** In the reporting period affiliated companies were charge interest to the value of € 20,464 κ (previous year: € 19,795 κ).
- 19 INTEREST AND SIMILAR EXPENSES** Interest paid, amounting to € 26,306 κ (previous year: € 24,702 κ) includes interest for the utilisation of the bond of € 17,063 κ (previous year: € 17,063 κ). It also includes € 2,792 κ (previous year: € 998 κ) charged by the affiliated companies. The remaining interest payable pertains primarily to interest on amounts owing to financial institutions.
- 20 TAX ON PROFIT** Taxes on profit include expenses unrelated to the accounting period in an amount of € 1,201 κ (previous year: € 424 κ) and income unrelated to the accounting period in an amount of € 226 κ (previous year: € 322 κ).
- 21 DECLARATION OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE** The declaration of compliance in accordance with Section 161 German Companies Act (AktG) was made on 31 December 2006 and has been made permanently accessible to shareholders on our website www.gildemeister.com.

Corporate Directory

Supervisory Board

- Supervisory Board seats pursuant to Section 100 AktG
- * Membership with comparable national and international control bodies of business enterprises

Hans Henning Offen,

Grosshansdorf, born 1940, Chairman, Independent Industry Consultant,

- Lindner Hotels AG, Düsseldorf, member of the Supervisory Board
- * Schwarz Beteiligungs GmbH, Neckarsulm, member of the Advisory Board
- * Familienstiftung Schwarz, Neckarsulm, member of the Supervisory Board
- * Kaufland Stiftung & Co. KG, Neckarsulm, member of the Supervisory Board
- * Lidl Stiftung & Co. KG, Neckarsulm, member of the Endowment Board
- * Heckler & Koch GmbH, Neckarsulm, Chairman of the Advisory Board
- * Alpha-Stiftung, Dresden, Endowment Board
- * LD-Stiftung, Dresden, Endowment Board

Gerhard Dirr,

Vils/Austria, born 1964, Deputy Chairman, Head of Facility Management at DECKEL MAHO Pfronten GmbH, Pfronten, since 01.02.2006

Wulf Bantelmann,

Bielefeld, born 1947, Chairman of the Works Council at GILDEMEISTER Drehmaschinen GmbH

Günther Berger,

Munich, born 1948, Independent Industry Consultant,

- Rathgeber AG, München, member of the Supervisory Board

Harry Domnik,

Bielefeld, born 1953, 1st Secretary of IG Metall headquarters, Bielefeld,

- * ThyssenKrupp Umformtechnik GmbH, Ludwigsfelde, member of the Supervisory Board

Dr.-Ing. Jürgen Harnisch,

Mühlheim an der Ruhr, born 1942, Independent Industry Consultant,

- Fahrzeug-Werke LUEG AG, Bochum, member of the Supervisory Board
- * DS1 Holding GmbH, Munich member of the Supervisory Board
- * TCG Holdings GmbH, Vienna, Austria Chairman of the Supervisory Board
- * ThyssenKrupp Presta AG, Eschen, Liechtenstein, member of the Board of Directors
- * Huf Hülsbeck & Furst GmbH & Co. KG, Velbert, Chairman of the Supervisory Board
- * Presswerk Krefeld GmbH & Co. KG, Krefeld, member of the Supervisory Board

Ulrich Hocker,

Düsseldorf, born 1950, Legal counsel, Chief manager Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW), Düsseldorf, Member of Supervisory Board until 31.12.2006

- Deutsche Telekom AG, Bonn, member of the Supervisory Board since 14.10.2006
- E.ON AG, Düsseldorf, member of the Supervisory Board
- Feri Finance AG, Bad Homburg, Deputy Chairman of the Supervisory Board
- KarstadtQuelle AG, Essen, member of the Supervisory Board
- ThyssenKrupp Stainless AG, Duisburg, member of the Supervisory Board
- * Phoenix Mecano AG, Kloten, Switzerland, President of the Administrative Board
- * Gartmore SICAV, Luxemburg, member of the Board

Prof. Dr.-Ing. Walter Kunerth,

Zeitlarn, born 1940, Independent Industry Consultant,

- Götz AG, Regensburg, Chairman of the Supervisory Board
- Paragon AG, Delbrück, Chairman of the Supervisory Board
- * Autoliv Inc., Stockholm, Sweden, member of the Board of Directors

