

ANNUAL REPORT 2010

Cooperation
sustains
innovation

www.gildemeister.com

GILDEMEISTER

Cooperation sustains innovation

GILDEMEISTER looks optimistically to the future. As a leading producer of cutting machine tools, our high-tech machines are found at the start of the investment and production chain; thus they play a key role throughout the entire industry. In addition to our core areas of expertise of "turning", "milling", and "ultrasonic / lasertec", our product range includes a wide variety of automation and software solutions for machine tools. Our widely diversified, international service business is constantly gaining in importance. With "Energy Solutions", we are further expanding a promising business area. With far more than 130,000 machines installed in very different industries and regions, GILDEMEISTER has a broad, diverse and established customer base. We intend to further strengthen our position in the markets relevant for us. The cooperation with the Japanese machine tool builder, Mori Seiki, is an essential component in our global corporate strategy. Therefore our motto for the year 2011 is: Cooperation sustains innovation. In the reporting year, step-by-step we were able to increase our success and return to a growth trend.

SEGMENTS IN THE GILDEMEISTER GROUP





Key Figures

The Consolidated Annual Financial Statements for GILDEMEISTER Aktiengesellschaft as at 31 December 2010 were prepared in accordance with the International Financial Reporting Standards (IFRS) – as they have to be applied in the European Union.

GILDEMEISTER GROUP	2010	2009	Changes	
	€ million	€ million	€ million	2010 against 2009 %
Sales revenues				
Total	1,376.8	1,181.2	195.6	17
Domestic	499.1	496.5	2.6	1
International	877.7	684.7	193.0	28
% International	64	58		
Order Intake				
Total	1,418.4	1,145.9	272.5	24
Domestic	537.7	343.9	193.8	56
International	880.7	802.0	78.7	10
% International	62	70		
Order backlog*				
Total	628.3	586.7	41.6	7
Domestic	105.9	67.3	38.6	57
International	522.4	519.4	3.0	1
% International	83	89		
Investments	50.0**	57.8	-7.8	-13
Personnel costs	333.2	346.1	-12.9	-4
Personnel quota in %	24.3	30.3		
Employees	5,232	5,197	35	1
plus trainees	213	253	-40	-16
Total employees*	5,445	5,450	-5	0
EBITDA	74.5	60.9	13.6	22
EBIT	45.0	31.8	13.2	42
EBT	6.5	7.1	-0.6	-8
Annual result	4.3	4.7	-0.4	-9

* Reporting date 31 December

** of which € 11.0 million capital inflow to financial assets (2009: € 31.3 million)



SALES REVENUES
in € million

Domestic
International

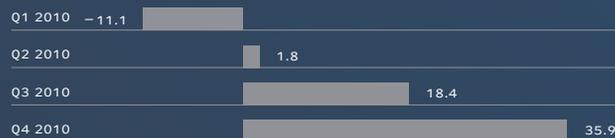


ORDER INTAKE
in € million

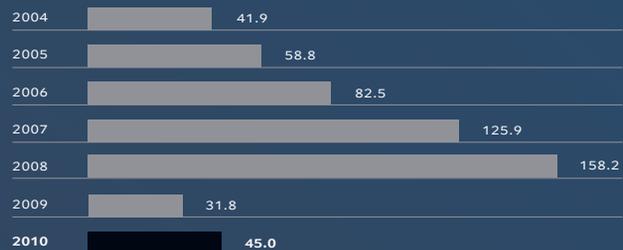
Domestic
International



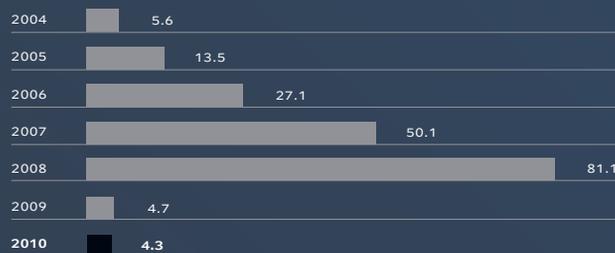
QUARTERLY RESULTS (EBIT)
in € million



EBIT
in € million

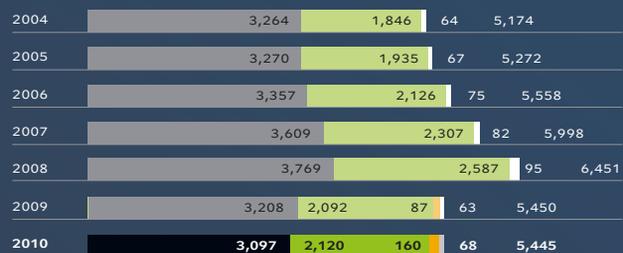


ANNUAL RESULT
in € million



NUMBER OF EMPLOYEES
incl. trainees

Machine Tools
Services
Energy Solutions
Corporate Services



MACHINE TOOLS

DESIGNING TOMORROW'S
WORLD TOGETHER.

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SERVICES

COOPERATION
PERFECTLY COORDINATED.

PAGE 60



ENERGY SOLUTIONS

GOOD PROSPECTS FOR A
CLEAN WORLD TOMORROW.

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Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft

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JANUARY

The aftermath of the economic crisis is still clearly being felt at the start of 2010. Demand for machine tools is at a very low level. GILDEMEISTER starts the financial year 2010 with cautious optimism.

FEBRUARY

With 452 machines sold to a value of € 87.8 million, GILDEMEISTER receives a first boost from the industry highlights at the start of the year: the NORTEC in Hamburg, the traditional in-house exhibition at DECKEL MAHO in Pfronten and the METAV in Düsseldorf.

MARCH

In the first quarter the sales revenues and results are still heavily in decline. Order intake rises slightly and at +28% is above the previous year's quarter.

Despite the crisis, GILDEMEISTER continues to promote its innovations. At the Bielefeld site, high-tech machines for the complete machining of large parts were presented for the first time. Workpieces weighing up to 40 tonnes can be machined on the DMG XXL machines

APRIL

GILDEMEISTER and Mori Seiki concentrate their activities in the traditional USA market and in India's growth market. From the customer's perspective, the employees' know-how and the technology of both companies complement each other perfectly.

GILDEMEISTER continues to expand the "Energy Solutions" business area. a+f acquires a minority interest in the Austrian company, Cellstrom GmbH, allowing it to tap into the promising market of energy storage.

MG Finance GmbH offers GILDEMEISTER and Mori Seiki customers more flexibility in financing machine tools. Attractive, individual financing models facilitate purchases. In the first stage, customers in Germany and Great Britain can take advantage of the offer.

Development of the GILDEMEISTER share

* market price of the GILDEMEISTER share in €
 ** gain in value from the start of the year in %

MAY

On 14 May the 108th Annual General Meeting attended by more than 1,200 shareholders takes place in the Stadthalle, Bielefeld. All resolutions on the agenda are passed with a large majority.

Kathrin Dahnke is appointed to the Executive Board and is responsible for finances, accounting, tax and risk management.

DMG Trainings-Academie reaches its 20th anniversary. It offers training services in the area of CNC machine tools. Up to 9,000 participants attend DMG seminars every year.

JUNE

At the Intersolar in Munich GILDEMEISTER books a new visitor record. Under the motto "Intelligent technology – clean future", comprehensive solutions in the field of "Energy Solutions" are presented. As a world innovation, the "cellcube" big battery – an energy storage system of the future - is presented.

GILDEMEISTER notes the first upwards trends in the second quarter. At the end of the first half-year, order intake reaches € 651.5 million (+12%). Due to the low advance orders in the machine tool business, sales revenues fall by 14% to € 528.9 million. EBT is negative at € -26.4 million.



JULY

The CNC universal milling machine, DMU 80 P duoblock, from DECKEL MAHO Pfronten receives the "Machine Design Award" in Tokyo. This award is recognised as the highest design award in Japan.

AUGUST

At the start of the new training year GILDEMEISTER takes on 35 trainees at the domestic companies within the group. Once again GILDEMEISTER signals its commitment to continuity in company training.

At the in-house exhibition in Bielefeld, in addition to modern machine tools, GILDEMEISTER presents the "Energy Solutions Park" for the first time. Two "SunCarrier" and the "cellcube" big battery are integrated in the site's energy management and in future will be used as a solar filling station for e-vehicles.

SEPTEMBER

At the IMTS in Chicago, DMG and Mori Seiki make a joint appearance for the first time at a trade show in the DMG. The booth size of 2,800 square metres and 38 innovative high-tech machines are the sign of a successful partnership.

GILDEMEISTER Aktiengesellschaft is awarded a top place in the rankings for its annual report 2009 by manager magazin.

In the third quarter the turning point is reached in order intake in the "Machine Tools" core segment. As of 30 September 2010 order intake reaches the € 1 billion mark, it rises by 24% to € 1,013.8 million. Sales revenues reach € 858.4 million. It is also possible to achieve a positive quarterly result (EBT).

OCTOBER

Since the start of the crisis exactly two years ago, demand for machine tools starts to pick up again in Germany. At the AMB 2010 in Stuttgart, GILDEMEISTER takes positive stock of this important German trade fair for the industry with 260 machines sold at a value of € 51.4 million.

GILDEMEISTER is successful at the German championships in CNC turning to qualify for the World-Skills in London, Great Britain. Two trainees from GILDEMEISTER Drehmaschinen GmbH take the first two places.

NOVEMBER

GILDEMEISTER plans to strengthen its cooperation with Mori Seiki and to carry out capital increases in the first half of 2011 with Mori Seiki's participation.

GILDEMEISTER announces that the tariff pay increase of 2.7% agreed for April 2011 will be paid from 1 January 2011. The earlier payment of the wage increase is both a sign of appreciation and motivation to reach the next goals.

DECEMBER

GILDEMEISTER achieves a positive result and thereby confirms its goals for financial year 2010. Order intake rises to € 1,418.4 million. Sales revenues rise to € 1,376.8 million. EBT amounts to € 6.5 million and annual net income to € 4.3 million.

At the Geretsried site, building work for the modern "HSC Centre" is progressing at full speed. Likewise the construction of the new, joint technology centre with a large showroom of GILDEMEISTER and Mori Seiki in Bangalore, India, goes ahead.



Hans Henning Offen (70)

Has been chairman of the Supervisory Board since May 2004 and a member since 1994. Following a master's degree in business administration at universities in Cologne and Hamburg, Mr Offen started his career at Citibank in Hamburg, New York and Frankfurt. In 1979 he became a member of the executive board of the Handelsbank in Lübeck AG and in 1985 he became spokesman of the executive board of Deutsche Bank Asia AG, both subsidiaries of Deutsche Bank AG. In 1990 Hans Henning Offen was appointed to the executive board of Westdeutsche Landesbank Girozentrale and was deputy chairman of the executive board from 1992 to 2002.

The Supervisory Board was intensively involved in the business development of GILDEMEISTER in financial year 2010. Long-term, strategic issues as well as the operational development of the group to 2013 were equally topics at the Supervisory Board meetings. Furthermore, the Supervisory Board discussed issues with the Executive Board relating to corporate policy, the risk situation, risk management and compliance. The Executive Board regularly prepared written, comprehensive and timely reports on any events of significant importance and on the development of key financial indicators. The committee chairmen reported regularly to the plenum on the matters discussed and made the recommendations arising out of committee meetings held prior to the plenary sessions. We carried out our duties with the greatest care and diligence in accordance with the articles of association and statutory provisions. A total of nine meetings took place, of which five were held at the Bielefeld site. As in previous years, there were no conflicts of interest of members of the Supervisory Board in the year under report.

Changes to members of the Supervisory Board

In financial year 2010, there were changes to the members of the Supervisory Board: Günther Berger resigned from his position as a member of the Supervisory Board as of 17 March 2010. He was succeeded as of 11 May 2010 by Prof. Dr. Edgar Ernst, who was also elected with effect from 13 May 2010 as a member and chairman of the Finance and Audit Committee of the Supervisory Board. Ulrich Hocker took up his position as of 11 May 2010 as successor to Prof. Dr.-Ing. Uwe Loos, who resigned from the Supervisory Board effective as of 31 March 2010. He became a member of the Personnel, Nominations and Remuneration Committee, as well as of the Nominations Committee and of the Conciliatory Committee as of 13 May 2010. The period of office of Wulf Bantelmann ended effectively as of 31 May 2010. His successor as of 1 June 2010 was Oliver Grabe. Dr.-Ing. Jürgen Harnisch has been the chairman of the Committee for Technology and Development of the Supervisory Board since 13 May 2010. Prof. Dr. Walter Kunerth resigned from his position as a member of the Personnel, Nominations and Remuneration Committee, of the Nominations Committee and of the Conciliation Committee effective as of 13 May 2010 and at the same meeting was elected as a member and deputy chairman of the Committee for Technology and Development of the Supervisory Board. There were also changes to the members of the Executive Board. On 19 May 2010, Michael Welt left the Executive Board. His successor, with effect from 20 May 2010, is Dipl.-Kffr. Kathrin Dahnke. The Supervisory Board and the Executive Board would like to thank all those who have left the boards for their commitment and their contribution.

The main focus of the **strategy meeting on 28 January 2010** was the strategy for the renewable energy sources business area and an investment in big battery technology, in particular. Moreover, Executive Board remuneration matters were also dealt with. The following ten of twelve members of the Supervisory Board were present at the meeting: Hans Henning Offen, Günther Berger, Dr.-Ing. Jürgen Harnisch, Prof. Dr.-Ing. Walter Kunerth, Prof. Dr. Uwe Loos, Dr.-Ing. Masahiko Mori, Gerhard Dirr, Matthias Pfuhl, Günther-Johann Schachner, Norbert Zweng.

At the **Annual Accounts Meeting on 16 March 2010**, following its own audit, the Supervisory Board unanimously approved the group and annual accounts of GILDEMEISTER Aktiengesellschaft as at 31 December 2009. The annual auditors were present at this meeting as well as the following Supervisory Board members: Hans Henning Offen, Günther Berger, Dr.-Ing. Jürgen Harnisch, Prof. Dr.-Ing. Walter Kunerth, Prof. Dr.-Ing. Uwe Loos, Dr.-Ing. Masahiko Mori, Gerhard Dirr, Wulf Bantelmann, Harry Domnik, Günther-Johann Schachner, Norbert Zweng.

The Supervisory Board dealt in the third **meeting on 13 May 2010** with the organisation of the 108th Annual General Meeting of Shareholders on 14 May 2010. A further topic was business development in the first quarter. All twelve members were present (Hans Henning Offen, Prof. Dr. Edgar Ernst, Dr.-Ing. Jürgen Harnisch, Ulrich Hocker, Prof. Dr.-Ing. Walter Kunerth, Dr.-Ing. Masahiko Mori, Gerhard Dirr, Wulf Bantelmann, Harry Domnik, Matthias Pfuhl, Günther-Johann Schachner, Norbert Zweng).

Kathrin Dahnke new
Executive Board member

At the fourth **meeting on 19 May 2010**, the Supervisory Board dealt with the departure of Michael Welt from the Executive Board. This was followed by the appointment of Dipl.-Kffr. Kathrin Dahnke as deputy Executive Board member for a period of three years. She assumed responsibility for finance, tax, accounting and risk management. Dr. Rüdiger Kapitza was allocated the central controlling portfolio; it was agreed that following appropriate familiarisation, this responsibility would be transferred to Kathrin Dahnke. Dr. Thorsten Schmidt will be responsible in future for information technology (IT) in addition to sales and services. Seven members of the board were personally present at this meeting (Hans Henning Offen, Dr.-Ing. Jürgen Harnisch, Ulrich Hocker, Prof. Dr.-Ing. Walter Kunerth, Gerhard Dirr, Matthias Pfuhl, Norbert Zweng); the remainder did participate in passing the resolution.

The topics of the **Supervisory Board meeting on 1 September 2010** were the remuneration aspects of the Supervisory Board and the termination of Michael Welt's contract. Nine Supervisory Board members participated in the meeting (Hans Henning Offen, Dr.-Ing. Jürgen Harnisch, Prof. Dr.-Ing. Walter Kunerth, Gerhard Dirr, Harry Domnik, Oliver Grabe, Matthias Pfuhl, Günther-Johann Schachner, Norbert Zweng).

At the **meeting on 29 September 2010**, the Supervisory Board discussed the reports from the Finance and Audit Committee, the Personnel, Nominations and Remuneration Committee and from the Technology and Development Committee. Furthermore, the Supervisory Board discussed business development in the first six months of the year

and unanimously passed a resolution to increase the budget for capital expenditure on property, plant and equipment in 2010. The Supervisory Board additionally discussed possible measures to re-organise the financing and strengthen the cooperation with Mori Seiki. Kathrin Dahnke was appointed as an ordinary member of the Executive Board and, effective 1 October, assumed additional responsibility for controlling. All members of the Supervisory Board were present at the meeting (Hans Henning Offen, Prof. Dr. Edgar Ernst, Dr.-Ing. Jürgen Harnisch, Ulrich Hocker, Prof. Dr.-Ing. Walter Kunerth, Dr.-Ing. Masahiko Mori, Gerhard Dirr, Harry Domnik, Oliver Grabe, Matthias Pfuhl, Günther-Johann Schachner, Norbert Zweng).

At the seventh **meeting on 21 October 2010**, resolutions in connection with preparations for possible capital measures and financing were passed. Eleven members of the Supervisory Board were present at the meeting: (Hans Henning Offen, Prof. Dr. Edgar Ernst, Dr.-Ing. Jürgen Harnisch, Ulrich Hocker, Prof. Dr.-Ing. Walter Kunerth, Gerhard Dirr, Harry Domnik, Oliver Grabe, Matthias Pfuhl, Günther-Johann Schachner, Norbert Zweng).

Main topics of the **meeting on 7 November 2010** were the cooperation with Mori Seiki and financing measures. Following further adjustments and discussions, the Supervisory Board confirmed the financing concept and possible capital changes. All twelve members of the Supervisory Board were present.

At the **planning meeting on 25 November 2010** the Supervisory Board adopted the 2011 planning and the medium term planning 2012 / 2013. It likewise approved the capital expenditure budget 2011. All Supervisory Board members took part in this meeting (Hans Henning Offen, Prof. Dr. Edgar Ernst, Dr.-Ing. Jürgen Harnisch, Ulrich Hocker, Prof. Dr.-Ing. Walter Kunerth, Dr.-Ing. Masahiko Mori, Gerhard Dirr, Harry Domnik, Oliver Grabe, Matthias Pfuhl, Günther-Johann Schachner, Norbert Zweng).

Committees are responsible for a major part of the Supervisory Board's work: In the financial year 2010, the Supervisory Board of GILDEMEISTER Aktiengesellschaft had five committees. The **Financial and Audit Committee** met five times in total. Items discussed were the audit of the group and of the financial statements, the further development of the finance and tax strategy, as well as a proposal to appoint the annual auditors. Further core items were finance and tax projects. The Finance and Audit Committee is headed by Prof. Dr. Edgar Ernst, a qualified, financial expert with many years' experience in finance, accounting and risk management. Consequently, in this respect we also comply with the requirements of the German Act on Modernising Accounting Rules (BilMoG). The Committee monitored the auditors' independence and obtained the declaration of independence of the auditors pursuant to Clause 7.2.1 of the German Corporate Governance Code.

The **Personnel, Nominations and Remuneration Committee** consulted three times, in particular on Executive Board matters and remuneration issues, as well as on personnel development.

Prof. Dr. Edgar Ernst heads
Finance and Audit Committee

The **Nominations Committee** passed a resolution on proposals for appointments to the Supervisory Board to be voted on at the annual general meeting.

In the reporting year there was no need to call a meeting of the **Conciliation Committee**.

The **Technology and Development Committee** met four times and discussed the status of short-time working, expanding the ECO machines product range, business development at the production plants, new and further developments 2010 as well as technological focuses at the trade fairs.

Declaration of conformity adopted
In December 2010, the Supervisory Board and Executive Board passed the **Declaration of Conformity 2010** with the German Corporate Governance Code. Once again GILDEMEISTER complied with all recommendations until the entering into force of the new version on 26 May 2010. At the current time, GILDEMEISTER complies with the code with one exception: The Supervisory Board membership of Dr.-Ing. Masahiko Mori, who is the president of a foreign manufacturer of cutting machine tools, deviates from the recommendations of the government commission's German Code of Corporate Governance. The high level of expertise of this Supervisory Board member is of great benefit to GILDEMEISTER and especially for the work of the Supervisory Board. The Executive Board and the Supervisory Board acknowledge good corporate governance as an integral component of corporate management, which, in keeping with the interests of the shareholders, is focused on a sustainable increase in enterprise value. The joint report on "Corporate Governance" can be found in the chapter of the same name on pages 10 et seq.

In the **balance sheet meeting of 15 March 2011** the annual auditor reported on the substantive audit procedure and significant results of the annual audit and was available for additional questioning. In conclusion, following its own audit, the Supervisory Board approved the consolidated annual financial statements and the annual financial statements for the financial year 2010. The annual financial statements of GILDEMEISTER Aktiengesellschaft have therefore been certified in accordance with Section 172 of the German Companies Act (AktG). The Supervisory Board endorses the Executive Board's proposal for the appropriation of retained profits. The Executive Board prepared the Annual Financial Statements and the Management Report 2010 of GILDEMEISTER Aktiengesellschaft in accordance with the provisions of the German Commercial Code (HGB).

Consolidated financial statements 2010 according to IFRS approved
The 2010 Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft were prepared in accordance with the International Financial Reporting Standards (IFRS), as applicable within the European Union. Pursuant to the exemption provision in Section 315a of the German Commercial Code (HGB), consolidated financial statements in accordance with the German Commercial Code were not prepared. The auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, issued an unqualified audit certificate for both the Financial Statements and Management Reports.

In addition, on that date the Supervisory Board formed a committee, of which Hans Henning Offen, Ulrich Hocker and Prof. Dr. Edgar Ernst are members, which has been given responsibility for drawing up resolutions in connection with the capital increases with investment from Mori Seiki, which were already announced at the end of last year. On the same day the Committee gave its agreement to carrying out a capital increase from authorised capital in an amount of about 10% of the existing registered capital with the exclusion of shareholders' share options as well as its basic agreement to carrying out a further prompt capital increase from authorised capital, subject to the actual capital market environment of a further presumably 20% of the then existing registered capital with shareholders' share options.

Moreover, the Supervisory Board was involved with the results of the efficiency check, which was carried out at the end of 2010 / beginning of 2011. All twelve members of the Supervisory Board were present at the meeting: Hans Henning Offen, Prof. Dr. Edgar Ernst, Dr.-Ing. Jürgen Harnisch, Ulrich Hocker, Prof. Dr.-Ing. Walter Kunerth, Dr.-Ing. Masahiko Mori, Gerhard Dirr, Harry Domnik, Oliver Grabe, Matthias Pfuhl, Günther-Johann Schachner, Norbert Zweng.

The Supervisory Board thanks the Executive Board and all employees for their commitment and efforts in a difficult financial year, in which the effects of the worldwide recession and the worst crisis in the history of the machine tool industry were still clearly being felt.



Hans Henning Offen
Chairman of the Supervisory Board
Bielefeld, 15 March 2011



Letter from the Chairman

Dear Shareholders,

the worldwide machine tool crisis has been overcome. The global market for machine tools is developing positively again. GILDEMEISTER already recorded a clear upwards trend in 2010. We have two main factors to thank for this: The first is that the entire general economic climate has improved significantly, and the other is that during the crisis we made the right strategic decisions. Following the slump in the market over the last two years, global demand for machine tools started gaining momentum again by the end of 2010. In the reporting year your company managed to further build upon its position as a leading producer of cutting machine tools thanks to its international presence, innovative products and cooperation with Mori Seiki.

The most important figures for financial year 2010 are as follows: order intake rose by 24% to € 1,418.4 million. Sales revenues grew by 17% to € 1,376.8 million. **GILDEMEISTER achieved a positive result and thus confirmed its goals for financial year 2010.** EBT totalled € 6.5 million and the annual net income in the group amounted to € 4.3 million. We consider the results achieved to be positive against the background of the most difficult machine tool crisis in history and the structural changes that have taken place in the competitive environment. Earnings per share amounted to € 0.09.

Dear shareholders, the Executive Board and Supervisory Board will propose to the annual general meeting on 13 May 2011 that no dividend be distributed for financial year 2010 – we already announced this one year ago in view of the difficult economic situation. In the current financial year it is important to return to a sound earnings base. And we see ourselves as being on the right path towards this.

Your GILDEMEISTER share performed satisfactorily during the reporting year: The share price rose – when viewed over the whole year – by 47% and thus performed better than the MDAX (+35%). We see this development as a confirmation of our strategic decisions and as an evidence of trust in our work.

The present annual report provides you with a detailed look at the progress over financial year 2010 and a forecast for financial year 2011 so you can form a comprehensive picture of your company.

Letter from the Chairman

The year 2010 just ended was another crisis year for us. Following the losses in 2009 caused by the crisis, GILDEMEISTER has been making clear progress again since autumn 2010 and has worked strenuously to gain increasing success by year-end. A positive boost came from the international autumn trade fairs, the IMTS in Chicago, the AMB in Stuttgart and the BIMU in Milan. In the core “Machine Tools” segment, we were able to achieve a turnaround in the third quarter with order growth of 67%. Overall we increased order intake in this segment by 50% to € 854.2 million. The “Services” segment also recorded a significant rise; order intake here rose to € 419.2 million (+60%). We have expanded “Energy Solutions” by the market of energy storage, which we regard as promising. Our trade fair appearance at the Intersolar in Munich proved that we are on the right track in pushing our solar and energy storage technology, and we are developing in a strategically sensible way.

Success does not come automatically. It has to be constantly initiated anew through a forward-looking corporate policy. We have overcome the crisis without financial losses and in addition to daily trouble-shooting have reassessed our strategy. The measures we introduced – above all the cooperation with Mori Seiki – have cushioned the effects of the downwards economic trend. We have responded directly and quickly with comprehensive cost reduction measures in every area and moderate adjustment of personnel capacity through time accounts and short-time working. Changes took place not only in corporate processes but also in products, market cultivation and in the financing of machines. In financial year 2010 we became even more flexible and further reduced our fixed costs.

Traditionally GILDEMEISTER has focused on innovations and effective marketing. By means of research and development, we are pushing innovations in order to set the trends with its technological performance. In the field of energy efficiency for machine tools, for example, we are setting the benchmarks for production processes that save resources.

By its motto “Cooperation sustains innovation” GILDEMEISTER is demonstrating dynamism and performance in financial year 2011. Streamlined structures and flexible processes place us in a position to act even more competently and efficiently in the marketplace. This is a conclusion that we have arrived at from the recent past. Therefore we will further build upon our existing network of partnerships, which includes both medium-sized, family-run companies as well as large corporate groups. At the centre

Letter from the Chairman

of this lies predominantly our cooperation with the Japanese machine tool builder, Mori Seiki. It is progressing successfully and we have it to thank for numerous ideas, suggestions and impetus.

We do not envisage any significant acquisitions at the current time; as necessary, we check them out should they contribute value enhancement. Our growth should occur organically and be strongly driven by our own innovative strength.

What are our goals for 2011? Our business model and our corporate strategy have proven themselves also in times of crisis. We have a good starting position that allows us to grow again. We anticipate that demand for our innovative products and user-oriented technology will increase noticeably. Impetus is coming primarily from the Asian growth markets. This is where we will further strengthen our sales and services and our production plant in Shanghai, and will consolidate our position.

In the medium-term we are placing high expectations on energy technology. With our solar and energy storage products we have entered a growing future market, which will steadily gain in importance. This segment is already contributing a notable amount to sales revenues.

GILDEMEISTER is planning even closer cooperation with Mori Seiki. It has been demonstrated that the reciprocal synergies release a considerable amount of additional strengths. Within the scope of our long-term corporate strategy, we will extend the successful cooperation sustainably, namely in the areas of production and components, purchasing, research and development, as well as in sales and services. This also includes finance solutions, which we offer jointly. Machine tools are capital-intensive investment goods, which are not always easy to finance, especially for small and medium-sized companies. With MG Finance GmbH, we create attractive and individual financing solutions for our customers.

The Executive Board passed a resolution on 15 March with the consent of the Supervisory Board to carry out the capital increase, which was already announced at the end of last year, at short notice. GILDEMEISTER is confident of achieving a significant inflow of funds. Further information can be found in the “Share” chapter on page 78 et seq.

GILDEMEISTER takes an optimistic view of the financial year 2011. Dear shareholders, the current financial year will carry on from the successes of previous years. We will use our full endeavours to ensure that GILDEMEISTER returns to the profitable growth trend. We anticipate further growth in worldwide machine tool demand and

Letter from the Chairman

in the service business. The “Energy Solutions” business should also continue to develop positively. On the basis of market forecasts relevant for us, we intend to achieve order intake for the whole year of € 1.6 billion and sales revenues of more than € 1.5 billion. GILDEMEISTER is strategically well-positioned to grow once again with a focus on earnings. We are expecting considerable growth in EBT and net profit. Given the positive outlook for business and earnings, we are planning to distribute a dividend for financial year 2011. It is not possible to issue a statement on the amount at the current time.

GILDEMEISTER has traditionally relied on working together in partnership. A trusting and constructive cooperation has always proven its worth in good and also in not so good times. Now it is a question of using this in a positive development phase of our company as a motor to drive further progress. I am certain that we will achieve this together. In the name of the entire Executive Board I would like to thank our customers, suppliers, business and cooperation partners as well as our investors and employees. You all give us the necessary strength to be successful in constantly changing conditions. Above all, however, I would like to thank you, our shareholders. Your trust in us and in our work is incentive, obligation and motivation for us. My Executive Board colleagues and I will continue to lead GILDEMEISTER with the goal of achieving long-term value added and in line with good corporate governance. We can assure you that we will do everything to ensure that GILDEMEISTER continues to remain an attractive capital investment for you.

Yours sincerely,
Your



Dr. Rüdiger Kapitza
Chairman of the Executive Board
Bielefeld, 15 March 2011



Dr. Rüdiger Kapitza (56)

has been the Chairman of the Executive Board since April 1996. He was appointed to the Board of GILDEMEISTER Aktiengesellschaft in 1992. Following his apprenticeship as a machinist and industrial clerk at GILDEMEISTER, he studied economics in Paderbon and obtained his doctorate at the Johannes Gutenberg University in Mainz. Dr. Rüdiger Kapitza is responsible for corporate strategy, key accounting, personnel, purchasing, auditing, compliance, as well as investor and public relations.



Günter Bachmann (59)

has been a member of the Executive Board since October 2006. The engineering graduate studied mechanical engineering at the Technical University of Chemnitz and started his professional career in 1974 in the production area at today's DECKEL MAHO Seebach GmbH in Thüringen. He was promoted to Head of Production in 1985 and in 1994 to Managing Director of the company. Günter Bachmann is responsible for technology and production.



Dr. Thorsten Schmidt (38)

has been a member of the Executive Board since October 2006. He holds a doctorate in economics from Münster University and has been working at GILDEMEISTER since January 2002. He took over management responsibility for sales and services in America, after which he became a managing director in Asia. Dr. Thorsten Schmidt is responsible for the sales and service and the information technology (IT) areas.



Kathrin Dahnke (50)

has been a member of the Executive Board since May 2010. The business studies graduate joined the group in 2005 as the head of finance. Previously she held various roles, most recently as general manager for finance. Kathrin Dahnke is responsible for controlling, finance, accounting, tax and risk management.

GILDEMEISTER Aktiengesellschaft; Bielefeld

GILDEMEISTER Beteiligungen AG; Production plants (10)				
Milling Association	Milling and Processing Association	Turning Association	Ecoline Association	Electronics
DECKEL MAHO Pfronten GmbH Pfronten	DECKEL MAHO Seebach GmbH Seebach	GILDEMEISTER Drehmaschinen GmbH Bielefeld	DMG Ecoline GmbH Klaus (Austria)	DMG Electronics GmbH Pfronten
SAUER GmbH Idar-Oberstein, Pfronten	FAMOT Pleszew Sp. z o.o. Pleszew (Poland)	GRAZIANO Tortona S.r.l. Tortona	DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai	
		GILDEMEISTER Italiana S.p.A. Bergamo		

As a producer of cutting machine tools, GILDEMEISTER takes a leading position as a full-liner. The range includes innovative machine technology, services and software solutions.

The "Machines Tools" segment includes the new machines business with the turning and milling technologies, ultrasonic / lasertec and electronics. GILDEMEISTER concentrates its development and technology expertise in four associations, each related to a business area: the Milling Association, the Milling and Machining Association, the Turning Association and the Ecoline Association.

DMG Vertriebs und Service GmbH covers the "Services" segment together with its subsidiary companies. We have combined our sales and service organisations with Mori Seiki in the cooperation markets and thereby strengthened our global position long-term. This segment includes the innovative integration solutions for automating machine tools. With "Energy Solutions" GILDEMEISTER has a new business area with considerable future potential. The long-lasting and low maintenance "cellcube" big battery extends the segment to include energy storage. The group-wide holding functions are brought together under "Corporate Services".

GILDEMEISTER is a globally operating enterprise: 75 own domestic and international sales and service locations in 33 countries have direct contact to our customers. Some 5,445 employees contribute to the success of our company.

DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER; Bielefeld (75)						Energy Solutions (7)
DMG Germany Stuttgart (7)	DMG Europe Klaus (Austria) (25)	DMG Asia Shanghai, Singapur (6)	DMG America Itasca (Illinois) (3)	Cooperation markets (23)	DMG Services Bielefeld, Pfronten (11)	a+f GmbH; Würzburg
DMG Stuttgart Vertriebs und Service GmbH	DMG Italia S.r.l. Bergamo, Tortona, Ancona	DMG Shanghai Co. Ltd. Shanghai	DMG Canada Inc. Toronto	DMG / MORI SEIKI USA Chicago, Charlotte, Boston, Los Angeles, Dallas, Detroit	DMG Service Fräsen GmbH Pfronten, Seebach, Geretsried	a+f Italia Holding S.r.l.* Milan
DMG München Vertriebs und Service GmbH	DMG France S.a.r.l. Les Ulis, Lyon, Scionzier	DMG Beijing Sales Office Beijing	DMG México S.A. de c.v. Queretaro		DMG Service Drehen GmbH Bielefeld	a+f Italia S.r.l. Milan
DMG Hilden Vertriebs und Service GmbH	DMG Austria GmbH Klaus, Wiener Neudorf	DMG Guangdong Sales Office Guangdong	DMG Brasil Ltda. São Paulo	DMG / MORI SEIKI Turkey Istanbul, Izmir, Ankara	DMG Service Drehen Italia S.r.l.* Bergamo	af SUNCARRIER Ibérica S.L. Madrid
DMG Bielefeld Vertriebs und Service GmbH	DMG (Schweiz) AG Dübendorf (Zurich)	DMG Chongqing Sales Office Chongqing			DMG Trainings- Akademie GmbH Bielefeld, Pfronten, Stuttgart	a+f SUNCARRIER FRANCE SAS* Les Ulis
DMG Berlin Vertriebs und Service GmbH	DMG Polska Sp. z o.o. Pleszew	DMG Shenyang Sales Office Shenyang		DMG / MORI SEIKI India Bangalore, Neu-Delhi, Ahmedabad, Pune	DMG Spare Parts GmbH Geretsried	a+f USA LLC. Denver
DMG Frankfurt Vertriebs und Service GmbH	DMG Russland o.o.o. Moscow	DMG Xi'an Sales Office Xi'an			DMG Gebrauchtm- aschinen GmbH Geretsried, Bielefeld	Cellstrom GmbH* Vienna
	DMG (UK) Ltd. Luton			DMG / MORI SEIKI Nippon Yokohama	DMG AUTOMATION GmbH Hüfingen	SUNCARRIER OMEGA PVT LTD* Bhopal
	DMG Benelux Veenendaal, Zaventem			DMG / MORI SEIKI Korea Seoul	DMG MICROSET GmbH Bielefeld	
	DMG Czech s.r.o. Brno, Trenčín			DMG / MORI SEIKI Taiwan Taichung		
	DMG Ibérica S.L. Barcelona, Bilbao			DMG / MORI SEIKI South East Asia Singapur, Kuala Lumpur, Hanoi		
	DMG Scandinavia Sverige AB Sollentuna			DMG / MORI SEIKI Thailand Ayutthaya, Bangna		
	DMG Scandinavia Danmark Kvistgård			DMG / MORI SEIKI Indonesia Jakarta		
	DMG Scandinavia Norge AS Langhus			DMG / MORI SEIKI Australia Melbourne		
	DMG Hungary Kft. Budapest					
	DMG Romania Sales & Services S.R.L. Bukarest					
	DMG South East Europe E.P.E. Thessaloniki					
	DMG Middle East Dubai					

* 5 new group companies 2010.
Simplified organisational structure according to
management criteria (status: March 2011).
The legal corporate structure is presented in the
Notes to the Consolidated Financial Statements
of the Annual Report 2010 on page 206 et seq.

Business Environment

The global economy recovered from the effects of the crisis. Asia initially developed especially dynamically, whereby the biggest driving forces came as before from China. The Japanese economy grew noticeably. In the USA the upwards trend was more restrained; this also held true for Europe. The German economy showed clear signs of revival.

Overall Economic Development

The **global economy** enjoyed a strong upturn, which lost momentum over the course of the year. The strongest boost by far came from China, Japan also grew noticeably. The recovery in the USA was more restrained. This was similar for Europe, although it did differ from country to country. Germany developed at a comparatively fast speed of growth. According to provisional calculations by the Institute for World Economics (IfW) at the University of Kiel, overall economic production rose worldwide by 4.8% (previous year: -0.9%).

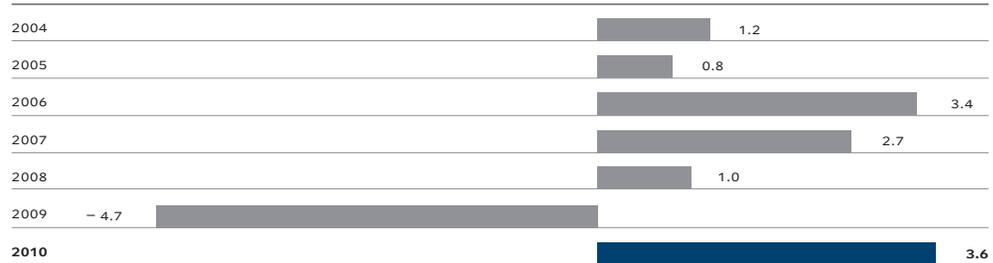
In **Asia** the speed of growth was the strongest overall. As before, China was the main driver of this development. The economy in Japan was driven primarily by exports. According to the IfW, China's gross domestic product rose by 10.7% (previous year: 8.6%) and in Japan by 3.3% (previous year: -5.2%).

The economy in the **USA** recovered due to government aid; the effect diminished in the second half of the year. Private consumer spending and fixed investments increased moderately. Over the whole year, according to IfW calculations, gross domestic product grew by 2.8% (previous year: -2.6%).

The economy in **Europe** stabilised. However the situation in individual European countries differed increasingly, which resulted in a lack of a single view of private consumption and fixed investments. The currency debate caused uncertainty at the end of the year. According to provisional calculations, gross domestic product in the euro states rose by 1.7% (previous year: -4.1%).

GROSS DOMESTIC PRODUCT IN GERMANY

Real changes against the previous year in %



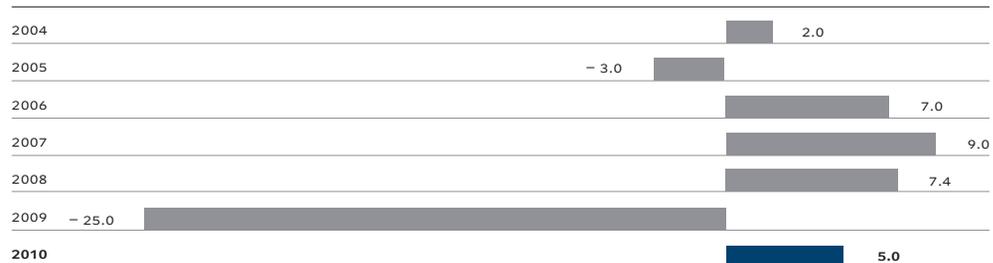
Source: Federal Statistical Office, Wiesbaden

Germany experienced a significant upturn. According to information from the German Federal Office of Statistics in Wiesbaden, gross domestic product rose over the entire year by 3.6% (previous year: -4.7%). Exports climbed 14.2%. Domestic economic activity was strengthened by an increase in investments in plant and equipment of 9.4% (previous year: -22.6%). Capital expenditure in manufacturing industries made a significant contribution to this; the following chart presents a multiple year comparison:

Sources: Federal Statistical Office, Wiesbaden; Institute for World Economics (IfW), Kiel; ifo Institute, Munich

INVESTMENT IN THE GERMAN MANUFACTURING SECTOR

Nominal changes against the previous year in %



Source: ifo Institute, Munich

The situation on the labour market also improved. On average, 3.24 million people were registered unemployed, some 180,000 less than the previous year. The number of business insolvencies only fell slightly to 32,100 (previous year: 32,930). According to initial calculations, the rate of inflation amounted to 1.1% (previous year: 0.4%). The government budgetary position worsened. The deficit rate of 3.5% exceeded the upper threshold of 3.0% set by the Maastricht Treaty.

The US dollar, the Chinese yuan and the Japanese yen are of particular importance for GILDEMEISTER's international business. The **exchange rate** of the currencies most important for us changed over the course of 2010 as follows: The currencies important for GILDEMEISTER gained in value compared to the euro over the course of 2010. The US dollar closed at year-end against the euro at 0.75 euros (previous year: 0.69 euros). The Chinese yuan likewise gained in value compared to the euro, at year-end the exchange rate was 8.82 yuan (previous year: 9.84 yuan). The Japanese yen closed against the euro at a rate of 108.65 yen (previous year: 133.16 yen). On average, all three currencies gained in value over the year against the euro. The US dollar recorded a gain in value of about 5.0%, the yuan of 5.8% and the Japanese yen of 10.8%. Our products have thus become increasingly more competitive in both the dollar region and the Asian region.

Development of the Machine Tool Industry

International development

The world market for machine tools once again developed positively in 2010 – based on a weak comparison basis. The German Machine Tool Builders Association (VDW) calculated growth in **global consumption** of 25% or € 8.9 billion to € 45.0 billion (previous year: € 36.1 billion). The industry thus finds itself once again above the level of the year 2005. Development of global consumption in a 10-year comparison is presented in the **“Forecast report” chapter on page 113.**

The global machine tool market is marked by an enormous structural shift towards Asia, more especially towards China. Asia's share in **global consumption** amounted to just under 62%. America and Europe have clearly lost global market share in the last ten years. **Asia** is leading the global recovery process; demand has continued to show dynamic growth (+25%). Once again, by a clear margin, most machine tools worldwide were purchased in China at € 15.9 billion and a share in world consumption of 35%. China is once again the largest sales market worldwide (previous year: 30%). In **America** consumption has risen (+18%). In **Europe** the trend was still slightly downwards (–3%). Germany lies in second place at € 3.7 billion (change to the previous year: –11%) and a global consumption share of 8%. It is followed by South Korea (consumption: € 3.2 billion; change to the previous year: +67%; global consumption share: 7%) and Japan (€ 2.9 billion; +24%; 6%). Places five to ten were taken by the USA (€ 2.3 billion; –3%; 5%), Italy (€ 2.2 billion; +7%; 5%), Brazil (€ 1.3 billion; +25%; 3%), India (€ 1.2 billion; +33%; 3%), Taiwan (€ 1.2 billion; +82%; 3%) and Russia (€ 0.9 billion; –2%; 2%). The ten most important consumer markets represent 77% of the total global consumption of machine tools (previous year: 76%).

In the major sales markets, market shares developed as follows:

WORLDWIDE CONSUMPTION OF MACHINE TOOLS*

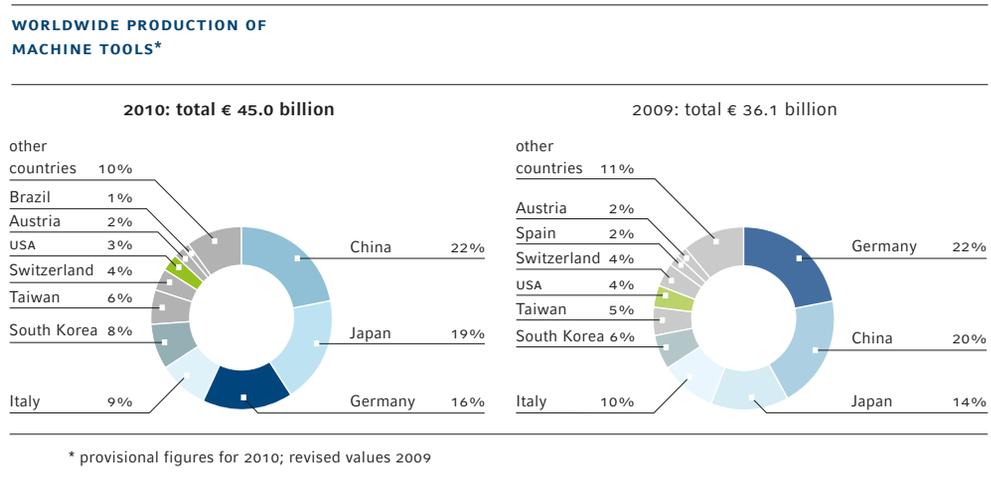


* provisional figures for 2010; revised values 2009

Also with respect to the **import** of machine tools China took first place for the ninth year in a row at € 6.8 billion (+62%; previous year: € 4.2 billion). The **USA** imported more machine tools at € 1.8 billion (previous year: € 1.6 billion). These two largest import nations consumed 40% of all machine tools in total (previous year: 36%). China's **import share** grew by 4 percentage points to 43% (previous year: 39%). Whereas the USA covered 79% of its consumption last year with imports (previous year: 70%). The German import share amounted to 39% (previous year: 39%), followed by India with 97% (previous year: 92%) and South Korea with 34% (previous year: 42%).

The German Machine Tool Builders Association (VDW) likewise calculated a rise in **global production** of 25% or € 8.9 billion to € 45.0 billion (previous year: € 36.1 billion). For the first time China is the world's biggest producer of machine tools at € 9.9 billion; this corresponds to 22% of machines tools produced globally (change to the previous year: +37%). Japan followed with output of € 8.5 billion (+68%) or 19% of global output. At € 7.4 billion (-5%) Germany is only the third largest producer; this corresponds to 16% of production worldwide. Places four to ten were taken by Italy (€ 3.9 billion; +3%; 9%), South Korea (€ 3.4 billion; +72%; 8%), Taiwan (€ 2.9 billion; +77%; 6%), Switzerland (€ 1.7 billion; +6%; 4%), the USA (€ 1.5 billion; -4%; 3%), Austria (€ 0.7 billion; +6%; 2%) and Brazil (€ 0.6 billion; +30%; 1%). The ten major production countries represent 90% in total of all machine tools (previous year: 89%).

In the major markets, the production share developed as follows:



Sources: The basis of the world machine tool statistics is the data published by the vdw (the German Machine Tool Builders' Association) (excluding parts and accessories). This data is requested by the national producers' associations of each individual country and is based on the current actual values or, for the remainder of the year, on careful estimates based on the updated values of the previous year.

In the reporting period, 55% of the global production of machine tools was exported (previous year: 55%). With an export share of 70%, Japan took first place for **exports** (previous year: 60%). Germany followed with 69% (previous year: 67%). These two countries accounted for 44% of world exports in terms of value (previous year: 41%); followed by Italy (10%) and Taiwan (9%), as well as Switzerland (6%), South Korea (5%), the USA (4%), China (4%), Austria and Belgium each with a share in global exports of 2%.