Prof. Dr.-Ing. Uwe Loos,

Stuttgart, born 1946,

Independent Industry Consultant,

- Dorma Holding GmbH + Co. KGaA, Ennepetal, member of the Supervisory Board
- EDAG Engineering + Design AG, Fulda, member of the Advisory Board
- * Trumpf GmbH + Co. KG, Ditzingen, member of the Supervisory Board, member of the Administrative Board
- * Claas KGaA mbH, Harsewinkel, member of the shareholders' committee
- * Bharat Forge LTD, Pune, India, Non-executive Independent Director
- * ssv Antriebstechnik GmbH, Salzbergen, Chairman of the Advisory Council
- * cdp Bharat Forge GmbH, Ennepetal, member of the Advisory Board

Günther-Johann Schachner,

Peiting, born 1952,

member of the Executive Board of

IG Metall Frankfurt,

1st Secretary of

IG Metall headquarters, Weilheim

Rainer Stritzke,

Seebach, born 1957,

design engineer,

member of the Works Council of

DECKEL MAHO Seebach GmbH

until 04.05.2006

Norbert Zweng,

Eisenberg, born 1957,

Head of Logistics at DECKEL MAHO

Pfronten GmbH,

Head of Group Facility Management,

Senior Executives' representative

Executive Board

Dipl.-Kfm. Dr. Rüdiger Kapitza,

Bielefeld,

Chairman

Prof. Dr.-Ing. Raimund Klinkner,

Bielefeld,

Deputy Chairman (until 31.12.2006)

Dipl.-Ing. Günter Bachmann,

Wutha-Farnroda (since 01.10.2006)

Dipl.-Kfm. Dr. Thorsten Schmidt,

Bielefeld (since 01.10.2006)