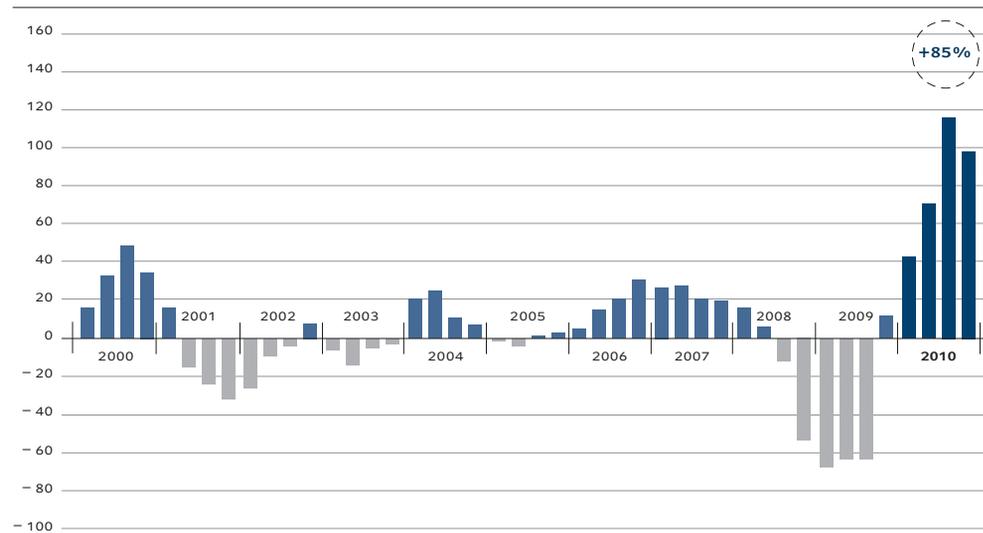
German machine tool industry

The German machine tool industry also managed to achieve a trend reversal in 2010; overall it recorded strong growth again in order intake and a rise in exports. However, production once again declined; due to high lead times in the project business and a high proportion of special machines at most German manufacturers. **Order intake** rose to € 11.5 billion or 85% (previous year: € 6.2 billion). Domestic demand rose by 75% (previous year: -61%). International demand rose by 90% (previous year: -50%).

The ifo **business climate index** for trade and industry reflected the optimistic mood. The main consumer industries (mechanical engineering, automotive manufacturing and electrical engineering) reported considerably higher assessments than in the previous year. Order intake at the German machine tool industry developed over the course of the year as follows:

MACHINE TOOL ORDER INTAKE IN GERMANY PER QUARTER*

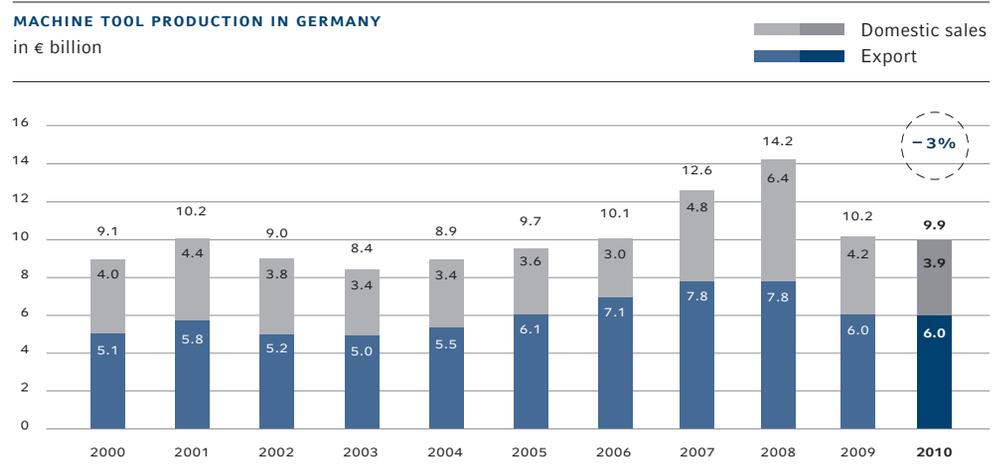
Real changes against the previous year in %



* previous year's figures partly adjusted

Production fell by 3% to € 9.9 billion and was thus once again below the previous year's level (€ 10.2 billion). **Exports** recorded the export of machines to a value of € 6.0 billion and thus lay 1% below the previous year's value; this represents an export share of 61% (previous year: 59%). The most important export market for German machine tools was again China at € 1.5 billion, which corresponds to 25% of German exports (previous year: 22%). This means that the Chinese market for German machine tools is now nearly four times bigger than that of the USA (second place). In the USA machines valued at € 394.3 million were delivered (previous year: € 421.1 million). Russia was once again the third most important export market; machines valued at € 293.9 million were delivered (previous year: € 367.5 million; export share: 5%). In comparison with the previous year, clear growth occurred in exports to the following markets: Taiwan (+71%), Belarus (+58%), South Korea (+25%), Turkey (+25%), Brazil (+21%) and India (+18%).

The development and composition of German machine tool production is shown in the following multiple year comparison table:



Domestic consumption reached € 5.0 billion; it fell by € 0.5 billion or 9% compared to the previous year (€ 5.5 billion).

The **import** of machine tools declined by € 0.1 billion or 5% to € 2.0 billion (previous year: € 2.1 billion). With an import share of 31%, nearly every third machine tool imported came from Switzerland. The following places were taken by Japan (11%), China (9%), Italy (9%) and the Czech Republic (7%). Imports of machine tools also rose markedly in Austria (+6%) and Hungary (+4%). German machine tools to a value of € 3.9 billion were sold on the domestic market.

German machine tool builders again recorded rising **capacity utilisation** over the course of the year. Thanks to the improved order intake situation, capacity at the start of the year at producers of cutting machines of 68% (previous year: 92%) rose to 86% (previous year: 71%) towards the end of the year.

The extent of the **order backlog** rose steadily during the year; on average it was 7.1 months (previous year: 6.2 months). The extent of order backlog is based on calculations and represents an average figure for the industry. It can merely be viewed as a rough approximation of actual order backlog. The number of **employees** in all German machine tool companies averaged 64,108 in the whole year (previous year: 69,614).

Reliable information on the **profitability** of the German machine tool industry is not readily available as only a few companies publish the corresponding figures. Therefore the association has to rely on estimates. However, it can be established that profitability in the industry has worsened considerably due to the global economic crisis and the lead times for machine tools.

Sources: vdw; vDMA – Trade Association for Machine Tools and Production Systems (Figures include parts and accessories and exclude service and installation; previous year's figures partly revised)

Statement on the General Conditions

Through its international business GILDEMEISTER was able to participate in the global market for machine tools. As a leading manufacturer of cutting machine tools, we have increased our **global market share** in the relevant market for us to 7.1% (previous year: 6.3%). We have been able to hold onto our **competitive position** firmly in a demanding market environment. At the same time, we have had to hold our ground, in particular, against strong Asian competition. In Germany and Europe we have achieved growth in order intake. In Asia the growth trend continued; business there was positive. In America we were able to increase order intake. Further information on **order intake per region** can be found on **page 33 et seq.**

Source: "Global Machine Tool Outlook", Oxford Economics (Status: 18 Nov. 2010)

COOPERATION SUSTAINS INNOVATION



MATTHIAS BRAND
RESEARCH & DEVELOPMENT TEAM

*"Each single one of us is an expert in his field.
As a team we pool our strengths together for
our customers."*

Matthias Brand is responsible for new product concepts at GILDEMEISTER. He always has a specific goal in view: future-proof solutions for our customers through maximum efficiency and a perfect combination of individual expertise.

HIGH-TECH SOLUTIONS

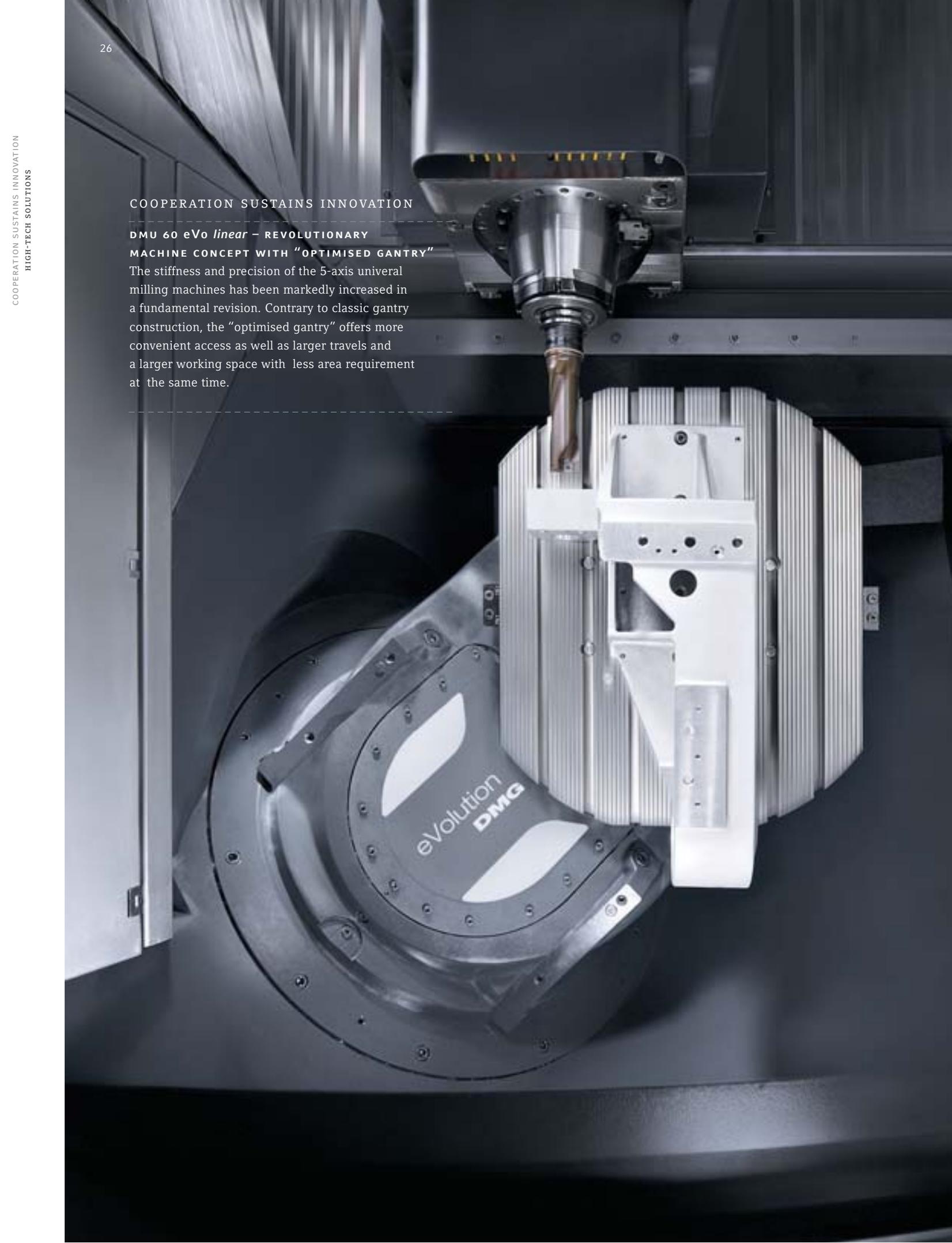
DESIGNING TOMORROW'S WORLD TOGETHER

At GILDEMEISTER we think ahead. Besides knowledge and experience, we use creativity, courage and top-rate, constructive cooperation to hunt for perfect solutions to the requirements of the coming years and decades. In this way we develop cutting edge technologies that set the trends.

COOPERATION SUSTAINS INNOVATION

**DMU 60 eVo linear – REVOLUTIONARY
MACHINE CONCEPT WITH “OPTIMISED GANTRY”**

The stiffness and precision of the 5-axis universal milling machines has been markedly increased in a fundamental revision. Contrary to classic gantry construction, the “optimised gantry” offers more convenient access as well as larger travels and a larger working space with less area requirement at the same time.



eVolution
DMG



GILDEMEISTER 5-AXIS MACHINING

With the model range DMU 60 / 80 eVo we offer our customers a 5-axis machining center for the demands of tomorrow. For maximum productivity a dynamic package is available with linear drives in the X- and Y-axes. Additional options, such as integrated turning-milling technology or pallet changer, make it possible for use as a universal and thus highly-efficient machining tool.

DMU 60 eVo *linear* WITH OPTIMISED GANTRY CONSTRUCTION



5-AXIS UNIVERSAL MACHINING CENTRE

COMPACT FLOOR SPACE

 $< 6,1 \text{ M}^2$

SWIVEL ANGLE

 $-5 \text{ TO } 110^\circ$

DRIVE VERSION WITH RAPID TRAVERSE

 $80 \text{ M} / \text{MIN}$

The DMU 60 eVo *linear* is a trend-setting high-tech package for the machining tasks of tomorrow. The advanced machine concept opens up technologies that offer our customers completely new and economically highly attractive machining opportunities. Together we produce a decisive advantage over the competition.

Results of Operations, Financial Position and Net Worth

In the financial year 2010, GILDEMEISTER again recorded a clear upwards trend. Order intake rose to € 1,418.4 million (+ 24%). Sales revenues increased to € 1,376.8 million (+ 17%). GILDEMEISTER achieved a positive result in 2010: EBIT amounted to € 45.0 million. EBT was positive at € 6.5 million. The annual net income in the group amounted to € 4.3 million. We have reached our goal of achieving a positive result.

Corporate strategy

The GILDEMEISTER corporate strategy is purposely focused on a sustainable increase in profitability. The **cooperation with Mori Seiki** is a significant component of our long-term strategy. Through this cooperation, synergies are created for both companies in the areas of production and components, purchasing, research and development, as well as in sales and services. At the same time, the customers, employees and owners are the focus of both companies, as they are the ones who should benefit.

In addition to an orientation on the machine tools business, GILDEMEISTER's focus on sectors of industry, in such areas as aerospace, medical technology and renewable energy sources, has proven to be successful. By concentrating expertise, GILDEMEISTER has been able to increase its efficiency. The alignment of the service business with its innovative range of products has proven to be a crisis-resistant pillar of the corporate strategy. Further core aspects of GILDEMEISTER's strategy include:

_Consolidating and expanding the strong international market position: GILDEMEISTER is consistently managed in a way that is market- and product-oriented. We plan to build further upon our market position as a leading producer of cutting machine tools in all relevant markets. This will be achieved on the basis of our diverse product portfolio, our broad customer base and, especially, through additionally building upon our innovation and technology strength, as well as through further alignment with the growth markets and sectors.

_Focusing on product innovations as the basis for further growth: It is our aim to offer innovative or highly-advanced, high-quality products in the field of machine tools in the turning and milling technology fields, as well as in ultrasonic / lasertec. It is our intention to continue to place numerous new products and software solutions on the market every year. Such new and advanced developments should follow on from the basis of the existing product range so that as a rule innovations can be developed at a reasonable investment cost.

_Strategic alignment with growth markets: China and the other BRIC nations (Brazil, Russia and India) are strategically very important for GILDEMEISTER due to their high rates of growth in the "Machines Tools" area. We intend to gain a significant amount of market share in these countries so as to be able to further expand our good market

position. In this respect, as in the other markets, the distribution of our “Machine tools” and “Services” should take place by way of direct sales and direct services through our own local sales and service companies including the joint GILDEMEISTER and Mori Seiki companies. This facilitates direct contact and service to potential and existing customers in the major growth markets for GILDEMEISTER.

Strengthening the cooperation with Mori Seiki: GILDEMEISTER anticipates significant advantages for its customers worldwide in the “Machine Tools” and “Service” area from its partnership with Mori Seiki. Therefore we are planning to further deepen business relations with Mori Seiki and further expand the successful cooperation long-term. GILDEMEISTER expects an increase in efficiency from the cooperation for both cooperation partners in the areas of production and components, purchasing, research and development, as well as in sales and services. Through this, GILDEMEISTER and Mori Seiki can offer customers a single point of contact, an improved spare parts supply and the possibility of operating machines from both producers next to each other. As machine tools are capital intensive investment goods whose financing is not always easy to achieve for small and medium-sized companies, through MG Finance GmbH, Wernau, the company formed jointly by the partners together with the Japanese trading company Mitsui & Co. Ltd., GILDEMEISTER and Mori Seiki want to increasingly offer customers in selected European countries support in financing new machine tools and offer them individual financing solutions.

Focusing on growth sectors: GILDEMEISTER conforms to the requirements of the global markets and places its industry focus in the area of “Machine Tools” on sectors such as the aerospace industry, medical technology, automotives and renewable energies. Customers from these sectors, in particular, are offered complete production solutions from GILDEMEISTER to produce extremely specific products. GILDEMEISTER has concentrated its corresponding process know-how in “Centers of Excellence”. At the Geretsried site, for example, customers, especially those from medical technology, are given in-depth advice on the use of high-speed cutting precision centres (HSC). In the “Center of Excellence – Aerospace” at the Pfronten site, GILDEMEISTER develops comprehensive individual solutions for customers from the aerospace industry.

Establishing and expanding the product range in the field of renewable energies: In the business area of renewable energies GILDEMEISTER has developed a system with the “SunCarrier” product for especially efficient energy production – compared to fixed systems – and markets this mainly to customers who want to produce electricity on an industrial scale, within the scope of constructing turnkey solar parks. The sale of the long-lasting and low maintenance “cellcube” big battery system as a solution for energy storage, as well as for the clean, emission-free provision of energy, is to be further expanded to complement the product portfolio in the “Energy Solutions” segment. Whilst GILDEMEISTER has mainly been active in Italy and Spain in this segment, in the future it is intended to expand operations to France, Great Britain, Canada and India, as well as to unregulated markets (this means countries without any feed-in tariff regulated by statute), such as the USA, for example.

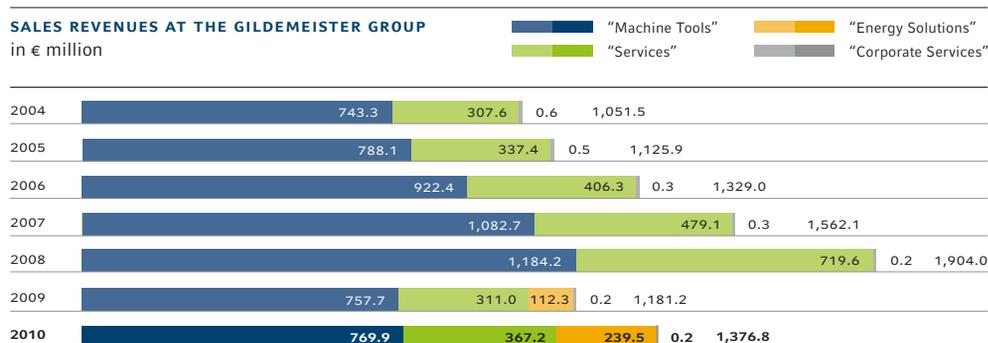
Strengthening existing customer relations: GILDEMEISTER plans to secure and expand its broad, established customer base in the “Machine Tools” area with targeted measures. Follow-up orders, in particular, should be generated on the basis of a comprehensive offer that has been tailor-made to suit the customer’s requirements from the entire product and service portfolio. For this purpose, GILDEMEISTER plans to further intensify its key account management for customers who operate internationally, plan on a long-term time scale and invest regularly. In order to keep its dependency on any one sector as low as possible, GILDEMEISTER takes care – also assisted by a diverse and universally usable product portfolio – to ensure a customer base that is to the furthest extent possible balanced and spread over many industries.

Sales revenues

Growing order intake again had a positive effect in the reporting year on sales revenues. Whilst sales revenues in the first six months were marked by restraint due to few order backlog in the machine tools business, in the third and fourth quarters we were able to achieve increases again.

Overall, sales revenues rose by € 195.6 million or 17% to € 1,376.8 million (previous year: € 1,181.2 million). In the fourth quarter sales revenues reached € 518.4 million (+55%). In the “Machine Tools” segment, sales revenues for the whole year of € 769.9 million exceeded the previous year’s figure (€ 757.7 million). “Services” rose to € 367.2 million (+18%). In “Energy Solutions” we were able to double sales revenues at € 239.5 million (+113%) (previous year: € 112.3 million).

The group’s international sales revenues rose to € 877.7 million (+28%), domestic sales revenues amounted to € 499.1 million (+1%). The export share amounted to 64% (previous year: 58%). In a multiple year comparison, the individual segments shared in group sales revenues as follows:



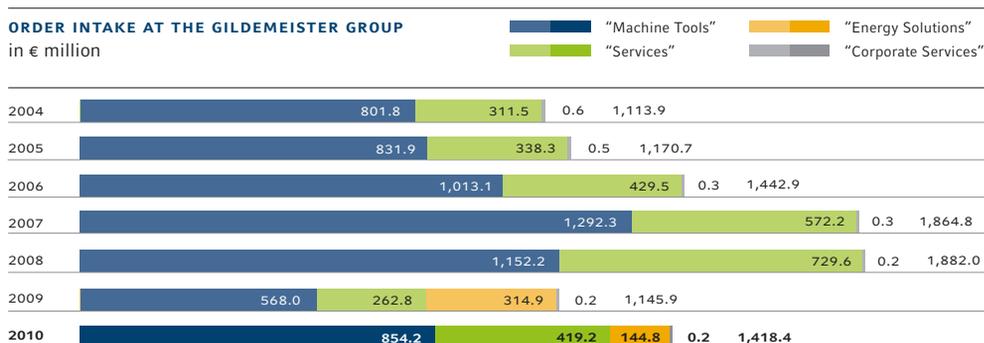
More detailed information on **sales revenues in each segment** is given on **page 49** et seq.

Order intake

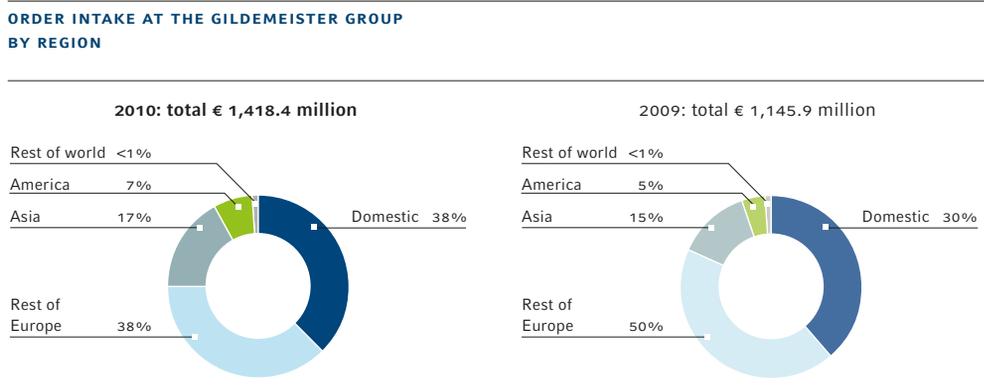
We were able to record increasing success in order intake over the course of the year. It rose by 24% to € 1,418.4 million (previous year: € 1,145.9 million). In the fourth quarter order intake reached € 404.6 million and was thus 23% higher than the previous year (€ 327.7 million).

In our core “Machine Tools” business we were able to grow order intake noticeably by 50% to € 854.2 million over the whole year (previous year: € 568.0 million). “Services” likewise developed positively; order intake rose by +60% to € 419.2 million (previous year: € 262.8 million). In “Energy Solutions” we recorded order intake of € 144.8 million (-54%). Due to the high order backlog, order intake progressed as planned below the previous year’s level.

Domestic orders rose overall by 56% to € 537.7 million (previous year: € 343.9 million). International orders grew by 10% to € 880.7 million (previous year: € 802.0 million). The international share of orders amounted to 62% (previous year: 70%). In a multiple year comparison, the segments shared in group order intake as follows:



More detailed information on **order intake for each segment** is given on **page 49 et seq.** In the individual market regions, order intake developed as follows:



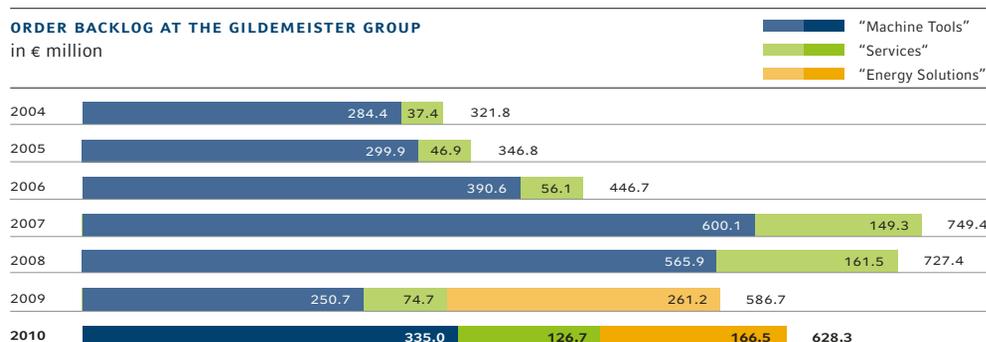
The 5,244 turning and milling machines sold, as well as ultrasonic / lasertec and used machines, (previous year: 3,470) were sent to 3,192 different customers. The **sales volume** in “Machine Tools” increased by 51% in comparison to the previous year. We raised **sales prices** in the reporting year by an average of 2% to 3% specific to the product and market. **Key accounting** once again made a significant contribution to order intake.

Order backlog

The order backlog within the group as of 31 December 2010 amounted to € 628.3 million; it was thus € 41.6 million or 7% above the previous year’s level (31 Dec. 2009: € 586.7 million).

Domestic order backlog increased by € 38.6 million (+57%) to € 105.9 million (previous year: € 67.3 million). The international order backlog grew by € 3.0 million or 1% to € 522.4 million (previous year: € 519.4 million). Of the current orders, international orders account for 83% (corresponding date of the previous year: 89%). Backlog development varied in the individual segments: In “Machine Tools” the order backlog rose in comparison with the corresponding date of the previous year by € 84.3 million or 34% to € 335.0 million (31 Dec. 2009: € 250.7 million). As of 31 December, “Services” had an order backlog of € 126.7 million (corresponding date of previous year: € 74.7 million). We were able to reduce the high order backlog in “Energy Solutions” in line with plans by 36%; it amounted to € 166.5 million (corresponding date of previous year: € 261.2 million).

Further information on **order backlog in each segment** can be found on **page 51 et seq.** The following graph shows the development of order backlog in a multiple year comparison:



Order backlog for “Machine Tools” represents mathematically a production utilisation period of an average of four months; at the same time the individual production companies vary in their capacity utilisation. Further information on **order backlog** can be found on **page 51 et seq.**

Results of Operations

Positive results of operations
in financial year 2010

GILDEMEISTER achieved positive results and thereby met its targets for the financial year 2010. Following on from the third quarter, the **fourth quarter** was also positive as planned. EBITDA reached € 44.3 million (previous year: € 15.4 million), EBIT rose to € 35.9 million (previous year: € 8.0 million). EBT amounted to € 24.8 million (previous year: € 0.1 million). Earnings after tax amounted to € 17.9 million (previous year: € 0.2 million).

As of **31 December 2010**, the results of operations developed as follows: **EBITDA** for the whole year amounted to € 74.5 million (previous year: € 60.9 million); **EBIT** reached € 45.0 million (previous year: € 31.8 million). **EBT** amounted to € 6.5 million (previous year: € 7.1 million) and **annual net income** in the group amounted to € 4.3 million (previous year: € 4.7 million). We consider this result to be positive against the background of the most difficult machine tool crisis in history and the structural changes in the competitive environment.

CONSOLIDATED INCOME STATEMENT OF THE GILDEMEISTER GROUP	2010		2009		Changes against previous year	
	€ million	%	€ million	%	€ million	%
Sales revenues	1,376.8	100.2	1,181.2	103.3	195.6	16.6
Changes in finished goods and work in progress	-12.1	-0.8	-44.3	-3.9	32.2	72.7
Own work capitalised	8.8	0.6	6.7	0.6	2.1	31.3
Total work done	1,373.5	100.0	1,143.6	100.0	229.9	20.1
Cost of materials	-768.1	-55.9	-559.8	-48.9	-208.3	37.2
Gross profit	605.4	44.1	583.8	51.1	21.6	3.7
Personnel costs	-333.2	-24.3	-346.1	-30.3	12.9	3.7
Other income and expenses	-197.7	-14.4	-176.8	-15.4	-20.9	11.8
EBITDA	74.5	5.4	60.9	5.4	13.6	22.3
Depreciation of fixed assets	-29.5	-2.1	-29.1	-2.6	-0.4	1.4
EBIT	45.0	3.3	31.8	2.8	13.2	41.5
Financial results	-38.1	-2.8	-24.7	-2.2	-13.4	54.3
Result of at equity- valued companies	-0.4	0.0	0.0	0.0	-0.4	0.0
EBT	6.5	0.5	7.1	0.6	-0.6	8.5
Taxes on profit	-2.2	-0.2	-2.4	-0.2	0.2	8.3
Annual profit	4.3	0.3	4.7	0.4	-0.4	8.5

Total work done in the financial year 2010 increased to € 1,373.5 million; it was thus some € 229.9 million or 20.1% higher than the previous year's figure (€ 1,143.6 million). The rise resulted from an increase in sales revenues (€ 1,376.8 million) of € 195.6 million or 16.6%; the change in stock levels amounted to € -12.1 million. Further explanations on changes in inventories are given in the chapter **"Net Worth"** on **page 40 et seq.**

The materials costs rose with the rise in total operating revenue by € 208.3 million to € 768.1 million (previous year: € 559.8 million). The materials quota amounted to 55.9%

(previous year: 48.9%); this development arose mainly from the increased proportion of the material-intensive “Energy Solutions” in total operating revenue. It accounted for 16.2% (previous year: 10.9%). Gross income improved by € 21.6 million (3.7%) to € 605.4 million; the gross profit margin amounted to 44.1% (previous year: 51.1%) caused by the rise in the materials ratio.

Employee expenses fell by € 12.9 million to € 333.2 million (previous year: € 346.1 million). The employee expenses ratio improved to 24.3% (previous year: 30.3%). More detailed information can be found in the “Employees” chapter on page 66 et seq.

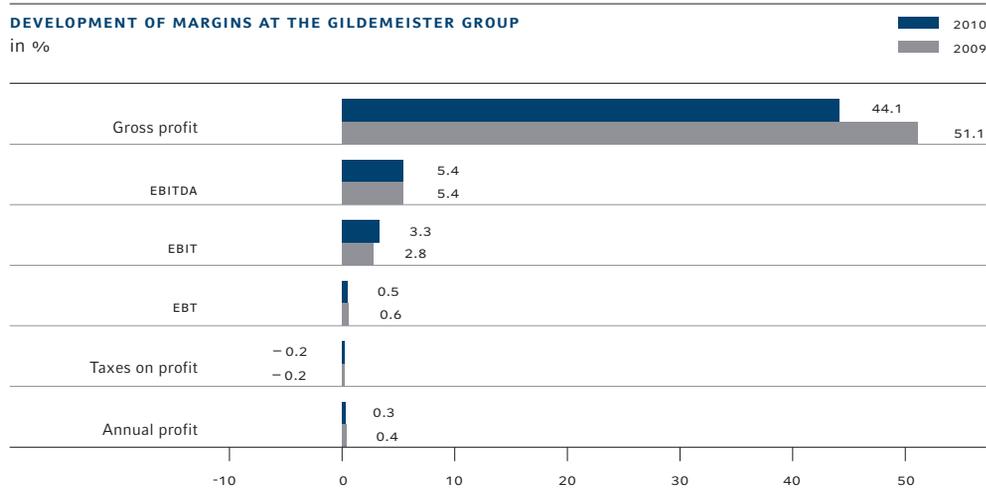
The balance of other expenses and income amounted to € 197.7 million (previous year: € 176.8 million). Other operating expenses decreased by € 10.2 million to € 253.1 million (previous year: € 263.3 million). The decrease was achieved through effective cost reduction management. Expenses for rentals and leases decreased mainly through the discharge of leasing agreements to € 25.2 million (previous year: € 29.1 million). Other operating income declined to € 55.4 million (previous year: € 86.5 million); this includes essentially the dissolution of provisions as well as currency gains. Further details on the breakdown of other operating expenses and income can be found in the **Notes to the Consolidated Financial Statements** on page 156 et seq. Depreciation amounted to € 29.5 million (previous year: € 29.1 million).

The net financial costs changed due to the noticeably worse interest conditions by € -13.4 million to € -38.1 million (previous year: € -24.7 million).

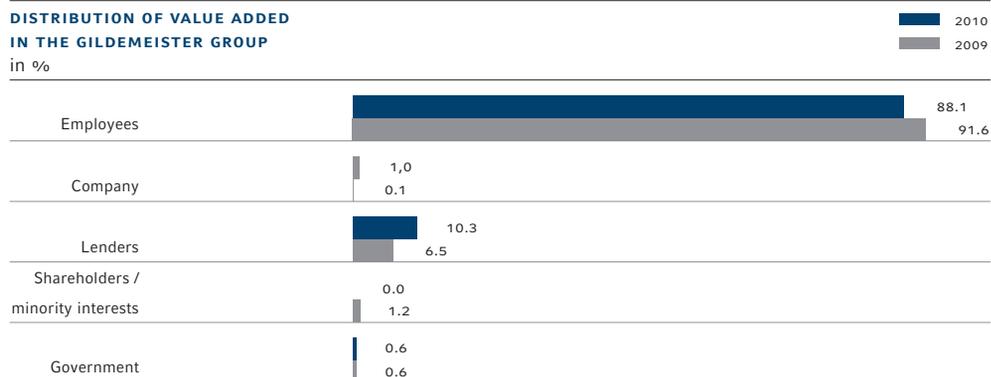
The tax ratio amounted to 34.2% (previous year: 33.8%); **tax expense** amounted to € 2.2 million (previous year: € 2.4 million).

The earnings margins, which are determined on the basis of total operating revenue, have developed as follows: The gross profit margin amounted to 44.1% (previous year: 51.1%). The EBITDA margin reached 5.4% (previous year: 5.4%) and the EBIT margin 3.3% (previous year: 2.8%). The EBT margin decreased slightly to 0.5% (previous year: 0.6%). Taking the tax expenses into consideration, the annual net income margin amounted to 0.3% (previous year: 0.4%).

DEVELOPMENT OF MARGINS AT THE GILDEMEISTER GROUP
in %



In the financial year 2010; the **value added** of the GILDEMEISTER group amounted to € 378.9 million and was thus at the previous year's level (€ 378.8 million).



The following table shows the **value added statement** in detail:

VALUE ADDED STATEMENT OF THE GILDEMEISTER GROUP	2010		2009		Changes against previous year	
	€ million	%	€ million	%	€ million	%
Source						
Sales revenues	1,376.8	96.4	1,181.2	96.1	195.6	16.6
Other revenues	52.1	3.6	48.9	3.9	3.2	6.5
Operating performance	1,428.9	100.0	1,230.1	100.0	198.8	16.2
Cost of materials	768.1	53.7	559.8	45.5	208.3	37.2
Depreciation	29.5	2.1	29.1	2.4	0.4	1.4
Other expenses	252.4	17.7	262.4	21.3	-10.0	-3.8
Purchased materials and services	1,050.0	73.5	851.3	69.2	198.7	23.3
Value added	378.9	26.5	378.8	30.8	0.1	0.0
Distribution						
Employees	333.9	88.1	346.9	91.6	-13.0	-3.7
Companies	3.9	1.0	0.2	0.1	3.7	1,850.0
Lenders	38.9	10.3	24.7	6.5	14.2	57.5
Shareholders / minority interests	0.0	0.0	4.6	1.2	-4.6	-100.0
Government	2.2	0.6	2.4	0.6	-0.2	-8.3
Value added	378.9	100.0	378.8	100.0	0.1	0.0

Financial Position

The changes in the group's financial position were positive in the reporting year. The **free cash flow** was positive, as announced, and amounted to € 45.2 million (previous year: € -100.5 million).

CASH FLOW	2010 € million	2009 € million
Cash flow from operating activity	74.6	-75.2
Cash flow from investment activity	-40.3	-56.5
Cash flow from financing activity	-8.3	-42.3
Changes in cash and cash equivalents	27.4	-173.5
Liquid funds at the start of the reporting period	84.4	257.9
Liquid funds at the end of the reporting period	111.8	84.4

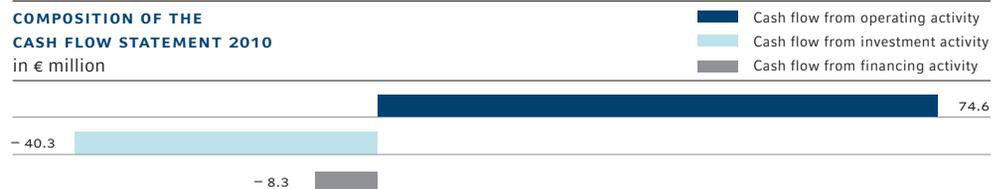
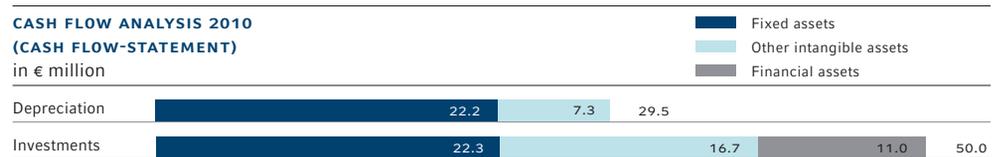
Cash flow from running operations (cash received) was positive in the reporting year at € 74.6 million (previous year: € -75.2 million). Earnings before tax (EBT) of € 6.5 million (previous year: € 7.1 million) and depreciation of € 29.5 million (previous year: € 29.1 million) contributed to this cash flow. The rise in trade payables of € 122.5 million and the prepayments received of € 53.2 million had a positive impact on cash flow. The rise in trade receivables (€ +61.0 million) as well as interest payments (€ 33.2 million) and income tax (€ 12.3 million) reduced cash flow; the rise in trade receivables resulted in particular from the revenue recognition of several major projects in the "Energy Solutions" segment at year-end.

Cash flow from investment activity (outflow of funds) decreased by € 16.2 million to € -40.3 million (previous year: € -56.5 million). Investment in property, plant and equipment was € 22.2 million (previous year: € 18.7 million) and in intangible assets was € 11.5 million (previous year: € 7.8 million). Payments for investments in financial assets amounted to € 11.0 million (previous year: € 31.3 million); these included the equity interest in MG Finance (33%) and Younicos (5%); the former parent company of Cellstrom GmbH, as well as a 50% equity interest in DMG / Mori Seiki Australia Ltd. Further details can be found in the "Investments" chapter on page 47 et seq.

Cash flow from financing activities (cash outflows) was € -8.3 million and arose out of the decrease in financial debt (€ -3.7 million) and the payment of a dividend for financial year 2009 (€ -4.6 million).

Within the total financing, GILDEMEISTER had sufficient **liquidity** to year-end 2010. Liquid funds amounted to € 111.8 million (previous year: € 84.4 million). Free cash lines were € 156.4 million (previous year: € 89.9 million). We had additional open lines of credit (guaranteed bills outstanding, bills of exchange, factoring) available of € 131.3 million (previous year: € 130.7 million). The portfolio of receivables sold through factoring agreements amounted to € 93.1 million (previous year: € 49.1 million). Significant financial liabilities in foreign currency are explained in the **notes to the consolidated financial statements on page 181 et seq.**

A detailed **cash flow statement** is given in the notes to the **consolidated financial statements on page 127**. The main key figures pertaining to the analysis of the financial position are summarised in the **“Multiple Year Overview” on page 215**.



GILDEMEISTER covers its capital requirements with the operating cash flow and by taking up short and long-term financing. The essential components of this are syndicated loans, borrowers' notes and factoring agreements.

Sound
financial framework

We have drawn on a syndicated loan of € 175.0 million with a term until June 2011. A further syndicated loan has a volume of € 211.9 million with a term until the end of 2012. This loan has a tranche of € 57.0 million as well as a second tranche of € 154.9 million, which can first be drawn on in June 2011 and serves to redeem the loan of € 175.0 million that matures in June 2011.

In addition, GILDEMEISTER has taken out borrowers' notes for a total of € 201.5 million, which are due in May 2013. As of year-end 2010, the banks consented to a one-time adjustment of a covenant in a waiver request for these loans.

GILDEMEISTER has not had a **corporate rating** since financial year 2009; as we are not planning any capital market financing and a corresponding rating incurs significant costs.

Moreover, there are still some long-term loans and short-term bilateral loan commitments to individual subsidiaries of a total volume of € 36.7 million (previous year: € 41.4 million). With regard to the terms we refer to the explanatory notes on **“Financial Liabilities”** on **page 181 et seq** in the Notes to the Consolidated Financial Statements.

Our main financing includes customary agreements on compliance with certain key indicators (covenants). The financing is supplemented by off balance sheet operating lease agreements.

For its operating segments GILDEMEISTER requires lines of guarantee to issue payment guarantees and warranties. With this financing mix, we have sufficient lines of credit, with which we have the necessary liquidity available for seasonal fluctuations within the industry, for growth in the Machine Tools business and for the project business of “Energy Solutions”. The **main financing instruments and future financial obligations** are disclosed in the **Notes to the Consolidated Financial Statements** on **page 193 et seq** and **“Other financial obligations”** on **page 187 et seq**. With respect to the **terms**, we refer to the disclosure on **page 181 et seq** in the **Notes to the Consolidated Financial Statements**.

The GILDEMEISTER group financing is carried out centrally. Only when group financing is not advantageous, due to the legal framework, is local financing used in individual cases. Cash pooling is used to utilise liquidity surpluses of subsidiaries cost-effectively within the group. In the **“Opportunities and Risk Report”** on **page 106 et seq**, and in the **Notes to the Consolidated Financial Statements** under **“derivative financial instruments”** on **page 188 et seq**, we give details of the risks arising out of financing and evaluation. Details are also given of the methods used to hedge interest and currency risks, as well as price change, default and liquidity risks.

Net Worth

The assets and capital structure developed as follows: The **balance sheet total** increased to € 1,357.5 million (previous year: € 1,152.7 million). The change arose mainly from the rise in trade receivables as of the reporting date (€ +66.5 million). Due to a rise in the balance sheet total, the **equity ratio** changed to 30.4% (previous year: 33.0%). Equity rose to € 412.9 million (previous year: € 380.9 million).

BALANCE SHEET OF THE GILDEMEISTER GROUP	31. Dec. 2010		31. Dec. 2009		Changes against previous year	
	€ million	%	€ million	%	€ million	%
Assets						
Long-term assets						
Fixed assets	365.4	26.9	326.0	28.3	39.4	12.1
Receivables and other assets	53.1	3.9	52.5	4.6	0.6	1.1
	418.5	30.8	378.5	32.9	40.0	10.6
Short-term assets						
Inventories	410.3	30.2	391.3	33.9	19.0	4.9
Receivables and other assets	416.9	30.8	298.5	25.9	118.4	39.7
Liquid funds	111.8	8.2	84.4	7.3	27.4	32.5
	939.0	69.2	774.2	67.1	164.8	21.3
Balance Sheet total	1,357.5	100.0	1,152.7	100.0	204.8	17.8
Equity and liabilities						
Long-term financing resources						
Equity	412.9	30.4	380.9	33.0	32.0	8.4
Outside capital						
Provisions	46.2	3.4	60.2	5.3	-14.0	-23.3
Liabilities	250.5	18.5	265.0	23.0	-14.5	-5.5
	296.7	21.9	325.2	28.3	-28.5	-8.8
	709.6	52.3	706.1	61.3	3.5	0.5
Short-term financing resources						
Provisions	133.1	9.8	127.8	11.1	5.3	4.1
Liabilities	514.8	37.9	318.8	27.6	196.0	61.5
	647.9	47.7	446.6	38.7	201.3	45.1
Balance Sheet total	1,357.5	100.0	1,152.7	100.0	204.8	17.8

On the **assets side**, **assets** rose by € 39.4 million or 12.1% to € 365.4 million (previous year: € 326.0 million). Intangible assets increased by 12.7 million and property, plant and equipment rose by € 4.4 million. Financial assets rose by € 22.3 million to € 50.8 million (previous year: € 28.5 million). The rise resulted from investments in financial assets as well as from the higher measurement of the investment in Mori Seiki Co. Ltd. A detailed presentation of asset additions is given in the **“Investments”** chapter on **page 47 et seq.**

Long-term receivables and other assets rose by € 0.6 million or 1.1% to € 53.1 million (previous year: € 52.5 million). At the same time deferred taxes rose by € 5.9 million. Other assets fell by € 6.3 million. Other assets include discounted bills of € 5.8 million (previous year: € 12.5 million).

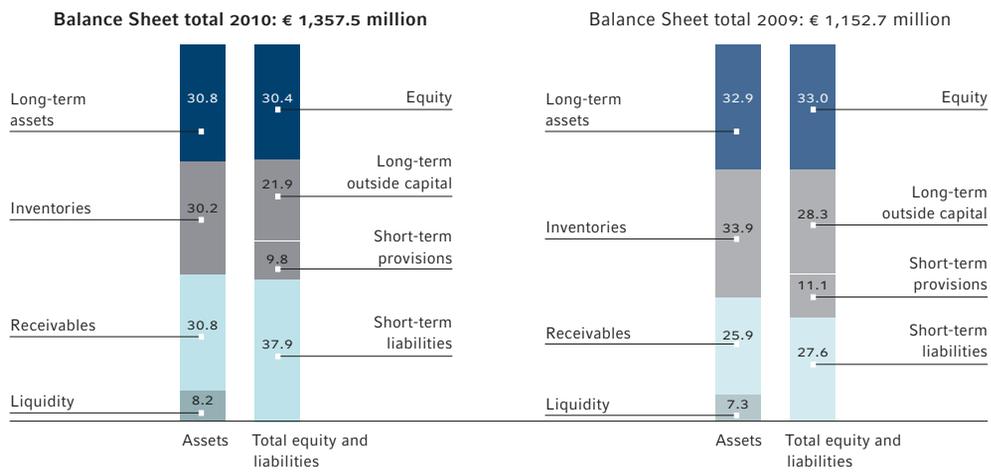
By an increase in total operating revenue of 20.1%, **inventories** only rose by 4.9% or € 19.0 million to € 410.3 million (previous year: € 391.3 million). Stocks of raw materials and consumables (RHB) rose by € 29.4 million to € 183.1 million (previous year: € 153.7 million) and stocks of unfinished goods by € 19.9 million to € 100.4 million

(previous year: € 80.5 million). This rise resulted, in particular, from necessary advance work as well as from a higher level of prefabrication for the planned growth in sales revenues. Stocks of finished goods and merchandise decreased due to the high demand to € 114.9 million (previous year: € 150.3 million).

In total, the proportion of inventories in the balance sheet total decreased to 30.2% (previous year: 33.9%). In relation to the sales revenue volume, the turnover rate of inventories without taking “Energy Solutions” into account amounted to 3.4 (previous year: 3.3).

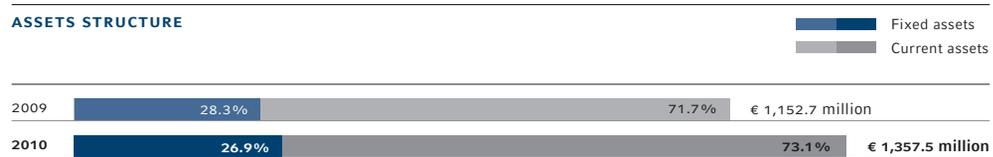
ASSETS AND CAPITAL STRUCTURE OF THE GILDEMEISTER GROUP

in %



Short-term receivables and other assets rose in comparison with the previous year by 39.7% or € 118.4 million to € 416.9 million. Trade receivables rose by € 65.5 million to € 304.3 million. Trade receivables show revenue recognition of the “Energy Solutions” in an amount of € 146.4 million (previous year: € 56.4 million). The volume of receivables sold from the factoring contracts totalled € 93.1 million (previous year: € 43.7 million). Other assets rose to € 112.6 million (previous year: € 59.7 million); these include current loans of “Energy Solutions” to project companies in an amount of € 28.1 million (previous year: € 5.8 million). These loans will be repaid following settlement of invoices for the solar park projects by the investors. The turnover rate of trade receivables amounted to 5.4 (previous year: 4.9). Without taking “Energy Solutions” into account, the turnover rate of receivables reached a value of 7.1 (previous year: 5.0).