Dipl.-Kfm. Michael Welt,

Pfronten

Affiliated companies

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES, PROCUREMENT/COMPONENTS

	NATIONAL CURRENCY		EQUITY ¹⁾	PARTICIPATION	RESULT FOR
			€ K	QUOTA IN %	THE ACCOUNTING PERIOD 2006 ¹⁾ € K
GILDEMEISTER Beteiligungen AG, Bielefeld ²⁾			229,841	100.0	
DECKEL MAHO Pfronten GmbH, Pfronten ^{4/6/7)}			48,422	100.0	
SAUER GmbH, Stipshausen/Idar-Oberstein ^{4/8/9)}			6,942	100.0	0
DECKEL MAHO GILDEMEISTER (Shanghai)					
Machine Tools Co., Ltd., Shanghai, China ⁶⁾	CNY K	31,451	3,056	100.0	-1,275
FAMOT Pleszew S.A., Pleszew, Poland ⁶⁾	PLN K	22,669	5,901	100.0	936
GILDEMEISTER Drehmaschinen GmbH, Bielefeld ^{2/4/6)}			16,650	100.0	
GILDEMEISTER Partecipazioni S.r.l., Tortona, Italy ⁶⁾			102,504	100.0	-24
GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italy ³⁾			58,642	100.0	41
GRAZIANO Tortona S.r.l., Tortona, Italy ³⁾			5,165	100.0	2,000
SACO S.p.A., Castelleone, Italy ³⁾			7,605	100.0	43
DMG Italia S.r.l., Brembate di Sopra, Italy ³⁾			2,873	100.0	-627
DECKEL MAHO Seebach GmbH, Seebach ^{2/4/6)}			8,363	100.0	
DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld ^{2/4/5)}			92,875	100.0	
DMG Stuttgart Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Leonberg ^{4/5/10/11)}			45,001	100.0	
DMG München Vertriebs und Service GmbH für Werkzeugmaschinen					
DECKEL MAHO GILDEMEISTER, Munich ^{4/5/12/13)}			929	100.0	
DMG Hilden Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Hilden ^{4/5/12/13)}			935	100.0	
DMG Bielefeld Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Bielefeld ^{4/5/12/13)}			957	100.0	
DMG Berlin Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Berlin ^{4/5/11/12)}			301	100.0	
DMG Frankfurt am Main Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Bad Homburg ^{4/5/12/13)}			610	100.0	
GILDEMEISTER Italiana Deutschland GmbH, Leonberg ^{4/5/12/13)}			300	100.0	
DMG Europe Holding GmbH, Klaus, Austria ¹⁰⁾			52,459	100.0	7,474
DMG Asia Pacific Pte. Ltd., Singapore ¹⁴⁾	SGD K	6,960	3,443	100.0	-562
DMG Australia Pty. Ltd., Clayton Victoria, Australia ¹⁵⁾	AUD K	3,900	2,338	100.0	-43
DMG (Thailand) Co. Ltd., Bangkok, Thailand ¹⁵⁾	THB K	3,648	78	100.0	-1
DMG Austria GmbH, Klaus, Austria ¹⁴⁾			2,243	100.0	843
DMG Benelux B.V., Veenendaal, Netherlands ¹⁴⁾			29,792	100.0	404
DECKEL MAHO GILDEMEISTER Brasil Ltda., São Paulo, Brasil ¹⁶⁾	BRL K	1,152	409	100.0	-165
DECKEL MAHO GILDEMEISTER Iberica S.L., Berriz, Spain ¹⁶⁾			708	100.0	183
DMG America Inc., Schaumburg, USA ¹⁶⁾	USD K	16,864	12,794	100.0	-2,129
DMG Chicago Inc., Schaumburg, USA ¹⁷⁾	USD K	1,705	1,293	100.0	-4,711
DMG Houston Inc., Houston, USA ¹⁷⁾	USD K	823	624	100.0	0
DMG Los Angeles Inc., Los Angeles, USA ¹⁷⁾	USD K	1,047	794	100.0	-675
DMG Asia Pte. Ltd., Singapore ¹⁶⁾			5,854	100.0	-146
DMG Benelux BVBA - SPRL., Zaventem, Belgium ¹⁶⁾			1,765	100.0	380
DMG France S.a.r.l., Les Ulis, France ¹⁶⁾			4,073	100.0	325
DMG Czech s.r.o., Brno, Czech Republic ¹⁶⁾	CZK K	98,086	3,575	100.0	396
DMG Polska Sp.z o.o., Pleszew, Poland ¹⁶⁾	PLN K	11,460	2,983	100.0	1,139
DMG (Schweiz) AG DECKEL MAHO GILDEMEISTER, Dübendorf, Switzerland ¹⁶⁾	CHF K	9,996	6,216	100.0	572
DMG (U.K.) Ltd., Luton, Great Britain ¹⁶⁾	GBP K	2,331	3,472	100.0	503