At the balance sheet date **liquid funds** amount to € 111.8 million (previous year: € 84.4 million) or 8.2% of total assets (previous year: 7.3%). In the assets structure, the share of non-current assets decreased by 2.1 percentage points to 30.8% (previous year: 32.9%).



Under **equity and liabilities**, equity increased by € 32.0 million or 8.4% to € 412.9 million (previous year: € 380.9 million). The equity ratio changed due to the rise in total equity and liabilities to 30.4% (previous year: 33.0%). **Gearing** (proportion of net indebtedness to equity) amounts to 50.5% (previous year: 64.3%).

Non-current borrowings decreased by € 28.5 million to € 296.7 million. The proportion of total equity and liabilities fell by 6.4 percentage points to 21.9% (previous year: 28.3%). The proportion of non-current provisions amounts to 3.4% (previous year: 5.3%). This includes company pension provisions of € 26.3 million (previous year: € 26.3 million) as well as other provisions for employee obligations in an amount of € 16.0 million (previous year: € 26.3 million). Liabilities of € 5.9 million (previous year: € 2.8 million) relate to deferred tax liabilities.

Long-term financial resources increased in the year under report by € 3.5 million or 0.5% to € 709.6 million. Non-current assets are financed as to 169.6% (previous year: 186.6%) by long-term available funds.

Short-term financing resources rose by € 201.3 million or 45.1% to € 647.9 million. At the same time, trade payables increased with a clear rise in total operating revenue by € 123.4 million to € 264.5 million (previous year: € 141.1 million). Our activities to improve the proportion of prepayments in the areas of “Machine Tools” and “Energy Solutions” led to a rise in prepayments received to € 97.0 million (previous year: € 43.8 million). The prepayment ratio doubled to 15.4% (previous year: 7.5%). Provisions rose by € 5.3 million to € 133.1 million (previous year: € 127.8 million). Short-term financial liabilities rose by € 8.0 million to € 100.0 million (previous year: € 92.0 million).

The total of fixed assets and inventories of € 775.7 million (previous year: € 717.3 million) is covered as to 91.5% (previous year: 98.4%) by long-term financing resources. The structure of total equity and liabilities compared to the previous year shows a decrease in equity ratio of 2.6 percentage points and in the ratio of provisions of 3.2 percentage points to 13.2%. The liabilities ratio rose by 5.8 percentage points to 56.4% (previous year: 50.6%).

In addition to the assets shown in the consolidated balance sheet, the group also uses **off balance sheet assets**. These relate mainly to certain leased or rented goods (operating lease). Details of these are presented in the **Notes to the Consolidated Financial Statements on page 187 et seq.** Within the framework of off balance sheet financing instruments, the group uses a **factoring programme**. Details of these can be found in the

Notes to the Consolidated Financial Statements on page 148 et seq. Of special importance are our good, long-term relationships of trust with our customers and suppliers; they permit us direct access to the relevant markets and render us independent of short-term market fluctuations.



Annual Financial Statements of GILDEMEISTER Aktiengesellschaft (short form)

The following tables show the annual financial statements of **GILDEMEISTER Aktiengesellschaft** in abbreviated form. The complete annual financial statements including the management report are set out in a separate document.

BALANCE SHEET OF GILDEMEISTER AKTIENGESELLSCHAFT (HGB)	2010 € million	2009 € million
Assets		
Fixed assets		
Shares in affiliated companies	390.5	387.7
Other fixed assets	59.1	53.8
	449.6	441.5
Current assets		
Receivables from affiliated companies	344.1	311.4
Other current assets	100.6	51.8
	444.7	363.2
Balance Sheet total	894.3	804.7
Equity and liabilities		
Equity	371.1	364.6
Provisions	27.2	30.8
Liabilities		
Financial liabilities	289.2	280.8
Liabilities to affiliated companies	198.1	120.6
Other liabilities	8.7	7.9
	496.0	409.3
Balance Sheet total	894.3	804.7

The balance sheet total of GILDEMEISTER Aktiengesellschaft rose by € 89.6 million to € 894.3 million (previous year: € 804.7 million). The main changes arise through the addition of liquid funds as well as an increase in receivables from associated companies and in liabilities towards associated companies.

INCOME STATEMENT OF GILDEMEISTER AKTIENGESELLSCHAFT (HGB)		
	2010 € million	2009 € million
Sales	10.6	11.4
Other operating income	13.6	9.1
Other expenses and income	-42.7	-36.8
Income from financial assets	29.7	16.9
Financial result	-12.6	-0.1
Profit of ordinary activities	-1.4	0.5
Extraordinary income	1.2	0
Extraordinary expense	-0.2	0
Income taxes	1.5	-2.2
Annual loss / profit	1.1	-1.7
Profit brought forward	1.9	8.2
Net profit	3.0	6.5

The results of GILDEMEISTER Aktiengesellschaft were mainly determined by earnings from financial investments (€ 29.7 million), which comprise the profit and loss transfer agreements with DMG Vertriebs und Service GmbH (€ 30.2 million), of GILDEMEISTER Beteiligungen AG (€ -1.3 million) as well as income from investment income from Mori Seiki (€ 0.8 million; previous year: € 16.9 million).

The financial results was € -12.6 million (previous year: € -0.1 million). Tax income amounted to € 1.5 million (previous year: tax expense € -2.2 million). Due to the regulation of the German interest stripping rule, deferred taxes of € 2.8 million (previous year: € 0.0 million) were capitalised affecting net income.

GILDEMEISTER Aktiengesellschaft closes financial year 2010 with profit after tax of € 1.1 million (previous year: € -1.7 million). Taking into account the profit carry forward from the previous year, the net profit amounts to € 3.0 million (previous year: € 6.5 million).

The Executive Board and the Supervisory Board will propose to the Annual General Meeting of Shareholders on 13 May 2011 that no dividend be distributed for the financial year 2010 (previous year: € 0.10 per share). Moreover, it will be proposed to the Annual General Meeting of Shareholders to carry forward the remaining balance of GILDEMEISTER Aktiengesellschaft of € 3.0 million to new account.

Value Reporting

For GILDEMEISTER, value reporting forms part of a value-oriented corporate management. Our transparent, regular and structured reports allow investors an opportunity to determine corporate value, in addition to the valuation of the company on the stock exchange. Detailed interim reports over the course of the year, as well as at the end of the financial year with detailed information in the Group Management Report and Consolidated Financial Statements, meet the high requirements of the capital market.

GILDEMEISTER gears its corporate management towards a sustainable increase in corporate value. With the aid of our internal corporate controlling and management system, we manage the group and the individual companies on value-based lines. At the same time, **earnings before tax** (EBT), sales revenues and order intake, as well as – at the group level – the **return on capital employed** (ROCE), are our most important internal targets and key performance indicators. Management according to ROCE and the relative economic value added – the difference between ROCE and cost of capital following the **WACC method** (weighted average cost of capital) - is based on the assumption that the enterprise value rises when sustainable, positive value added is achieved. Due to the rise in EBIT and the fall in capital employed, ROCE rose in the reporting year to 5.6% (previous year: 3.9%). Additional values are shown in the following table:

ROCE AND ECONOMIC VALUE ADDED		
	2010	2009
EBIT (€ million)	45.0	31.8
Capital Employed (€ million)	800.6	813.7
ROCE (in %)	5.6	3.9
WACC (in %)	9.8	8.0
Relative economic value added before taxes (in %)	-4.2	-4.1
Economic value added before taxes (€ million)	-33.7	-33.4

We give further details of relevant key performance indicators for the capital market in the **“Results of operations”** chapter on **page 35** and in **“GILDEMEISTER share”** on **page 78**.

WEIGHTED AVERAGE COST OF CAPITAL (WACC)		
	2010	2009
Risk-free interest rate	3.3%	3.9%
Market risk premium	5.0%	5.0%
Beta factor	1.0	1.0
Cost of equity after tax	8.3%	8.9%
Cost of debt capital before tax	9.1%	5.8%
Tax rate (28.8%)	2.6%	1.7%
Cost of debt capital after tax	6.5%	4.1%
Share of equity	30%	33%
Share of debt capital	70%	67%
Cost of capital after tax	7.0%	5.7%
Tax rate	28.8%	28.8%
Cost of capital before tax (WACC)	9.8%	8.0%

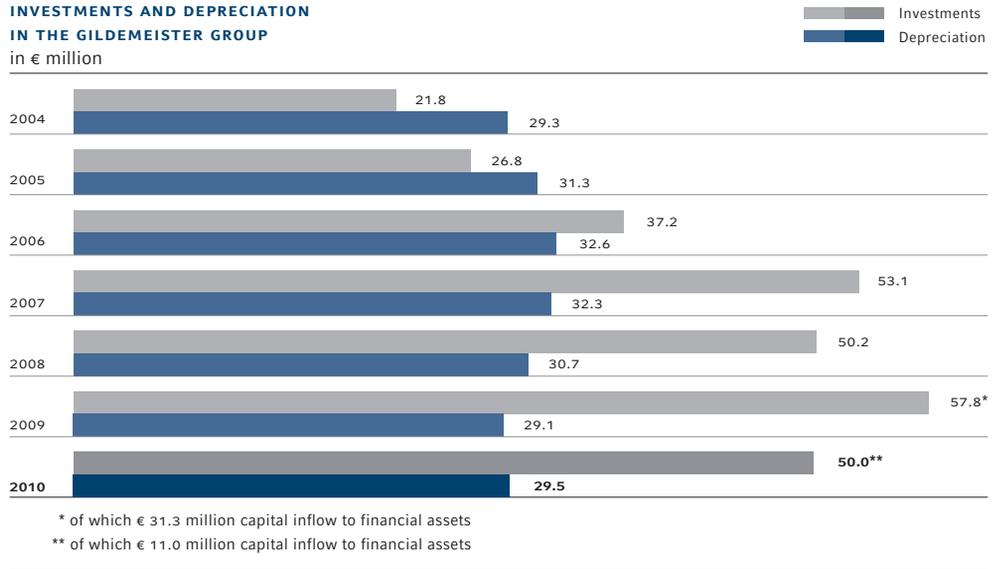
Information on planned **future net investments** can be found in the “**Future development of the GILDEMEISTER group**” on page 115.

Investments

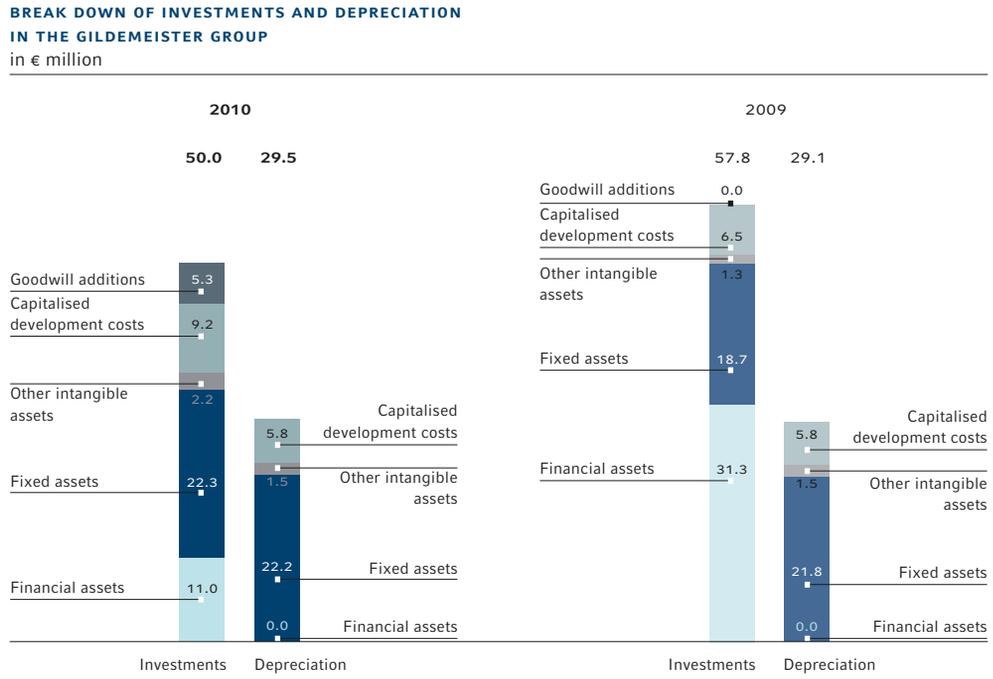
Investments in property, plant and equipment, and in intangible assets amounted to € 39.0 million (previous year: € 26.5 million). Despite the difficult past two years, we have pushed our development projects in order to also be able to offer our innovations in the market in the future. Depreciation of property, plant and equipment, taking into account capitalised development costs and finance leases, of € 29.5 million was at the previous year’s level (€ 29.1 million).

The main focus of investments was the majority equity interest in Cellstrom and therefore entry into the energy storage solutions market. At the in-house exhibition in Bielefeld, GILDEMEISTER presented for the first time an “Energy Solutions Park” and introduced the new business area of large machines (DMG-XXL machines). Moreover, we invested in the further development of our innovative products, for example in the new generation of 5-axis universal milling machines and in high-tech machines for production turning. In addition, we invested in building up our sales and service activities in Malaysia – one of 23 cooperation markets with our partner, Mori Seiki. Further investments served to make available the necessary tools, models and resources for production.

Additions to financial assets amounted to € 11.0 million, primarily through a 33% investment in MG Finance GmbH, as well as through the acquisition of a 5% interest in Younicos AG and through a 50% investment in DMG / Mori Seiki Australia Pty. Ltd. Investments amounted in total to € 50.0 million (previous year: € 57.8 million).



More detailed information on **investments in each segment** is included in the **“Segment Report”** chapter on **page 51 et seq.**



Segmental Reporting

Our business activities comprise the “Machine Tools” and “Services” segments and, for the first time, as of 1 January 2010 the “Energy Solutions” segment; the reclassification was instigated because of its growing importance and the IFRS 8 criteria. The previous year’s figures for “Services”, to which this segment previously belonged, have been adjusted accordingly. “Corporate Services” constitutes the group-wide holding functions. GILDEMEISTER Beteiligungen AG, as the holding company of the production plants, is also controlled under the “Machine Tools” segment since the start of 2010; the previous year’s figures have likewise been adjusted. The distribution of sales revenues, order intake and EBIT for the individual segments is presented as follows:

SEGMENT KEY INDICATORS OF THE GILDEMEISTER GROUP				
	2010 € million	2009* € million	€ million	Changes 2010 against 2009 %
Sales revenues	1,376.8	1,181.2	195.6	17
Machine Tools	769.9	757.7	12.2	2
Services	367.2	311.0	56.2	18
Energy Solutions	239.5	112.3	127.2	113
Corporate Services	0.2	0.2	0.0	0
Order intake	1,418.4	1,145.9	272.5	24
Machine Tools	854.2	568.0	286.2	50
Services	419.2	262.8	156.4	60
Energy Solutions	144.8	314.9	-170.1	-54
Corporate Services	0.2	0.2	0.0	0
EBIT	45.0	31.8	13.2	
Machine Tools	6.2	-18.1	24.3	
Services	58.7	53.8	4.9	
Energy Solutions	0.4	11.1	-10.7	
Corporate Services	-20.3	-15.0	-5.3	

* Previous year's figures adjusted

Further information on **segmentation by business area and geographical region** is given in the notes to the **consolidated financial statements** on **page 203 et seq.**

“Machine Tools” segment

The “Machine Tools” segment includes the group’s new machine business with the turning and milling, ultrasonic / lasertec, and electronics business areas.

At GILDEMEISTER the production plants are pooled into technical associations across all locations in order to strengthen the combined core expertise. In this way we achieve additional synergies, can make optimum use of our capacity and reduce fixed costs. In addition, the association structure increases our efficiency in producing innovative and competitive products.

In the **Milling Association**, DECKEL MAHO Pfronten GmbH and SAUER GmbH combine their core expertise in “milling” as well as in “ultrasonics” and “lasertec”.

In the **Milling and Machining Association**, DECKEL MAHO Seebach GmbH and FAMOT Pleszew Sp. z.o.o. complement each other in the efficient management and capacity utilisation of intragroup production capacity.

Our “Milling” business area range focuses on seven product lines: from universal milling machines to horizontal and vertical machining centers, travelling column milling machines and HSC precision centres to milling machines and machining centres for 5-axis machining.

GILDEMEISTER Drehmaschinen GmbH in Bielefeld, GRAZIANO Tortona S.r.l., and GILDEMEISTER Italiana S.p.A. are grouped together to form the core “turning” expertise in the **Turning Association**. Our full-line of turning machines has seven product lines and ranges from universal and vertical lathes, to turning centres and turning-milling centres for 5-axis machining.

The **Ecoline Association** offers a broad, global market segment access to turning and milling at attractive entry level prices. Activities in this area, which is growing in importance, are covered by DECKEL MAHO GILDEMEISTER Machine Tools Co. Ltd., Shanghai, and DMG ECOLINE GmbH.

The DMG Electronics GmbH consolidates our expertise in control and software development throughout the group.

More detailed information on our products in the “Machine Tools” segment can be found in the “Production, Technology and Logistics” chapter on **page 90 et seq.**

KEY FIGURES "MACHINE TOOLS" SEGMENT	2010	2009**	Changes	
	€ million	€ million	€ million	2010 against 2009 %
Sales revenues				
Total	769.9	757.7	12.2	2
Domestic	280.2	331.0	-50.8	-15
International	489.7	426.7	63.0	15
% International	64	56		
Order intake				
Total	854.2	568.0	286.2	50
Domestic	303.9	186.0	117.9	63
International	550.3	382.0	168.3	44
% International	64	67		
Order backlog*				
Total	335.0	250.7	84.3	34
Domestic	44.8	21.1	23.7	112
International	290.2	229.6	60.6	26
% International	87	92		
Investments	22.4	19.2	3.2	17
Employees	2,887	2,958	-71	-2
plus trainees	210	250	-40	-16
Total employees*	3,097	3,208	-111	-3
EBITDA	26.8	3.0	23.8	
EBIT	6.2	-18.1	24.3	
EBT	-5.8	-31.3	25.5	

* Reporting date December 31
** Previous year's figures adjusted

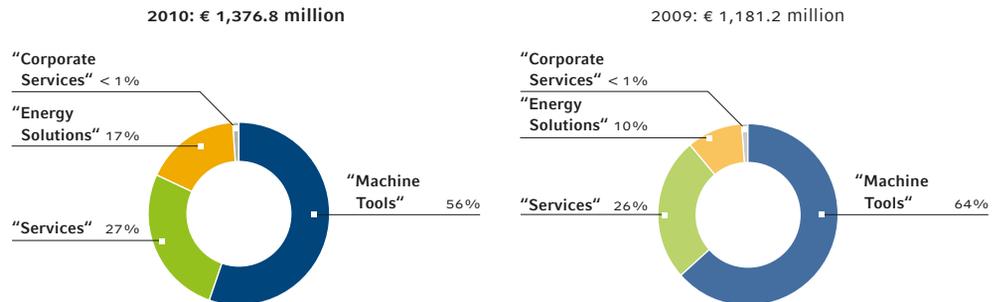
The "Machine Tools" segment once again showed a clear upwards trend in order intake in financial year 2010. This development was also reflected in the fourth quarter in sales revenues and earnings: **Sales revenues** reached € 258.8 million (+38%). For the entire year, "Machine Tools" achieved sales revenues of € 769.9 million and in doing so slightly exceeded the previous year's level (€ 757.7 million). Domestic sales revenues declined by 15% or € 50.8 million to € 280.2 million (previous year: € 331.0 million). International sales revenues grew by 15% or € 63.0 million to € 489.7 million (previous year: € 426.7 million). International sales accounted for 64% (previous year: 56%).

The "Machine Tools" segment contributed 56% of sales revenues (previous year: 64%). The milling technology of DECKEL MAHO contributed 36% (previous year: 42%); ultrasonic / lasertec accounted for 3% (previous year: 3%). The turning technology of GILDEMEISTER accounted for 17% (previous year: 19%).

The **sales quantity** of new machines rose compared with the previous year by 54% to 5,089 (previous year: 3,298).

In relation to total sales revenues of the group, “Machine Tools”, “Services” and “Corporate Services” contributed as follows:

**SALES REVENUES DISTRIBUTION IN THE GILDEMEISTER GROUP
BY SEGMENT / BUSINESS DIVISION**



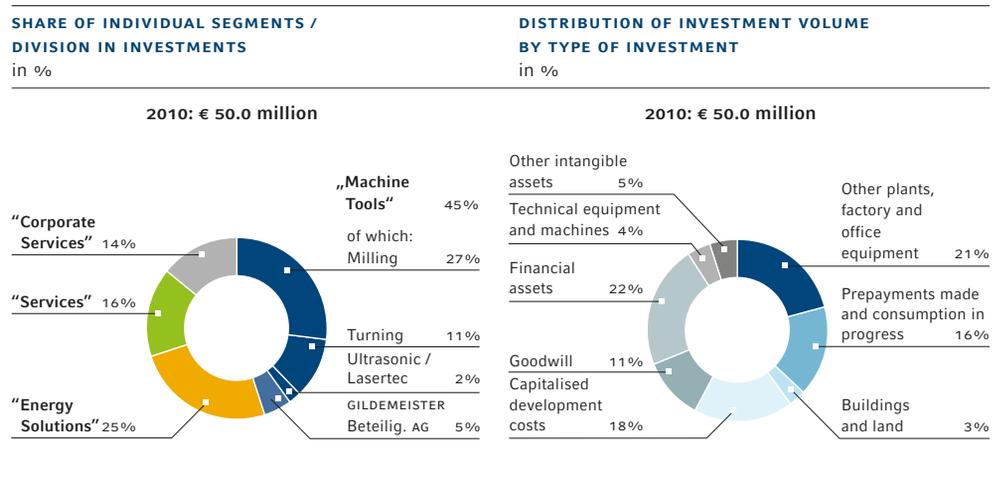
Following the slump in demand caused by the crisis, order intake in our core business picked up and progressed positively again over the course of the year. Order intake rose continuously. Our innovations were well accepted by the market. In the first three quarters, **order intake** developed positively incrementally (+58%). In the fourth quarter, it grew by 34% and reached € 233.6 million (previous year's quarter: € 174.8 million). We were able to increase order intake markedly again over the whole year by 50% or € 286.2 million to € 854.2 million (previous year: € 568.0 million).

Domestic order intake rose by 63% or € 117.9 million to € 303.9 million (previous year: € 186.0 million). International orders grew by 44% or € 168.3 million to € 550.3 million (previous year: € 382.0 million); the international share amounted to 64% (previous year: 67%). The percentage of orders in the “Machine Tools” segment amounted to 60% (previous year: 50%).

The **order backlog** as of 31 December 2010 of € 335.0 million (+34%) was above the previous year's level (€ 250.7 million). International orders recorded 87% (previous year: 92%); in total they grew by € 60.6 million or 26% to € 290.2 million (previous year: € 229.6 million). The value of domestic orders increased to € 44.8 million (previous year: € 21.1 million).

EBITDA grew by € 23.8 million to € 26.8 million (previous year: € 3.0 million). **EBIT** amounted to € 6.2 million (previous year: € -18.1 million). Due to the excellent sales revenue development, we were able to improve EBIT compared to the previous year. In particular, the fourth quarter contributed to this with EBIT of € 20.2 million.

The following diagrams show the amount and distribution of **investments** in each segment and business unit:



Investments in the “Machine Tools” segment amounted to € 22.4 million (previous year: € 19.2 million). The main focus was placed on further developing our innovative products as well as on the provision of tools, fixtures, models and operating resources. The major part of the investment funds was allocated to the business areas of turning and milling.

On 10 March 2010, we presented the new business area of large machines (DMG XXL machines) at the Bielefeld site for the first time. Over an area of about 850 square metres, our customers were able to gain a first impression of a new dimension in the field of large piece machining. At the Pfronten site, we optimised the assembly areas. We have expanded production capacity at our production site at FAMOT in Pleszew, Poland, in order to secure the internal supply of complex components within the group. To present our high-precision HSC series (high speed cutting), the opening of the “HSC Center” in Geretsried will take place between 22 and 25 March 2011. Moreover, GILDEMEISTER Beteiligungen AG invested in optimising business processes and IT systems. Capitalised development costs amounted to € 8.1 million. In the “milling” area, the new monoblock and eVolution series were the main focus of investments. In addition, we have pressed on with expanding our universal turning machines in the CTX series.

At the end of the year, the “Machine Tools” segment had 3,097 **employees** (previous year: 3,208). This represents 57% of total staff at the GILDEMEISTER group (previous year: 59%). Compared to the previous year, we have reduced the number of employees by 111. Whilst we adjusted our personnel at our production sites in Germany and Italy, we have taken on additional employees at our locations in Poland and China due to the growing need of assembly capacities for the ECOLINE series in the second half of 2010. We controlled surplus capacity through short time working, especially in the first six months.

During the third quarter, we were able to end short time working at all domestic sites. The personnel ratio in the “Machine Tools” segment amounted to 20.7% (previous year: 22.9%); employee expenses amounted to € 159.1 million (previous year: € 173.6 million).

“Services” segment

The “Services” segment includes the business activities of DMG Vertriebs und Service GmbH and its subsidiaries. This segment also offers further growth and earnings potential for the future. With the aid of the **DMG Life Cycle Products** our customers optimise the productivity of their machine tools over the entire life cycle – from their installation until part exchange as used machines. This range of services, which are perfectly aligned with DMG machine tools, offers our customers unique integrated solutions. With innovative and efficient training, repair and maintenance services, our highly-qualified service employees ensure the long-term availability of machine tools. DMG Spare Parts safeguards the reliable and fast supply of DMG spare parts from its ultra-modern service centre. DMG Service products – such as DMG Power Tools, Tool Management from DMG MICROSET and automation solutions from DMG Automation – enable the user to set up processes for machining workpieces safely and quickly, and at the same time cost-effectively.

KEY FIGURES “SERVICES” SEGMENT	2010	2009*	Changes	
	€ million	€ million	€ million	2010 against 2009 %
Sales revenues				
Total	367.2	311.0	56.2	18
Domestic	172.2	139.5	32.7	23
International	195.0	171.5	23.5	14
% International	53	55		
Order intake				
Total	419.2	262.8	156.4	60
Domestic	188.2	136.5	51.7	38
International	231.0	126.3	104.7	83
% International	55	48		
Order backlog**				
Total	126.7	74.7	52.0	70
Domestic	51.6	35.6	16.0	45
International	75.1	39.1	36.0	92
% International	59	52		
Investments***	8.1	4.5	3.6	80
Employees	2,117	2,089	28	1
plus trainees	3	3	0	0
Total employees**	2,120	2,092	28	1
EBITDA	64.4	59.4	5.0	8
EBIT	58.7	53.8	4.9	9
EBT	51.6	47.4	4.2	9

* Previous year's figures adjusted

** Reporting date December 31

*** of which € 1.1 million capital inflow to financial assets

The “Services” segment developed positively in the reporting year. The clear revival in the market could be felt in all areas – from the spare parts, service and training business to automation solutions and used machines business.

Sales revenues rose by 18% or € 56.2 million to € 367.2 million (previous year: € 311.0 million). International sales revenues grew by 14% or € 23.5 million to € 195.0 million; this represents a share of 53% (previous year: 55%). Domestic sales revenues also rose markedly: Following € 139.5 million in 2009, sales revenues in the reporting year amounted to € 172.2 million; this represents a rise of 23% or € 32.7 million. “Services” accounted for 27% of group sales revenues (previous year: 26%).

Order intake of € 419.2 million or 60% was clearly higher than the previous year’s figure (€ 262.8 million). Some 55% of all orders came from abroad; they rose by 83% or € 104.7 million to € 231.0 million (previous year: € 126.3 million). Domestic orders for “Services” amounted to € 188.2 million (previous year: € 136.5 million); “Services” accounted for 30% of all group orders (previous year: 23%).

The **order backlog** as of 31 December amounted to € 126.7 million (previous year: € 74.7 million). Earnings in the “Services” segment developed positively. **EBITDA** rose by 8% or € 5.0 million to € 64.4 million (previous year: € 59.4 million). **EBIT** amounted to € 58.7 million (previous year: € 53.8 million). **EBT** amounted to € 51.6 million (previous year: € 47.4 million).

Investments in property, plant and equipment and in intangible assets in the “Services” segment amounted to € 7.0 million (previous year: € 4.5 million). We have continuously optimised the spare parts logistics at the Geretsried site. From here we can supply our customers with spare parts at an availability rate of 95% and at a speed that is unrivalled throughout the industry. Further investment funds were allocated to building up our sales and service activities in Malaysia with our cooperation partner, Mori Seiki. In addition, it is planned to open a joint technology center in India between 17 and 20 May 2011. Further investment funds were drawn on in this respect corresponding to building progress. In order to guarantee our quality of service, we have supplied our service employees with the latest diagnosis tools and software programmes as well as electronic devices.

Capitalised development costs in the “Services” segment were € 0.3 million. Additions to financial assets amounted to € 1.1 million through the 50% investment in DMG / Mori Seiki Australia Pty. Ltd. Investments thus amounted in total to € 8.1 million.

The number of **employees** rose compared to the previous year by 28 to 2,120 (previous year: 2,092). The proportion of employees working in the “Services” segment was 39% (previous year: 38%). In particular, personnel was taken on specifically at the sales and service companies in the world’s largest market of China, as well as in selected cooperation markets with clear growth potential, such as India, Singapore, Malaysia and Turkey. In the USA, the launch of the cooperation led to the consolidation of the sales and service company within Mori Seiki, due to the significantly stronger market presence of Mori Seiki. The personnel ratio in the “Services” segment was 40.3% (previous year: 50.2%); employee expenses amounted to € 147.8 million (previous year: € 156.1 million).

“Energy Solutions” segment

With “Energy Solutions” we have built up a young business area, which we consider to have a potential for growth, as well as future potential in the area of energy technology. This segment includes the business activities of a+f GmbH and the companies in Italy, Spain, the USA and India responsible for sales, service and production. The **“SunCarrier”** product serves the growing worldwide market of **solar technology**. Our business model is geared towards industrial customers and major investors, as well as the implementation of turnkey projects and after sales service. The majority investment in the Austrian company, Cellstrom GmbH, expands the portfolio to include the promising future market of **energy storage**. The long-lasting and low maintenance **“cellcube”** big battery offers a variety of deployment possibilities; for example the storage of electricity from solar power plants and wind farms or as a solar fuelling station for the growing number of e-vehicles. Our customers can use these batteries to store the electricity produced and can then use it round the clock as necessary. For machine tools the energy storage system offers uninterrupted electricity supply, above all in regions with unstable power supply systems. In the **“Components”** area, a+f GmbH specialises in marketing components especially for wind power. Detailed information on the **“SunCarrier”** can be found at www.suncarrier.com, on the subject of energy storage at www.cellstrom.com.

KEY FIGURES “ENERGY SOLUTIONS” SEGMENT	2010	2009*	Changes	
	€ million	€ million	€ million	2010 against 2009 %
Sales revenues				
Total	239.5	112.3	127.2	113
Domestic	46.5	25.8	20.7	80
International	193.0	86.5	106.5	123
% International	81	77		
Order intake				
Total	144.8	314.9	-170.1	-54
Domestic	45.4	21.2	24.2	114
International	99.4	293.7	-194.3	-66
% International	69	93		
Order backlog**				
Total	166.5	261.2	-94.7	-36
Domestic	9.5	10.6	-1.1	-10
International	157.0	250.6	-93.6	-37
% International	94	96		
Investments***	12.6	1.2	11.4	950
Employees	160	87	73	84
plus trainees	0	0	0	-
Total employees**	160	87	73	84
EBITDA	1.8	11.7	-9.9	
EBIT	0.4	11.1	-10.7	
EBT	-9.3	7.5	-16.8	

* Previous year's figures adjusted

** Reporting date December 31

*** of which € 4.9 million capital inflow to financial assets

Sales revenues in “Energy Solutions” rose over the whole year to € 239.5 million (previous year: € 112.3 million). At the end of the year a range of major projects in Italy was completed, which made a significant contribution to sales revenues. With growth of +113% or € 127.2 million we were able to double sales revenues. As of 31 December, “Energy Solutions” accounted for 17% of group sales revenues (previous year: 10%). Due to the high order backlog, **order intake** progressed as planned below the previous year’s level. In the fourth quarter it amounted to € 54.4 million. For the whole year we have recorded order intake of € 144.8 million (–54%). The **order backlog** as of 31 December of € 166.5 million (–36%) was below the level of the previous year (€ 261.2 million) in line with plans. **EBITDA** amounted to € 1.8 million (previous year: € 11.7 million). **EBIT** amounted to € 0.4 million (previous year: € 11.1 million). Earnings were burdened by the planned building up and extension of sales and service bases in Italy, in the USA, in India and France as well as by higher module and component prices and construction delays of individual solar parks due to approvals. Furthermore, due to difficult weather conditions, the timely completion of some projects could only be realised at additional costs. In addition, the results were affected by initial investments into the energy storage market.

Investments in plant, property and equipment and in intangible assets in the “**Energy Solutions**” segment amounted to € 7.7 million (previous year: € 1.2 million). A large part of the investment funds were accounted for by the majority interest in Cellstrom GmbH. In addition, we have invested in the further development of our solar and energy storage technology. Capitalised development costs in the “Energy Solutions” segment were € 0.8 million. Additions to financial assets amounted to € 4.9 million through the acquisition of a 5% interest in Yunicos AG. Investments thus amounted in total to € 12.6 million.

The number of **employees** rose by 73 (+84%) to 160 (31 Dec. 2009: 87). The proportion of employees working in the “Energy Solutions” segment was 3% (previous year: 2%).

“**Corporate Services**” segment

The “Corporate Services” segment comprises GILDEMEISTER Aktiengesellschaft with its group-wide holding functions. Central functions have been assigned to it, such as group strategy, development and purchasing coordination, management of intracompany projects in the production and logistics areas, funding, group controlling and group human resources. The holding functions across the group incur expenses and sales revenues.

KEY FIGURES "CORPORATE SERVICES" SEGMENT	2010 € million	2009* € million	Changes 2010 against 2009 € million
Sales revenues	0.2	0.2	0.0
Order intake	0.2	0.2	0.0
Investments**	6.9	32.9	-26.0
Employees***	68	63	5
EBITDA	-18.5	-13.2	-5.3
EBIT	-20.3	-15.0	-5.3
EBT	-30.0	-16.5	-13.5

* Previous year's figures adjusted
** of which € 5.0 million capital inflow to financial assets (2009: € 31.3 million)
*** Reporting date December 31

In the "Corporate Services" segment, both **sales revenues** and **order intake** in an amount of € 0.2 million each (previous year: € 0.2 million) consisted mainly of rental income. "Corporate Services" again accounted for less than 0.1% of group sales revenues (previous year: <0.1%). **EBIT** amounted to € -20.3 million (previous year: € -15.0 million). **EBT** was € -30.0 million (previous year: € -16.5 million). Due to the high interest costs and finance expenses, **EBT** deteriorated by € 13.5 million (previous year: € -16.5 million). We were able to achieve improvements in the areas of maintenance and advisory services, as well as in currency earnings.

Investments in property, plant and equipment and in intangible assets in the "Corporate Services" segment amounted to € 1.9 million (previous year: € 1.6 million). A key focus was the opening of the "Energy Solutions Park" at the in-house exhibition on 31 August 2010 in Bielefeld. With two "SunCarriers" and the "cellcube" large battery, we were able to impress our customers with the efficiency of our trend-setting energy system. An additional focus was placed on the modernisation of the Bielefeld location in line with requirements. Additions to financial assets amounted to € 5.0 million through the 33% investment in MG Finance GmbH. Investments thus amounted in total to € 6.9 million.

As of 31 December 2010 this segment had **68 employees** (previous year: 63 employees).

Statement on Business Development

Over the course of the year GILDEMEISTER was able to improve again step-by-step in all key performance indicators and in doing so achieved its goals for the financial year 2010. Order intake rose by 24% to € 1,418.4 million. Sales revenues, EBT and net annual income also developed according to plan. Sales revenues grew by 17% to € 1,376.8 million. EBT was positive at € 6.5 million. The return on sales – measured by EBT – of 0.5% was at the previous year's level (0.6%). The annual net income in the group amounts to € 4.3 million. The free cash flow amounts to € 45.2 million. We were able to increase equity further to € 412.9 million and to reduce our net financial liabilities once again. Performance in our segments also developed in line with our forecasts.

The financial year 2011 started well for GILDEMEISTER in line with plans. In January and February both order intake and earnings were higher than the previous year's figures. We have thus laid the foundations for another successful year. Further **details of the current economic situation** can be found in the **"Supplementary Report"** on **page 104 et seq.**

ORDER INTAKE in € million

2009		1,145.9
2010	Forecast Q1	about 1,200.0
2010	Forecast Q2	> 1,300.0
2010	Forecast Q3	> 1,350.0
2010		1,418.4
2011	Forecast	> 1,600.0

SALES REVENUES in € million

2009		1,181.2
2010	Forecast Q1	> 1,200.0
2010	Forecast Q2	> 1,250.0
2010	Forecast Q3	> 1,300.0
2010		1,376.8
2011	Forecast	> 1,500.0

COOPERATION SUSTAINS INNOVATION



JAYARAM GOPAL,
HEAD OF SERVICES COOPERATION MARKETS

"Our global service is subject to the same high standards as our machines. This means that we guarantee our customers that they can manufacture round the clock."

GILDEMEISTER experts play a decisive role in assisting our customers to hold their own against international competition. Their excellent know-how, a worldwide sales and service network and individual services arrange for a smooth production and the highest planning reliability.



GLOBALE SERVICE COOPERATION

WORLDWIDE COOPERATION PERFECTLY COORDINATED

With more than 130,000 machines installed worldwide in various industries and regions, GILDEMEISTER'S customer base is characterized by internationality and diversity. We use the valuable experience we gain from this to strengthen and build upon our position in the relevant markets. An important part of our global corporate strategy is the cooperation with the Japanese machine tool builder, Mori Seiki, under the brand name DMG / Mori Seiki.

COOPERATION SUSTAINS INNOVATION

HIGH-TECH SERVICE FOR INNOVATIVE MACHINE TOOLS

Top productivity and reliability through excellent service products, such as at RED BULL TECHNOLOGY LTD., Milton Keynes, UK. DMG experts ensure customer success here with services such as high-tech geometry checks for the highest precision, regular maintenance, updates and upgrades to enhance the machines' performance.





COOPERATION MARKETS

The broadly-positioned international service business is constantly gaining in importance at GILDEMEISTER. For this reason, together with Mori Seiki, we have combined the sales and service organisations in the cooperation markets and consolidated GILDEMEISTER's global presence long-term. Through this strong cooperation, we offer a variety of tailor-made products and improve proximity to our customers both qualitatively and quantitatively.

SALES AND SERVICE LOCATIONS COOPERATION MARKETS



- USA**
- 1 --- CHICAGO
 - 2 --- CHARLOTTE
 - 3 --- BOSTON
 - 4 --- LOS ANGELES
 - 5 --- DALLAS
 - 6 --- DETROIT
- TURKEY**
- 7 --- ISTANBUL
 - 8 --- IZMIR
 - 9 --- ANKARA

- INDIA**
- 10 --- BANGALORE
 - 11 --- NEW DELHI
 - 12 --- AHMEDABAD
 - 13 --- PUNE
- JAPAN**
- 14 --- YOKOHAMA
- KOREA**
- 15 --- SEOUL
- TAIWAN**
- 16 --- TAICHUNG

- EAST ASIA**
- 17 --- SINGAPORE
 - 18 --- MALAYSIA KUALA LUMPUR
 - 19 --- VIETNAM HANOI
- THAILAND**
- 20 --- AYUTTHAYA
 - 21 --- BANGNA
- INDONESIA**
- 22 --- JAKARTA
- AUSTRALIA**
- 23 --- MELBOURNE

WORLDWIDE SERVICE

SERVICE HOTLINE AVAILABILITY:

24/7

INTERNATIONAL SERVICE LOCATIONS:

75

SERVICE EXPERTS ON CALL WORLDWIDE:

> 1,200

We listen very carefully to our customers. And we are highly aware of current and future developments in the global marketplace. In this way we recognize all the coming challenges early. This is why GILDEMEISTER not only invests in the development of new products but also in transnational services and thus directly in a successful joint future.

Corporate Situation

With numerous user-oriented innovations, GILDEMEISTER sets the trends worldwide. In the reporting year, 17 new developments were presented at national and international trade fairs. By concentrating its sales and service structures with Mori Seiki, GILDEMEISTER has firmly cemented its global position in the cooperation markets long-term. With “Energy Solutions”, we have established a young business area in the energy management industry, which we consider to have growth potential.

Employees

As of 31 December 2010, GILDEMEISTER had 5,445 employees, of whom 213 were trainees (previous year: 5,450). The number of employees has practically remained the same, as in anticipation of an improvement in business development, we have purposely retained our highly-qualified specialist personnel.

We succeeded in offsetting fluctuations in personnel capacities by making use of short time working. Over the course of the third quarter, due to business development, we were able to terminate short time working at all domestic sites. On average, 16% of employees within the group were affected by short time working; the extent was 20% of the weekly working time. Savings resulting from short time working totalled € 7.4 million.

The number of employees in the segments developed as follows: In the “Machine Tools” segment, we were able to limit the necessary reduction in personnel in Germany and Italy by making use of the short time working described above. Additional employees were taken on at our sites in Poland and China due to increases in capacity.

In “Services”, employee numbers, particularly in the sales and service companies, were increased in China and the cooperation markets in India, Singapore and Malaysia. In the USA, due to the stronger market presence of Mori Seiki, the joint sales and service company was consolidated in Mori Seiki.

In the “Energy Solutions” segment, the number of employees rose as a result of increasing personnel numbers in solar technology and the purchase of Cellstrom GmbH.

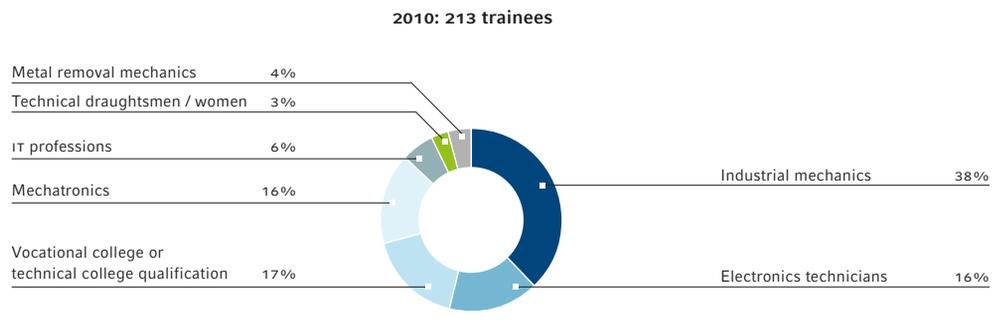
At year-end, 3,306 employees (61%) worked at our domestic companies and 2,139 employees (39%) at our foreign companies. Temporary workers were taken on in the middle of the year; this was 238 at the end of the financial year.

The number of trainees was 213 (previous year: 253). At the start of the new training year, GILDEMEISTER took on 35 trainees (previous year: 43). The vocational training quota in the “Machine Tools” segment at the domestic companies was 9.3% (previous year: 10.4%). Overall, we offer vocational training in nine different trades. In addition, we offer courses of study in association with regional colleges of advanced vocational education and universities of applied sciences. We are continuously expanding and developing these co-operations further.

In the reporting year, the **proportion of females** in the group was 13.1% (previous year: 12.7%). In the “Machine Tools” segment, the proportion of females was 10%, in “Services” 16%, in the “Energy Solutions” segment 28% and in “Corporate Services” 40%. GILDEMEISTER supports the positive development of the proportion of females through offering flexible working times – even in management positions. We have had a relatively high percentage of female employees for many years – in an industry that traditionally is favoured by men. Moreover, we offer individual solutions within the scope of parental leave and part-time working, both for women and men.

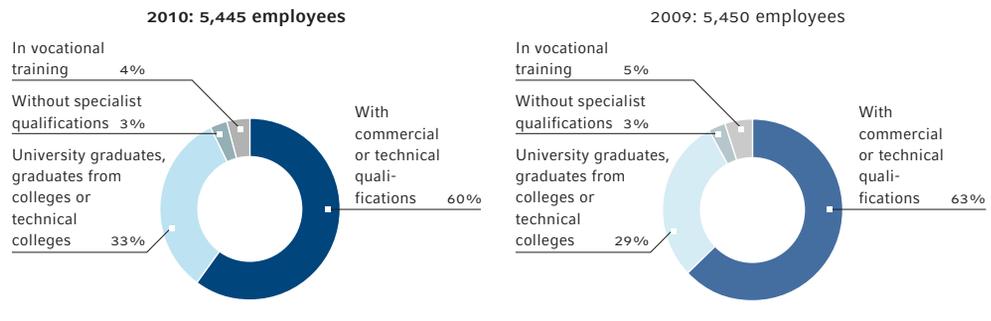
TRAINING IN THE GILDEMEISTER GROUP

Allocation by fields
in %



For years we have placed special value on our employees’ qualifications in the field of **human capital**. It is a core element of the non-financial sustainable performance indicators or “sustainable development key performance indicators” (**SD-KPIS**). The following graphic shows that great value is placed on professional training and a qualified workforce at the GILDEMEISTER group.

**QUALIFICATIONS STRUCTURE OF EMPLOYEES
IN THE GILDEMEISTER GROUP**
in %



The qualifications structure remained continually at the high level of previous years: 97% of the workforce had a professional qualification or is currently in training (previous year: 97%). The number of participants in further training courses was 3,038 employees or 56% of the workforce (previous year: 3,537 employees or 65%). The main focus was placed on training our domestic and international sales and service personnel on new machine developments. In addition, further training in the areas of information technology, languages and management and work techniques. Overall, further training costs amounted to € 3.5 million (previous year: € 4.9 million). Variable wages recognise individual performance and promote **employee motivation**. Furthermore, GILDEMEISTER has brought forward by three months the implementation date of the collective page agreement, which provides for a pay rise as of 1 April 2011 pursuant to the collective pay agreement for the metal and electrical industry, and has already paid this increase as of 1 January 2011.

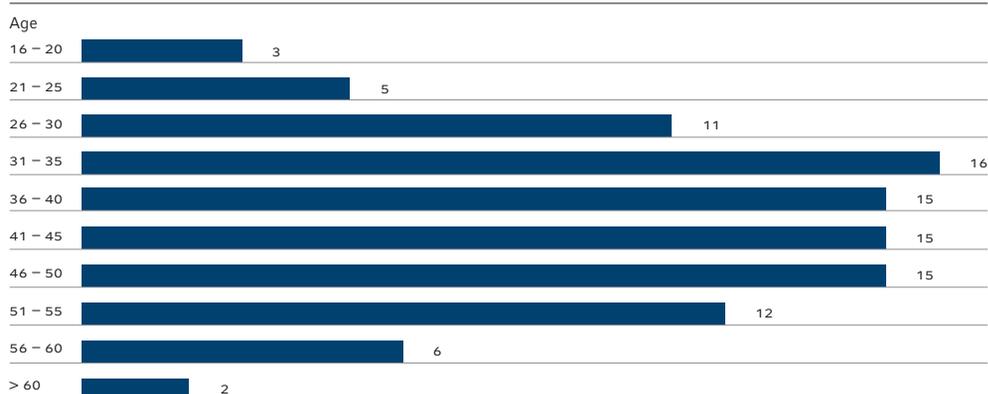
Further elements for employee motivation are health and safety protection, which are core components of our value added system both in Germany and abroad. Our certified quality management system determines working conditions – of course, also for the newly industrialising countries in which GILDEMEISTER has production plants as well as sales and service companies.

Employee expenses fell by € 12.9 million to € 333.2 million (previous year: € 346.1 million). Of these, wages and salaries accounted for € 279.5 million (previous year: € 291.1 million), social insurance contributions for € 49.8 million (previous year: € 50.3 million) and retirement pension expenses € 3.9 million (previous year: € 4.7 million). The personnel ratio was 24.3% (previous year: 30.3%).