**PRODUCTION PLANTS, SALES AND SERVICE COMPANIES,
PROCUREMENT/COMPONENTS**

	NATIONAL CURRENCY	EQUITY ¹⁾ € K	PARTICIPATION QUOTA IN %	RESULT FOR	
				THE ACCOUNTING PERIOD 2006 ¹⁾ € K	
DMG Russland o.o.o., Moskau, Russia ¹⁴⁾	RUB K	46,620	1,362	99.0	286
DMG Istanbul Makine Tikaret ve Servis Limited Sirketi, Istanbul, Turkey ¹⁴⁾	TRL K	1,763	939	100.0	265
DMG Malaysia SDN BHD, Puchong/Kuala Lumpur, Malaysia ¹⁴⁾	MYR K	2,860	616	100.0	176
DMG Nippon K.K., Yokohama, Japan ¹⁴⁾	JPY K	248,622	1,587	100.0	-1,410
DMG Scandinavia Sverige AB, Sollentuna, Sweden ¹⁴⁾	SEK K	9,932	1,098	100.0	101
DMG Canada Inc., Toronto, Canada ¹⁰⁾	CAD K	1,128	738	100.0	103
DECKEL MAHO GILDEMEISTER México, S.A. de C.V., Monterrey, Mexico ¹⁰⁾	MXN K	3,682	257	100.0	73
DMG Technology Trading (Shanghai) Co. Ltd., Shanghai, China ¹⁰⁾	CNY K	2,871	279	100.0	-621
DMG DECKEL MAHO GILDEMEISTER (India) Pvt. Ltd., Bangalore, India ¹⁰⁾	INR K	57,551	987	100.0	124
DMG Machinery Taiwan Ltd., Taichung, Taiwan ¹⁰⁾	TWD K	64,055	1,493	100.0	-699
DMG Korea Ltd., Seoul, Korea ¹⁰⁾	KRW K	453,959	370	100.0	-1,672
DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER, Bielefeld ^{4/5/10/11)}			1,500	100.0	
DMG Service Fräsen Pfronten GmbH, Pfronten ^{4/5/10/11)}			1,559	100.0	
DMG Service Fräsen Seebach GmbH, Seebach ^{4/5/10/11)}			1,171	100.0	
DMG Gebrauchtmachines GmbH DECKEL MAHO GILDEMEISTER, Geretsried ^{4/5/10/11)}			12,517	100.0	
DMG Gebrauchtmachines Czech s.r.o., Zlin, Czech Republic ¹⁸⁾	CZK K	15,233	555	100.0	125
DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER, Bielefeld ^{4/5/10/11)}			271	100.0	
DMG MICROSET GmbH, Bielefeld ^{4/5/10)}			668	100.0	
a & f Stahl- und Maschinenbau GmbH, Würzburg ^{4/5/10/11)}			3,112	100.0	
OTHER					
DMG Marketing & Services SDN BHD, Selangor, Malaysia ¹⁰⁾	MYR K		-	40.0	
Zarząd Bloków Mieszkalnych Spółka z o.o., Pleszew, Poland ¹⁹⁾	PLN K	315	82	100.0	6
Chemnitzer Grundbesitz Limited, Birmingham, Great Britain ²⁰⁾	GBP K	45	68	94.9	43

¹⁾ The figures correspond with the financial statements prepared in accordance with local regulations they do not show the respective companies' contribution to the Consolidated Financial Statements. Foreign currencies with respect to equity were translated at the market price on reporting date.

²⁾ Control and profit and loss transfer agreement with GILDEMEISTER Aktiengesellschaft

³⁾ Investment of GILDEMEISTER Partecipazioni S.r.l.

⁴⁾ The domestic subsidiary has complied with the conditions required by Section 264 para. 3 German Commercial Code (HGB) regarding the application of the exemption regulations and therefore waives the disclosure of its annual financial statements and relating documents.

⁵⁾ The domestic subsidiary has complied with the conditions required by Section 264 para. 3 German Commercial Code (HGB) regarding the application of the exemption regulations and therefore waives of a management report.

⁶⁾ Investment of GILDEMEISTER Beteiligungen Aktiengesellschaft

⁷⁾ Control and profit and loss transfer agreement with GILDEMEISTER Beteiligungen Aktiengesellschaft

⁸⁾ Investment of DECKEL MAHO Pfronten GmbH

⁹⁾ Control and profit and loss transfer agreement with DECKEL MAHO Pfronten GmbH

¹⁰⁾ Investment of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER

¹¹⁾ Control and profit and loss transfer agreement with DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER

¹²⁾ Investment of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER

¹³⁾ control and profit and loss transfer agreement with DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER

¹⁴⁾ Investment of DMG Europe Holding GmbH

¹⁵⁾ Investment of DMG Asia Pacific Pte. Ltd.

¹⁶⁾ Investment of DMG Benelux B.V.

¹⁷⁾ Investment of DMG America Inc.

¹⁸⁾ Investment of DMG Gebrauchtmachines GmbH DECKEL MAHO GILDEMEISTER

¹⁹⁾ Investment of FAMOT Pleszew S.A., Pleszew, Polen

²⁰⁾ Investment of DMG Berlin Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Berlin

GILDEMEISTER Aktiengesellschaft is the parent company according to § 290 (HGB) and is engaged to prepare a Consolidated Financial Statement. The Consolidated Financial Statements and the Group Management Report for the year ending 31 December 2006 are available in the Electronic Bundesanzeiger and the Commercial Register as well as on our website www.gildemeister.com.