The part-time retirement plan covered 143 employment agreements (previous year: 152), for which we use the block model. Participation in this scheme has thus fallen by 6% in comparison with the previous year. The entire period of part-time retirement is divided into active and passive phases of equal length. There were 59 employees in the active phase and 84 in the passive phase. The age structure of our employees is well-balanced and has changed as follows: 35% of our employees are 35 years of age and younger (previous year: 34%), 80% are 50 years of age and younger (previous year: 82%).

AGE STRUCTURE OF EMPLOYEES IN THE GILDEMEISTER GROUP 2010

in %



Other non-financial performance indicators have developed as follows: In the reporting year there were 129 traffic and operational accidents (previous year: 108); in relation to the total number of those employed, this represents a slight increase to 2.4% (previous year: 2.0%). The rate of sick leave amounted to 3.1% as in the previous year and was thus below the average for the industry of 3.2%.

Fluctuation of 10.2% was clearly below the previous year (20.4%). In 2009, the fluctuation rate was influenced to a large extent by the reduction in employees throughout the group. As current figures for the industry are not available, a comparison with the industry average is not possible.

We recognised one employee for his 50 years' employment with the company. In addition, 40 employees celebrated 40 years', 71 employees 25 years' and 323 employees 10 years' employment at the company. We would like to thank all our employees who are celebrating their jubilee for their loyalty to the company and their unceasing commitment. At this point we would also like to thank all our employees for their unreserved, highly-motivated performance. In another difficult financial year, they showed a sense of responsibility, solidarity and endurance.

GILDEMEISTER complies with
Corporate Governance Code

Corporate Governance

Corporate governance has always enjoyed a high level of significance at GILDEMEISTER and it is an integral part of corporate management and all corporate areas. For the Executive and Supervisory Boards, corporate governance represents responsible and transparent corporate management and controlling throughout the group. Their joint goal is a sustained increase in corporate value. Our internal guidelines are likewise geared to these rules and principles. GILDEMEISTER has been following the recommendations of the German Corporate Governance Codex for years and complied with all the recommendations with one exception until the latest version of the code came into force on 26 May 2010. The following **declaration of conformity** was submitted by the Executive Board and the Supervisory Board in December 2010 and – just like the previous years' declarations of conformity – is accessible at our website www.gildemeister.com.

- “1. Since the last declaration of conformity of December 2009, GILDEMEISTER Aktiengesellschaft has complied with the recommendations of the “Government Commission of the German Corporate Governance Code” in the version of the code of 18 June 2009, published in the electronic federal gazette on 5 August 2009, until the version of the code of 26 May 2010 entered into force, with the following exception:

 - _ A member of the Supervisory Board holds an executive position with a significant competitor of the company. The Supervisory Board member, who took up his appointment in November 2009, is the president of a foreign producer of machines for metal cutting. The special expertise of this Supervisory Board member is of great benefit to the company and, more especially, to the work of the Supervisory Board.
 - _ Appropriate measures are taken by the company to avoid any conflict of interests.

2. The recommendations of the “Government Commission of the German Corporate Governance Code” in the version of the code of 26 May 2010 have been complied with by GILDEMEISTER Aktiengesellschaft since its publication in the electronic federal gazette on 2 July 2010 and will be complied with in the future, however with the following exception:

 - _ A member of the Supervisory Board holds an executive position with a significant competitor of the company. The Supervisory Board member, who took up his appointment in November 2009, is the president of a foreign producer of machines for metal cutting. The special expertise of this Supervisory Board member is of great benefit to the company and more especially to the work of the Supervisory Board.
 - _ Appropriate measures are taken by the company to avoid any conflict of interests.”

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

Performance-related
components

The remuneration of the Supervisory Board is determined by the Annual General Meeting of Shareholders and is regulated under Section 12 of the articles of association of GILDEMEISTER Aktiengesellschaft. It contains remuneration components not related to performance and a performance-related remuneration component. 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 component comprises a long-term performance incentive (LTI), which has the aim of promoting sustainable corporate management along value-based lines.

In financial year 2010, the fixed remuneration for each individual member of the Supervisory Board was € 24,000; the chairman received 2.5-times that amount (€ 60,000) and the deputy chairman 1.5-times that amount (€ 36,000). The fixed remuneration therefore totalled € 329,687 (previous year: € 335,605).

Remuneration for committee work amounted to a total of € 211,479 (previous year: € 221,211) and took into account the work carried out by the Finance and Audit Committee, the Personnel, Nominations and Remuneration Committee, and by the Technology and Development Committee. No remuneration was paid for work on the Conciliation Committee or on the Nominations Committee, which are sub-committees of the Personnel, Nominations and Remuneration Committee. The individual committee members each received € 12,000. The chairperson of a committee also receives an additional fixed remuneration of a further € 12,000 and the deputy chairperson of € 6,000.

The LTI performance-related remuneration component is based on target values related to key figures. The earnings per share (EPS) figure is used as the performance-related key figure. The EPS is an established key figure by which a performance context is given taking into consideration 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 LTI is variable, which means that it is not a secure remuneration. In this respect, again the Supervisory Board chairman receives 2.5-times and his deputy 1.5-times the remuneration of the other members. The LTI is capped at the level of the respective fixed remuneration.

The LTI takes into account not only the reporting year but also the two preceding years. The key figure 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. For financial year 2010 and the two preceding years, the corresponding EPS average value was € 0.69 (previous year: € 1.04). The performance-related remuneration for the Supervisory Board calculated from the LTI totalled € 236,963 (previous year: € 335,605). The economic development was thus also reflected in the amount of this variable remuneration component.

In 2010 the Supervisory Board remuneration was made up as follows:

REMUNERATION OF THE SUPERVISORY BOARD OF GILDEMEISTER AKTIENGESELLSCHAFT

	Fixed remuneration in €	Committee remuneration Finance & Auditing (F&A) in €	Committee remuneration Personnel Nomination & Remuneration (PNR) in €	Committee remuneration Technology & Develop- ment (T&D) in €	LTI in €	Total in €
Hans Henning Offen						
Chairman SB, Chairman PNR	60,000	12,000	24,000	0	43,125	139,125
Prof. Dr.-Ing. Uwe Loos						
Member SB until 31 March 2010						
Chairman T&D until 31 March 2010	5,918	0	0	5,918	4,253	16,089
Ulrich Hocker						
Member SB as of 11 May 2010						
Member PNR as of 14 May 2010	15,386	0	7,627	0	11,059	34,072
Günther Berger						
Member SB until 17 March 2010						
Chairman F&A until 17 March 2010	4,997	4,997	0	0	3,592	13,586
Prof. Dr. Edgar Ernst						
Member SB as of 11 May 2010						
Chairman F&A as of 14 May 2010	15,386	15,255	0	0	11,059	41,700
Dr.-Ing. Jürgen Harnisch						
Deputy Chairman T&D until 13 May 2010						
Chairman T&D as of 14 May 2010	24,000	0	0	21,814	17,250	63,064
Dr.-Ing. Masahiko Mori	24,000	12,000	0	0	17,250	53,250
Prof. Dr.-Ing. Walter Kunerth						
Member PNR until 13 May 2010						
Deputy Chairman T&D as of 14 May 2010	24,000	0	4,373	11,441	17,250	57,064
Norbert Zweng	24,000	12,000	0	0	17,250	53,250
Gerhard Dirr						
Deputy Chairman SB, Deputy Chairman PNR	36,000	12,000	18,000	0	25,875	91,875
Wulf Bantelmann						
Member SB until 31 May 2010						
Member T&D until 31 May 2010	9,929	0	0	4,964	7,136	22,029
Oliver Grabe						
Member SB as of 01 June 2010						
Member T&D as of 29 Sep. 2010	14,071	0	0	3,090	10,114	27,275
Matthias Pfuhl	24,000	0	0	12,000	17,250	53,250
Harry Domnik						
Deputy Chairman F&A	24,000	18,000	12,000	0	17,250	71,250
Günther Johann Schachner	24,000	0	0	0	17,250	41,250
Total	329,687	86,252	66,000	59,227	236,963	778,129

For the financial year 2010 the total remuneration of the Supervisory Board amounted to € 778,129 (previous year: € 892,421).

Pursuant to Section 15a of the German Securities Trading Act (WpHG), members of the Supervisory Board or other persons subject to reporting requirements must disclose any purchase or disposal of shares, as well as any related rights of purchase or disposal, such as options or rights that are directly dependent upon the quoted share price of the company. In the reporting year, no **director's dealings notifications** were made.

A company that is managed by a member of the Supervisory Board holds an investment of 5% of the total number of shares. The remaining members of the Supervisory Board together hold less than 1% of the total shares issued. No member of the Executive Board owns any GILDEMEISTER shares.

Insurance for Supervisory and Executive Board members of the GILDEMEISTER group
GILDEMEISTER has D&O insurance (manager liability insurance) and legal costs insurance for all members of the Supervisory and Executive Boards, as well as for managing directors and executive staff. The D&O insurance provides for an appropriate deductible within the context of the Act on the Appropriateness of Management Board Remuneration (Vorstag).

Remuneration of the Executive Board of GILDEMEISTER Aktiengesellschaft

The remuneration of the Executive Board is discussed and decided by the plenary meeting of the Supervisory Board.

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 variable components comprise a short-term incentive (STI) and a long-term incentive (LTI). Both variable components are fixed in such a way that they represent a clear incentive for the Executive Board members to achieve the targets. In this way they support sustainable and value-based management. 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 within the scope of its comparative environment.

Direct remuneration of the members of the Executive Board amounted to € 4,027 K (previous year: € 2,988 K). Of this, € 1,821 K (previous year: € 1,673 K) was attributed to the fixed remuneration, € 1,295 K to the STI (previous year: € 400 K). The STI thus takes account of reaching the target of a positive result in times of economic crisis. The payout value of the LTI was € 0 K, as the EBIT margin set for the 2008 to 2010 tranche was not achieved in the allocation year 2010. The cost of the individual performance remuneration amounted to € 800 K (previous year: € 800 K). Benefits in kind accounted for € 111 K (previous year: € 115 K).

Performance-related
Executive Board
remuneration

In 2010 the direct remuneration of the Executive Board breaks down as follows:

EXECUTIVE BOARD DIRECT REMUNERATION						
	Fixed € K	STI € K	LTI € K	Remu- neration € K	Payment in kind € K	Total € K
Dr. Rüdiger Kapitza, Chairman	800	476	0	300	41	1,617
Dr. Thorsten Schmidt	356	317	0	200	26	899
Günter Bachmann	356	317	0	200	29	902
Kathrin Dahnke (as of 20 May 2010)	161	185	0	100	6	452
Michael Welt (Chairman until 19 May 2010)	148	–	–	–	9	157
Total	1,821	1,295	0	800	111	4,027

The fixed remuneration is the contractually defined basic remuneration, which is paid in equal monthly amounts.

The STI is based on index-based target values. In the reporting year the earnings after tax (EAT) provided the reference value used. The scale of the target values is re-defined annually. In addition, the STI is capped at € 500 K for 2010. The cap is also fixed anew each year.

Remuneration components
dependent on share price

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. 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. Should the EBIT of the allocation year not reach a minimum EBIT figure that is set anew upon every new awarding of a tranche, the LTI payment is not applicable.

The LTI involves a **performance units plan**, which is not associated with any dividend payments or voting rights. In addition, the units may not be traded nor sold to third parties. The performance units awarded at the beginning of each year have a term of three years, respectively four years since 2009. Following this model, the performance units awarded for 2008 did not result in any payment. The performance units awarded for the financial year 2009 will be allocated on 31 December 2011 and, following the Annual General Meeting of Shareholders in 2012, will be paid out taking into account the EBIT target achieved in 2011 and the respective share price.

Based on the statutory provisions of the German Act on the Appropriateness of Management Board Remuneration (VorStAG), in 2009 the Supervisory Board passed a resolution to extend the period of a tranche from three to four years. In order to continue the incentive effect of the LTI, an additional tranche with a period of four years was awarded in 2009 for each Executive Board member. The allocation of these tranches takes place in 2012 with payment being made in 2013 following the Annual General Meeting of Shareholders.

The performance units awarded for financial year 2010 will be allocated on 31 December 2013 and, following the Annual General Meeting of Shareholders in 2014, will be paid out taking into account the average EAT (earnings after tax) of the last four years and the respective share price.

The following table shows the number of performance units awarded in 2008, 2009 and 2010 and the fair value of the LTI at the time of its granting for each Executive Board member.

	2008 tranche term 3 years		2009 tranche term 3 years		2009 tranche term 4 years		2010 tranche term 4 years		
	Number of perfor- mance units awarded	Fair Value at granting	Amount of allocation for 2010	Number of perfor- mance units awarded	Fair Value at granting	Number of perfor- mance units awarded	Fair Value at granting	Number of perfor- mance units awarded	Fair Value at granting
	shares	€ K	€ K	shares	€	shares	€ K	shares	€ K
Dr. Rüdiger Kapitza, Chairman	10,422	159	0	28,209	207	20,790	141	37,879	559
Dr. Thorsten Schmidt	7,817	119	0	21,157	155	13,860	94	25,253	372
Günter Bachmann	7,817	119	0	21,157	155	13,860	94	25,253	372
Kathrin Dahnke (as of 20 May 2010)	–	–	–	–	–	–	–	13,889	205
Total	26,056	397	0	70,523	517	48,510	329	102,274	1,508

The individual performance remuneration takes into account the level of success of the individual members of the Executive Board in reaching their individually set goals. The STI and the LTI, as well as the individual performance remuneration are variable, which means they are not a secure remuneration.

Remuneration 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 remuneration 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

	€ K
Dr. Rüdiger Kapitza, Chairman	258
Dr. Thorsten Schmidt	70
Günter Bachmann	90
Kathrin Dahnke	50
Michael Welt	143
Total	611

In accordance with the International Financial Reporting Standards (IFRS), a provision expense of € 258 κ arose for the defined-benefit contribution commitment in 2010 (previous year: € 108 κ), whereby the total amount of provisions is € 5,530 κ. This value includes the provision for surviving dependants contained in the commitment.

The special purpose payments to the defined contribution pension plan amounted in total to € 353 κ (previous year: € 253 κ). Total provision expense for the past financial year amounted to € 611 κ (previous year: € 361 κ). Advances in favour of the members of the Executive Board – or for the rest also in favour of members of the Supervisory Board – were not granted. There was no share option plan or similar securities-based incentive system.

The companies of the GILDEMEISTER group did not pay any remuneration to any board members for services, in particular consulting and introduction services, which were personally rendered. Former members of the Executive Board and their surviving dependants received € 618 κ (previous year: € 604 κ) in the form of pensions. The amount of pension obligations (present value of defined benefit obligation) for former members of the Executive Board and their surviving dependants amounted to € 8,635 κ (previous year: € 7,063 κ).

The employment relationship with Michael Welt was terminated as of 31 October 2010. For the period since the revocation of his appointment on 19 May 2010, he received the contractually set fixed remuneration of € 173 κ as well as € 5 κ benefits in kind. Within the scope of a settlement of the employment relationship with Michael Welt by way of compromise, agreement was reached on an amount of € 2,900 κ. This amount takes into account the duties arising out of the personal service agreement and is both less than the capitalised remaining term of the contract and less than average remuneration relating to two years.

Responsible management of opportunities and risks

The Executive Board and the Supervisory Board are informed regularly about the risk situation of the group and the individual business units. For GILDEMEISTER the responsible handling of risks by the company is part of good corporate governance. At GILDEMEISTER, major risks and opportunities are identified and regularly monitored with the aid of a systematic risk management system. The early risk identification system set up by the Executive Board pursuant to Section 91 (2) of the German Stock Corporate Act (AktG) is checked by the annual auditors, is continuously further developed by GILDEMEISTER and adapted to meet the changing economic environment. More information on the **opportunities and risk management system** can be found in the chapter “Opportunities and risk report” on **page 107 et seq.**

Cooperation between the Executive Board and Supervisory Board

The Executive Board and the Supervisory Board work closely together in the interests of attaining the joint goal of a sustained increase in corporate value. The Executive Board informs the Supervisory Board regularly, timely and comprehensively of all issues relating to business development, finance, changes in the financial position and corporate planning,

as well as the risk situation, risk management and compliance. The Executive Board passes the quarterly and six months' reports to the Supervisory Board, so that the latter can discuss them before publication. In particular any deviations from goal or plan in the business development, as well as the strategic focus and further development of the group, are explained. The Articles of Association provide for any transactions of fundamental significance to be subject to the agreement of the Supervisory Board.

Avoidance of conflicts of interest

In making decisions and in connection with their functions, the members of the Executive Board and of the Supervisory Board may not pursue any personal interests or business opportunities that the company is entitled to, nor may they grant any unjustified benefits to any other person. The Supervisory Board reports any conflicts of interest and the handling of these to the Annual General Meeting. Conflicts of interest of members of the Executive Board or of the Supervisory Board, of which the Annual General Meeting must be informed, were not disclosed to the Supervisory Board during the reporting period. In the reporting year there were neither conflicts of interest with respect to the members of the Executive Board nor with respect to members of the Supervisory Board.

Safeguarding the interests of the shareholders

It is our aim to ensure the greatest possible transparency and timely communication with all target groups. Shareholders and potential investors can obtain information in the Internet at any time on the current situation of the company. On our website, www.gildemeister.com, we publish, both in German and English, press releases, business and quarterly reports as well as a detailed financial calendar, which is regularly updated. Through candour and transparency the Executive Board and Supervisory Board aim to strengthen the confidence of all target groups, such as the owners, investors, business partners and employees, as well as of the general public. For shareholders who are not able to attend the Annual General Meeting of Shareholders personally, we offer the possibility of following the events of the Annual General Meeting in real time via Internet.

Reporting and auditing of annual accounts

We have again agreed with the annual auditors, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, for this reporting year that the chairman of the Supervisory Board be informed without delay during the audit of any reasons that might give rise to exclusion or reservation insofar as these cannot be resolved. In addition, the auditors shall also immediately report any findings and issues that arise during the audit of the financial statements and the consolidated financial statements and that have a significant bearing on the tasks of the Supervisory Board to the chairman of the Supervisory Board and to the chairman of the Finance and Audit Committee. Moreover, the auditor will inform the Supervisory Board of, or include in the auditing report, any facts found during the audit process that might indicate a discrepancy in the declaration of conformity submitted by the Executive Board and Supervisory Board pursuant to Section 161 German Stock Corporate Act (AktG).

GILDEMEISTER Share

The stock market year 2010

The international capital markets initially reacted with restraint at the beginning of 2010 to the emerging economic recovery. From mid-2010, the mood on the capital markets gradually lightened again. The leading share indexes developed in a year-on-year comparison as follows: The DAX rose by 16.1%, the MDAX by 34.9%. The European EURO STOXX 50 was not able to keep up with this development trend and lost 5.8%. The US DOW JONES gained 11.0%, the S&P 500 index rose by 12.8%. The British FTSE-100 index was able to record a rise of 9.0%. The Japanese NIKKEI 225 Index lost 3.0%.

Stock market listing, trading volume and shareholder structure

The GILDEMEISTER share is quoted in official trading at the stock exchanges in Frankfurt / Main, Berlin-Bremen and Dusseldorf, as well as on the open market on the stock markets in Hamburg, Munich and Stuttgart. GILDEMEISTER is listed on the MDAX and complies with the "Prime Standard" internationally applicable transparency requirements of the German stock market.

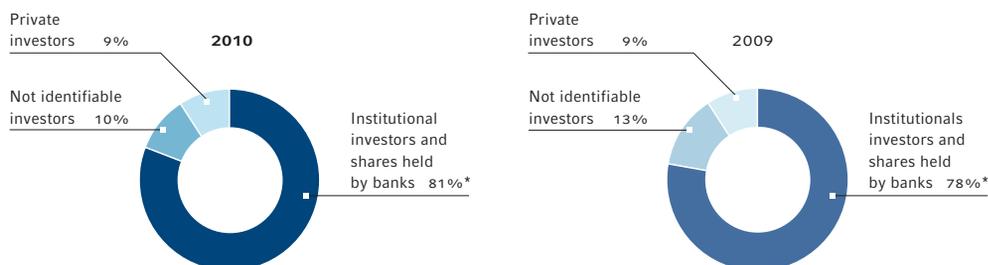
The trading volume at year-end was 100.6 million shares (previous year: 89.8 million shares); on the basis of the total share number of 45.6 million shares, this represents an annual turnover of 2.2 (previous year: 2.0). The average trading volume increased to about 393,000 shares per trading day (previous year: 354,000 shares).

Market capitalisation rose in the reporting year by about 47% or € 244.8 million to € 761.2 million. The GILDEMEISTER shares continued to be held in wide portfolio investment (95% free float).

Due to the high extent of free float, information on the holders of shares can only be approximate, resulting in the following overview of the size and structure of the investors:

SHAREHOLDER STRUCTURE OF THE GILDEMEISTER GROUP / BREAKDOWN BY INVESTOR GROUPS

in %

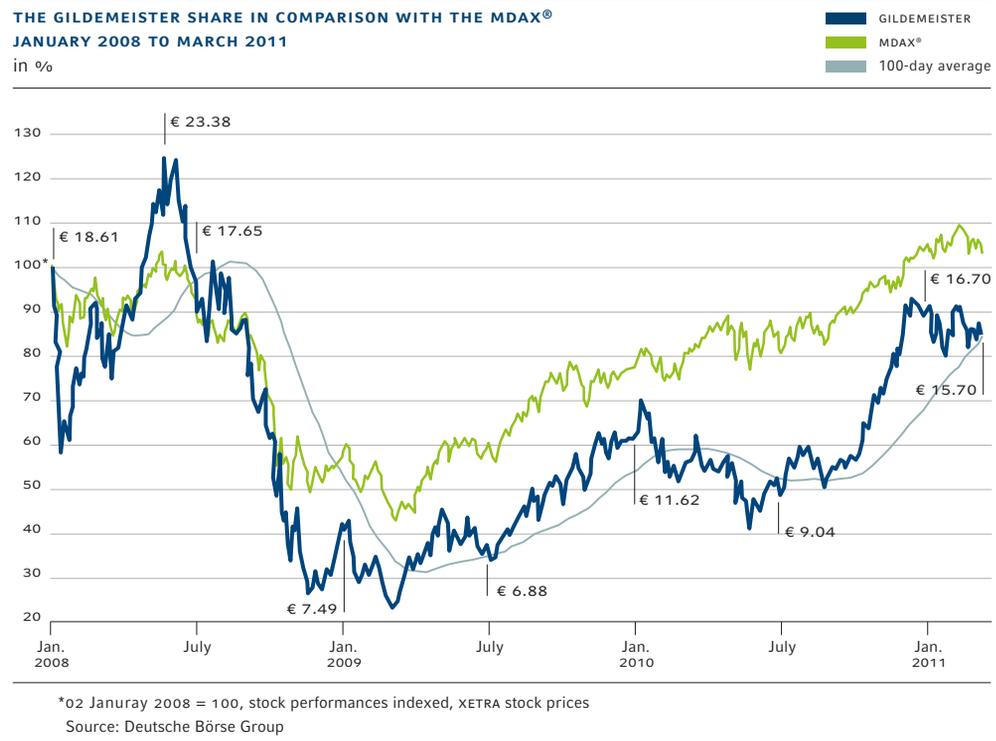


* 5% Mori Seiki share

Performance of the GILDEMEISTER share

The GILDEMEISTER share made clear gains in value in the first eight months of the year and especially in the fourth quarter. The share benefited from the worldwide recovery in machine tool building, which was also reflected in the business figures at GILDEMEISTER. With an increase of 47% (year-on-year), the GILDEMEISTER share outperformed the MDAX (+35%). In the 2010 stock market year, the share was quoted at the start of the year at € 11.62 (4 Jan. 2010) and reached its highest value of € 17.19 on 13 December 2010. The lowest value of the year was € 7.53 (25 May 2010). The share closed the year on 30 December at € 16.70. The share is currently quoted at € 15.70 (14 March 2011).