Income Statement
for the period 1 January to 31 December 2006
of GILDEMEISTER Aktiengesellschaft

	NOTES	2006		2005
		€		€
Sales revenues	13	23,588,993		16,938,840
Other operating income	14	6,969,070		4,956,436
		30,558,063		21,895,276
Costs of materials				
a) Cost of raw materials, consumables and goods for resale		62,670		81,219
b) Cost of purchased services		3,704,068	3,766,738	4,295,800
Personnel costs	15			
a) Wages and salaries		9,455,326		7,531,836
b) Social security contributions, pensions and other benefits		2,687,394	12,142,720	2,244,376
Depreciation of tangible and intangible assets		1,367,151		1,594,098
Other operating expenses	16	28,838,874	46,115,483	20,034,003
Income from management and profit and loss transfer agreements	17	54,355,709		48,848,524
Income from affiliated companies		0		1,500,000
Other interest and similar charges	18	20,575,097		20,031,851
Interest payable and similar charges	19	26,306,083	48,624,723	24,702,475
Profit on ordinary activities			33,067,303	31,791,844
Taxes on profit	20		18,119,935	4,953,031
Annual Profit			14,947,368	26,838,813
Profit carried forward from previous year			9,108,563	0
Withdrawal from revenue provisions			7,470,000	13,400,000
Net profit for the year			16,585,931	13,438,813

**Balance sheet as at 31 December 2006
of GILDEMEISTER Aktiengesellschaft**

ASSETS	NOTES	31 DEC. 2006	31 DEC. 2005
		€	€
A. Fixed assets			
I. Intangible assets	1		
Industrial property and similar rights rights and values and licences to such rights and values		395,680	647,475
II. Tangible assets	1		
Land and buldings		13,466,949	14,048,598
Other equipment, factory and office equipment		1,007,132	1,056,066
Payments on account and construction in progress		3,367,865	454,111
		<u>17,841,946</u>	<u>15,558,775</u>
III. Financial assets	2		
Shares in affiliated companies		344,808,724	297,201,998
		<u>363,046,350</u>	<u>313,408,248</u>
B. Current assets			
I. Receivables and other assets	3		
1. Trade debtors		96,433	2,794,657
2. Affiliated companies		288,547,602	281,654,735
3. Other assets		3,621,317	3,455,362
		<u>292,265,352</u>	<u>287,904,754</u>
II. Securities	4	0	99,325
III. Cash in hand and bank balances	5	22,514,291	7,230,078
C. Prepaid expenses			
	6	628,604	648,302
		<u>678,454,597</u>	<u>609,290,707</u>

EQUITY AND LIABILITIES			31 DEC. 2006	31 DEC. 2005
	NOTES	€	€	€
A. Equity	7			
I. Subscribed capital			112,586,508	112,586,508
II. Capital provisions			71,297,862	71,297,862
III. Revenue provisions				
1. Statutory provisions			680,530	680,530
2. Other revenue provisions			122,802,901	115,332,901
IV. Net profit			16,585,931	13,438,813
			323,953,732	313,336,614
B. Provisions				
1. Pension provisions			13,832,966	13,781,234
2. Tax provisions	8		5,516,821	1,158,786
3. Other provisions	9		6,768,954	4,919,592
			26,118,741	19,859,612
C. Liabilities	10			
1. Bond			175,000,000	175,000,000
2. Bank loans and overdrafts			17,901,952	59,683,904
3. Trade creditors			4,232,678	2,587,606
4. Amounts owed to affiliated companies			118,642,719	26,650,830
5. Other liabilities			12,604,775	12,172,141
			328,382,124	276,094,481
			678,454,597	609,290,707

Fixed Asset Movement Schedule
as at 31 December 2006 of GILDEMEISTER Aktiengesellschaft

AQUISITION AND PRODUCTION COSTS

I. Intangible assets

Industrial property and similar rights and values
and licences to such rights and values

II. Tangible assets

1. Land and buildings
2. Other equipment, factory and office equipment
3. Payments on account and construction in progress

III. Financial assets

Shares in affiliated companies

Total fixed assets

DEPRECIATION

I. Intangible assets

Industrial property and similar rights and values
and licences to such rights and values

II. Tangible assets

1. Land and buildings
2. Other equipment, factory and office equipment
3. Payments on account and construction in progress

III. Financial assets

Shares in affiliated companies

Total fixed assets

	AS AT 01 JAN. 2006 €	ADDITIONS €	DISPOSALS €	AS AT 31 DEC. 2006 €
	17,070,304	203,823	0	17,274,127
	17,070,304	203,823	0	17,274,127
	29,356,144	11,556	0	29,367,700
	6,926,300	304,654	86,458	7,144,496
	454,111	2,913,754	0	3,367,865
	36,736,555	3,229,964	86,458	39,880,061
	356,934,644	210,879,707	163,272,981	404,541,370
	356,934,644	210,879,707	163,272,981	404,541,370
	410,741,503	214,313,494	163,359,439	461,695,558

AS AT 01 JAN. 2006 €	ADDITIONS €	DISPOSALS €	AS AT 31 DEC. 2006 €	BOOK VALUE AS AT 31 DEC. 2006 €	AS AT 31 DEC. 2005 €
16,422,829	455,618	0	16,878,447	395,680	647,475
16,422,829	455,618	0	16,878,447	395,680	647,475
15,307,546	593,205	0	15,900,751	13,466,949	14,048,598
5,870,234	318,328	51,198	6,137,364	1,007,132	1,056,066
0	0	0	0	3,367,865	454,111
21,177,780	911,533	51,198	22,038,115	17,841,946	15,558,775
59,732,646	0	0	59,732,646	344,808,724	297,201,998
59,732,646	0	0	59,732,646	344,808,724	297,201,998
97,333,255	1,367,151	51,198	98,649,208	363,046,350	313,408,248

Bielefeld, 27 March 2007
GILDEMEISTER Aktiengesellschaft

The Executive Board



Dipl.-Kfm. Dr. Rüdiger Kapitza



Dipl.-Ing. Günter Bachmann



Dipl.-Kfm. Dr. Thorsten Schmidt



Dipl.-Kfm. Michael Welt

Audit report

We have audited the consolidated financial statements prepared by the GILDEMEISTER Aktiengesellschaft, Bielefeld, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2006 to December 31, 2006. It should be understood that auditing the content of the "Entsprechenserklärung", in particular Section 161 of the German Stock Corporation Act (AktG) in the group management report, is not object of our audit. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a, paragraph 1, HGB, are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB (Handelsgesetzbuch – "German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit in such a way that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of the audit process. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a, paragraph 1, HGB, and give a true and fair view of the net assets. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Berlin and Frankfurt am Main, 27 March 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rehnen	Dübeler
Auditor	Auditor

29 March 2007	Press conference on Financial Statements, Bielefeld
29 March 2007	Publication of Annual Report 2006
30 March 2007	DVFA-Analysts' conference, Frankfurt
08 May 2007	First Quartaly Report 2007 (1 January to 31 March)
25 May 2007	General Meeting of Shareholders at 10 am in the Town Hall Bielefeld
29 May 2007	Distribution of dividend
02 August 2007	Second Quartaly Report 2007 (1 April to 30 June)
25 September 2007	German Investment Conference, Munich
06 November 2007	Third Quartaly Report 2007 (1 July to 30 September)
12 February 2008	Press release on provisional figures for the financial year 2007
16 May 2008	General Meeting of Shareholders at 10 am in the Town Hall Bielefeld

Subject to alteration

Forward-looking statements

The information in this press release includes forward-looking statements that are based on current estimates of the management on future developments. These statements are subject to risks and uncertainties relating to factors that are beyond GILDEMEISTER's ability to control or estimate precisely, such as future market and economic conditions, the behaviour of other market participants, the successful integration of acquisitions, the realisation of expected synergy effects and the actions of governmental regulators. Should one of these factors of uncertainty or other unforeseeable events occur or should the assumptions on which these statements are based prove incorrect, the actual results might differ materially from the results expressed in, or implied by, these statements. GILDEMEISTER disclaims any intention or special obligation to update any forward-looking statement to reflect any change in events or developments occurred after the date of this press release. Forward-looking statements should not be construed as guarantor or assurance of future developments or events included therein.

This Report is available in German and in English; both versions can be downloaded from the internet at www.gildemeister.com or viewed in its interactive online version. Further copies of this Report and additional information on GILDEMEISTER can be obtained free of charge on request.

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