Various banks carry out an analysis of the company. The latest assessments are as follows: “Buy” (Berenberg Bank, 21 Feb. 2011), “Buy” (Bankhaus Lampe, 10 Feb. 2011), “Buy” (DZ Bank, 10 Feb. 2011), “Buy” (WestLB, 9 Feb. 2011), “Buy” (equinet, 9 Feb. 2011), “Buy” (M.M. Warburg, 26 Jan. 2011), “Buy” (UniCredit, 1 Feb. 2011), “Add” (Commerzbank, 9 Feb. 2011), “Hold” (Close Brothers Sydler, 11 Feb. 2011), “Hold” (LBBW, 9 Feb. 2011), “Hold” (Deutsche Bank, 9 Feb. 2011), “Neutral” (HSBC, 4 Feb. 2011), “Market Weight” (BHF Bank, 10 Feb. 2011).



The Executive Board and the Supervisory Board of GILDEMEISTER Aktiengesellschaft will propose to the 109th Annual General Meeting of Shareholders, to be held on 13 May 2011, not to pay a **dividend** for financial year 2010.

		KEY FIGURES OF THE GILDEMEISTER SHARE						
		2010	2009	2008	2007	2006	2005	2004
Registered capital	€ million	118.5	118.5	112.6	112.6	112.6	112.6	112.6
Number of shares	million shares	45.6	45.6	43.3	43.3	43.3	43.3	43.3
Year-end price ¹⁾	€	16.70	11.33	7.85	18.50	9.60	5.89	5.20
Annual high ¹⁾	€	17.19	11.69	23.38	22.80	9.75	6.39	8.98
Annual low ¹⁾	€	7.53	4.25	4.79	9.20	5.86	4.82	4.98
Market capitalisation	€ million	761.2	516.4	339.9	801.1	415.7	255.1	225.2
Dividend	€	–	0.10	0.40	0.35	0.20	0.10	–
Dividend total	€ million	–	4.6	17.3	15.2	8.7	4.3	–
Dividend yield	%	–	0.9	5.1	1.9	2.1	1.7	–
Earnings per share ²⁾	€	0.09	0.10	1.87	1.16	0.63	0.32	0.15
Price-to-earnings ratio ³⁾	€	185.6	113.3	4.2	15.9	15.2	18.4	34.7
Cash flow per share ⁴⁾	€	1.7	–1.7	2.5	2.9	2.5	0.63	0.30
Price-to-cash-flow ratio ⁵⁾	€	9.82	–6.66	3.14	6.37	3.84	9.35	17.33

¹⁾ XETRA-based closing price
²⁾ Pursuant to IAS 33
³⁾ Year-end price / earnings per share
⁴⁾ Cash flow from operating activity / number of shares
⁵⁾ Year-end price / cash flow per share

Capital increase

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

It is intended to carry out a second capital increase, subject to the actual capital market environment promptly with the participation of all shareholders (subscription rights capital increase). Presumably it would comprise 20% of the then increased registered capital. By using authorised capital, the registered capital will be increased by € 26,072,904 through the issue of 10,028,040 new no-par value bearer shares (no-par value shares) in exchange for cash.

The shares from both capital increases will be fully entitled to dividends from 1 January 2010. It is intended to quite predominantly use the net proceeds from the new issue to reduce financial liabilities and in this way to strengthen the GILDEMEISTER group's equity basis. Moreover, the remaining part of the net proceeds from the issue of the new shares shall be to promote growth of the "Machine Tools" core business area and in "Services" as well as to build up the "Energy Solutions" segment.

Detailed information on the rights issue and on the offer price will be given in a securities prospectus, which GILDEMEISTER Aktiengesellschaft will publish following approval from the German Financial Supervisory Authority. The rights offer will be announced timely in accordance with statutory requirements also in the relevant journals for stock exchange announcements and in the electronic Federal Gazette.

Investor- und Public Relations

GILDEMEISTER's **investor relations activities** focus on a continuous and open exchange of information with all capital market participants. It is our goal to produce transparency as well as to deepen understanding of our business model. Through this we want to achieve appropriate ratings. At road shows and capital market conferences both nationally and abroad, in individual interviews and in telephone conferences, GILDEMEISTER presented the company's development and strategy. More than 1,200 shareholders attended our 108th Annual General Meeting of Shareholders in May 2010. The Chairman of the Executive Board's speech was presented on our website as a live stream. The Internet has now become a firm part of our financial communications: 24,338 accesses to our annual and quarterly reports – including 6,205 in English – have been registered at our website www.gildemeister.com.

Our **public relations work** within the communication concept is likewise of major importance as it performs an important role in fostering and strengthening GILDEMEISTER's excellent public image. We consider it to be extremely important to maintain an ongoing dialogue with the national and international business press, with capital investors and financial experts, as well as with the associations, institutions and decision-makers who are relevant for our business. For this reason we always provide competent, fast, open and reliable information on the group's current position and its companies. Our understanding of communication is apparent not least in our financial reports. For years they have been held to be exemplary and continually impress experts and juries of well-known rankings for their transparency, language quality and innovative design. Our 2009 annual report was once again recognised in the manager magazin awards. Expenditure in the area of investor and public relations amounted to € 2.4 million (previous year: € 2.5 million).

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Organisation and Legal Corporate Structure

The GILDEMEISTER group is centrally managed by GILDEMEISTER Aktiengesellschaft as the controlling company. All cross-divisional key functions are concentrated here. Further holding functions are exercised by GILDEMEISTER Beteiligungen AG as the parent company of all the production plants and by DMG Vertriebs und Service GmbH as the controlling company of all sales and service companies. More detailed information on the **business activities** is included in the “**Segmental Report**” chapter on **page 49 et seq.**

All GILDEMEISTER group companies are managed as profit centres and adhere to clear guidelines for the best possible performance and results. The **management structure** is shown in the **group structure** on **page 14 et seq.** All operational processes and procedures are standardised by way of a common group IT infrastructure. The IT system therefore acts as an integral link within the group. The organisational expenses of GILDEMEISTER Aktiengesellschaft amounted to € 19.7 million (previous year: € 17.3 million).

Changes in the legal corporate structure of the GILDEMEISTER group in financial year 2010 mainly involved optimising the sales and service structure as well as expanding the “Energy Solutions” segment. Specifically, the following significant changes were made:

- _ Effective as of 16 April 2010, a+f GmbH acquired a majority equity interest (50.001%) in the Austrian company, Cellstrom GmbH and will use this to expand the renewable energy business segment. Through the long-lasting and low maintenance vanadium redox flow big battery, an investment has been made in the promising future market of energy storage.
- _ Likewise in April 2010, GILDEMEISTER AG acquired 33% of MG Finance GmbH. Together with our cooperation partners, our goal is to offer our customers optimum, tailor-made financing solutions, which are specific to each country.
- _ In March 2010, DMG Vertriebs und Service GmbH took a 50% equity interest in the cooperation company DMG / Mori Seiki Australia Pty. Ltd.
- _ In June 2010, GILDEMEISTER Partecipazioni S.r.l. founded DMG Service Dreher Italia S.r.l. with registered office in Brembate di Sopra, Italy; this company is to build up sales and service activities in Italy.
- _ In financial year 2010, a+f GmbH founded 48 additional project companies in the “SunCarrier” business area.

The GILDEMEISTER structure is organised in such a way that all companies contribute to extending its position as a worldwide market and innovations leader in cutting machine tools. The group is represented as a **matrix organisation** – production plants on one side, DMG sales and service companies on the other side. The production plants specialise in business areas and machine series.

DMG is responsible for direct sales in all significant markets. Alongside this, our key accounting handles all internationally operating major customers. a+f GmbH is active in the field of renewable energies. It is not intended to make any fundamental changes to the group structure in the future.

A **detailed overview of the shareholding relationships** within the GILDEMEISTER group as at 31 December 2010 and further explanations of the changes in the legal corporate structure are set out in the **notes to the consolidated financial statements on page 137 et seq.** A summary of all current **controlling agreements and profit-and-loss transfer agreements** is also provided in the notes to the consolidated financial statements on **page 164 et seq.**

The GILDEMEISTER group has **no major shareholdings**. Within the framework of a strategic partnership, GILDEMEISTER has a 4% shareholding in the Japanese machine tool builder, Mori Seiki Co. Ltd. (Nagoya).

DMG Vertriebs und Service GmbH, Bielefeld, is a 100% subsidiary of GILDEMEISTER Aktiengesellschaft. It operates 75 sales and service locations and sales offices, as well as branch offices abroad that are not legally independent companies. The sales offices of DMG Vertriebs und Service GmbH in Shanghai, Beijing, Guandong, Chongqing, Shenyang and Xi'an are certified to market group products in China. Furthermore, the following companies maintain branch offices that are not legally independent enterprises: DMG Italia S.r.l., Bergamo (Italy), DMG Austria GmbH, Klaus (Austria), DMG Czech s.r.o., Brno (Czech Republic) and DMG Mori Seiki South East Asia Pacific Pte. Ltd. (Singapore).

Takeover Directive Implementation Act (Section 315, paragraph 4 German Commercial Code (HGB))

GILDEMEISTER must provide the following supplementary information:

- _ The registered capital of GILDEMEISTER Aktiengesellschaft amounts to € 118,513,207.80 and is distributed in 45,582,003 individual shares in the name of the holder. Each share has a notional value of € 2.60 of the subscribed capital.
- _ Pursuant to Section 84 of the German Companies Act (AktG) the Supervisory Board shall appoint and revoke the appointment of members of the Executive Board. This authority was specified to that effect in Section 7 para. 2 of the Articles of Association of GILDEMEISTER Aktiengesellschaft, by which the Supervisory Board appoints the members of the Executive Board, determines their number and assigns their duties.
- _ Pursuant to Section 119, para. 1.5 of the German Companies Act (AktG), the Annual General Meetings of Shareholders decides any changes to the Articles of Association. The correspondingly defined rules of procedure are contained in Sections 179, 181 of the German Companies Act (AktG) in connection with Section 15 para. 4 of the Articles of Association of GILDEMEISTER Aktiengesellschaft.
- _ A resolution of the Annual General Meeting passed on 14 May 2010 authorises the Executive Board, with the approval of the Supervisory Board, to increase the registered capital of the company in the period up to 13 May 2015, through a one-time only issue or through several issues of new shares for cash or non-cash contributions to a nominal amount of € 59,256,600 million (authorised stock). This authorisation is set out in Section 5 paragraph 3 of the Articles of Association.

Moreover, the company is authorised to purchase its own shares until 13 May 2012 up to a pro rata amount of almost 10% of the registered capital, which corresponds to € 11,851,321.00. Furthermore, there has been a contingent increase in the registered capital up to a further € 37.5 million through the issue of up to 14,423,076 individual shares in the name of the holder (contingent 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 Annual General Meeting of Shareholders of 15 May 2009 and the owners of options or conversion rights exercise their right to convert or any conversation obligation or obligation to exercise an option is fulfilled.

The Executive Board is authorised with the consent of the Supervisory Board to exclude the statutory subscription right in Section 5 para. 3 a) to d) of the Articles of Association specific cases, amongst others for capital increases in exchange for cash if the issue price of the new shares is not significantly lower than the exchange price at the time the issue price is finally set by the Executive Board within the meaning of section 203 paragraphs 1 and 2, and section 186 paragraph 3 sentence 4 of the German Stock Corporation 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 does not exceed 10% in aggregate of the registered capital at the time the new shares are issued.

Ultimately, the Executive Board is authorised to issue shares to a value of € 5.0 million to employees of the company and of companies affiliated with the company (cf. Section 5 para. 3 of the Articles of Association).

The significant agreements of GILDEMEISTER Aktiengesellschaft are subject to a **change of control** condition (the acquisition of 25% or more of the voting rights) as a result of a takeover offer within the meaning of Section 315 para. 4, no. 8 German Commercial Code (HGB).

Pursuant to Section 315 paragraph 4 German Commercial Code (HGB), the Executive Board provides the following explanatory information:

As of 31 December, the registered capital of the company amounts to € 118,513,207.80 and is distributed in 45,582,003 no-par value bearer shares.

Each share has a voting right and is the determining factor for the share of profits.

The most recent amendment to the Articles of Association took place at the 108th Annual General Meeting of Shareholders on 14 May 2010, when Sections 2, 5, 14 and 15 of the Articles of Association were amended anew.

In the reporting year the Executive Board did not exercise the above-referred authorisation.

The conditions for a change of control comply with customary agreements. They do not lead to an automatic termination of the above-referred agreements but, in the event of a change of control, merely grant our contractual partners the possibility of terminating these.

Research and Development

The aim of our research and development activities is to increase the added value of our products for our customers still further. Based on a strong understanding of the market, we develop innovative products, which then give our customers a decisive competitive advantage. We direct our efforts towards the following overarching aspects:

1. strengthening our market position in the ECOLINE area,
2. diversifying the product range in the field of Energy Solutions,
3. improvement in process reliability and efficiency through innovative software concepts,
4. extending our market lead in the machining of complex component geometries,
5. building up solution expertise in the field of large piece machining.

We have kept research and development expenses of € 48.1 million at the high level of the previous year (previous year: € 47.9 million). The innovations ratio in the “Machine Tools” segment was 6.3% and was likewise at the previous year’s high level (6.3%). Investments in new developments are listed in the segment reports as capitalised development costs.

Sustainable innovation –
an investment in the future

RESEARCH AND DEVELOPMENT AT GILDEMEISTER GROUP IN A YEAR BY YEAR VIEW

		2010	2009	2008	2007	2006	2005	2004
F&E-employees	number	451	435	471	467	421	408	399
Proportion of R&D employees ¹⁾ in %		15	15	13	13	12	13	13
R&D expense	€ million	48.1	47.9	57.3	49.5	43.9	45.7	37.8
R&D ratio ²⁾	in %	6.3	6.3	4.8	4.6	4.8	5.8	5.1
New developments	number	17	15	17	19	13	22	16

1) R&D employees in relation to the number of employees in the “Machine Tools” segment

2) R&D expenses in relation to sales revenues in the “Machine Tools” segment

In total GILDEMEISTER presented 17 new developments at 64 national and international trade fairs and exhibitions, including at the AMB in Stuttgart, the IMTS in Chicago and the JIMTOF in Tokyo.

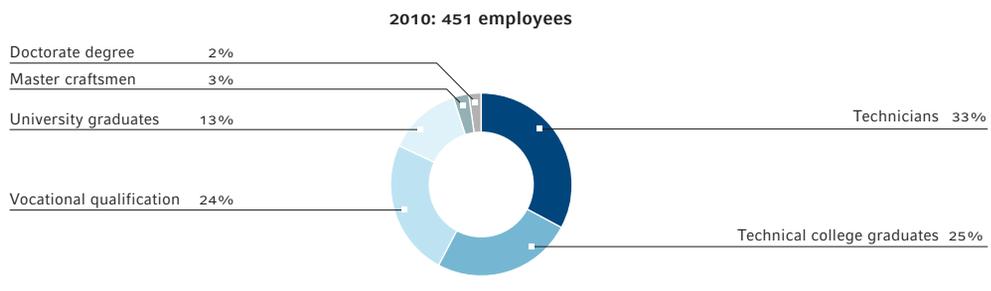
In the reporting year we registered 60 patents, utility and design patents, as well as brand and trademarks (previous year: 31 industrial property rights). Overall the value of our protected rights, calculated at fair value, amounts to some € 329 million (previous year: € 299 million).

A total of 451 employees work on developing our products (previous year: 435 employees); this corresponds to 15% of the workforce at the plants (previous year: 15%). Research and development activities, which are de-centrally organised at the sites, are synchronised in regular group-wide product development talks. We do not purchase any third party **development know-how**, however we purposely incorporate the strengths of our system suppliers in our partnership style of development. Services of third parties

Cooperation with Mori Seiki extends product portfolio

are mainly drawn upon in the field of industrial design. The cooperation with Mori Seiki provides additional stimulus. Within the scope of the cooperation, it has been possible to further build upon the existing product portfolio in the important turn-mill machine segment. In this respect, our customers benefit from proven concepts that have been adapted to meet customer needs. Moreover, a close exchange with national and international universities has resulted in additional knowledge for the enhancement of our products and services.

GROUPWIDE QUALIFICATION STRUCTURE IN THE AREA OF DEVELOPMENT / CONSTRUCTION in %



Worldwide unique process reliability

In the area of **software**, we offer our customers a solution that is unique worldwide with the DMG process chain. From drawing with CAD-CAM programming and simulation through to production, our customers receive a coordinated package of services from one source. Even highly complex workpieces can be easily programmed using the solution offered. The finished NC program, like all 3D resources used, is exported via a defined interface. The **DMG Virtual Machine** combines the geometry, kinematics and dynamics of actual DMG machines, as well as all the control functionalities, 1:1 on a PC. In doing so, the 3D machine model is not remodelled but instead is based on the original CAD construction data. In this way, machining can be simulated with precision in advance; it facilitates the highest possible level of reliability in planning and implementation, and offers significant potential for improving cost-effectiveness. Numbering among the highlights are efficient production processes through optimum preparation, machining time calculation in real time, top process reliability, and set-up and tooling times that are reduced by up to 80% compared to conventional methods. Furthermore, completely new perspectives are opened up in vocational and advanced training.

In the field of machine tool **energy efficiency**, as a leader in innovations GILDEMEISTER sees itself as having a responsibility to support proactively the trend towards an environmentally-friendly use of resources together with its customers. All the measures designed

to increase energy efficiency have been brought together under the label **DMG ENERGY SAVING**. These measures range from energy-optimised construction to intelligent software solutions and appropriate service products. With the “**DMG AUTOSHUTDOWN**” as well as the “**DMG GREENmode**”, all new products incorporate functions that reduce energy costs even further. We continue to offer our customers a retrofit solution with the **DMG DMG ENERGY-save** for existing machines. The energy requirement of our machines decreases with the above methods by an average of 20% over the entire life cycle of the machine.

In the “**Machine Tools**” segment, it was possible to increase the efficiency of the product range again in the reporting year and to expand this through innovative concepts. Within the **Milling Association** seven new developments were presented in the reporting year. **DECKEL MAHO Pfronten GmbH** expanded its range of products in the field of CNC universal machining centres with the **DMU 100 P duoblock®**, the **DMU 125 P duoblock®**, the **DMC 100 U duoblock®** and the **DMC 125 U duoblock®**. The **DMC 125 H duoblock®** and the **DMC 160 H duoblock®** extend the product line in horizontal machining centres. The **DMU 65 monoblock®** forms the starting point for a completely new machine generation of compact 5-axis machines with the highest precision and dynamics, as well as optimum accessibility to the working space. Within the **Milling and Machining Association**, **DECKEL MAHO Seebach GmbH** is consistently expanding the travelling column machines. The **DMF 360-11** extends the machine family to incorporate a version with enlarged working space for machining longer workpieces. Within the new evolution series, the **DMU 60 eVo linear** sets the benchmark in its class anew with its excellent efficiency features.

Entry into large piece
complete machining

The **Turning Association** presented seven new developments. With the **CTX delta TC** series, **GILDEMEISTER** opens up the area of **xxl machining** of structural parts with a diameter of up to 1 metre and a turning length of up to 6 metres. The **CTX alpha 450 TC** extends the area of turning-milling machining for small and complex parts. Further highlights include the 4-axis turning machine, the **CTX beta 1250 4A**, the **CTX gamma 1250 TC** and the **SPRINT 42-10**. Also newly presented were the turning machines, **NEF 400** and **NEF 600**, which have been further enhanced.

In the “**Services**” segment we offer our customers tailor-made solutions for the entire life cycle of the machine tool through “**DMG Service Solutions**”. The products are geared towards optimum customer processes and improved productivity, and cover installation to training and on-site customer service. The **DMG Spare Parts GmbH** state-of-the-art service center facilitates reliable and efficient spare parts supply. Efficient software products from **DMG Powertools**, automation solutions from **DMG Automation** and innovative concepts from **DMG Microset** complete the range of products. Among the highlights in the area of tool management is the trend-setting **AIRMATRIX** pre-adjustment system for tools. This new form of airdrive technology permits the highest precision with flexible travels and extremely low wear.

In the “**Energy Solutions**” segment, the product range was extended to include the promising field of energy storage through a majority equity interest in Cellstrom GmbH. With the “**cellcube**” big battery, a+f GmbH offers an energy storage system based on the vanadium redox flow principle. The low maintenance system can be used as a solar electricity fuelling station or to supply uninterrupted power. In the area of solar technology, a+f GmbH rounds off its existing product range at the lower end of the construction size with the “**SunCarrier 120**” solar tracking system. With eight different product types, a+f GmbH offers a comprehensive range for all the main solar markets. Furthermore, expanding the Services area offers our customers a clear additional benefit through improved monitoring and reporting quality. GILDEMEISTER presented the interaction and efficiency of the products for the first time in an “Energy Solutions Park” on the Bielefeld plant premises. This strategy for the future combines environmentally-friendly and CO₂-free energy production through the “SunCarrier” with energy storage through the “cellcube” and the use of an e-fuelling station.

Purchasing and Procurement

In the area of **purchasing and procurement** GILDEMEISTER made use of the difficult economic situation in the reporting year to improve the costs of materials. Close communication with our long-term supply partners on the one hand and the expansion of global sourcing activities on the other, have led to long-term savings. Overall, it was possible to achieve cost reductions throughout the group of 4%.

Cost reductions of
4% achieved

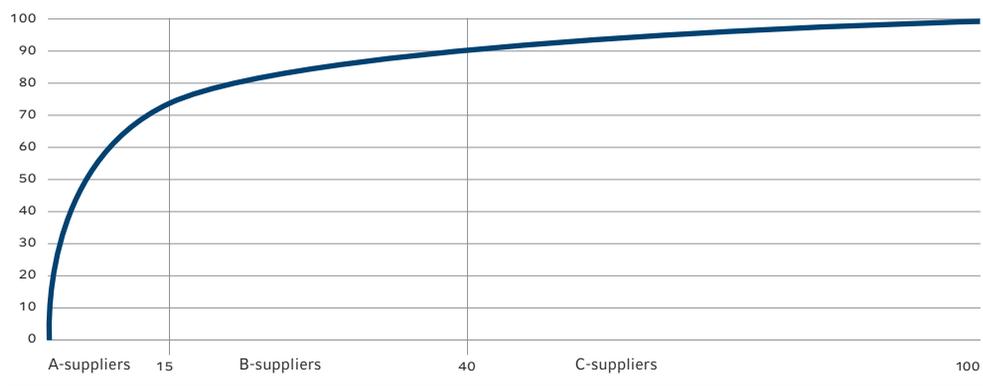
Expenses for materials and purchased services increased due to the rise in total operating revenue to € 768.1 million (previous year € 559.8 million), of which materials and consumables accounted for € 654.7 million (previous year: € 463.4 million). The **materials ratio** rose due to an increase in business volume of the DMG ECOLINE and of the material-intensive “SunCarrier” to 55.9% (previous year: 48.9%). Our real net output ratio was 27.5% (previous year: 32.1%).

Our integrated procurement management system is based on three component parts: coSupply® supplier management, materials groups management and integrated global sourcing. These three parts gave us the necessary flexibility demanded by the difficult economic environment during the reporting year. Joint process analyses with existing suppliers contributed to securing our materials supply. The share of our top 50 suppliers

in the purchasing volume rose to 75% (previous year: 65%). The industry's highly respected supplier day celebrated its tenth anniversary and is a highlight every year of the in-house exhibition at our Pfronten site. About 200 representatives from the top 60 group suppliers were welcomed by the Executive Board of GILDEMEISTER Aktiengesellschaft and were informed of our global orientation as well as of our **global sourcing strategy**. Our supplier structure is shown in the following graph.

STRUCTURE ANALYSIS OF SUPPLIERS

Share of suppliers in purchasing volume in %



The structure analysis shows that 15% of our suppliers cover 75% of the total purchasing volume. We refer to these supply partners as our A-suppliers. A further 25% of our suppliers have a share of 15% in the purchasing volume (B-suppliers); 40% of our suppliers thus cover 90% of the entire purchasing volume. The remaining 10% share of materials purchased is spread among the remaining 60% of our suppliers, the C-suppliers.

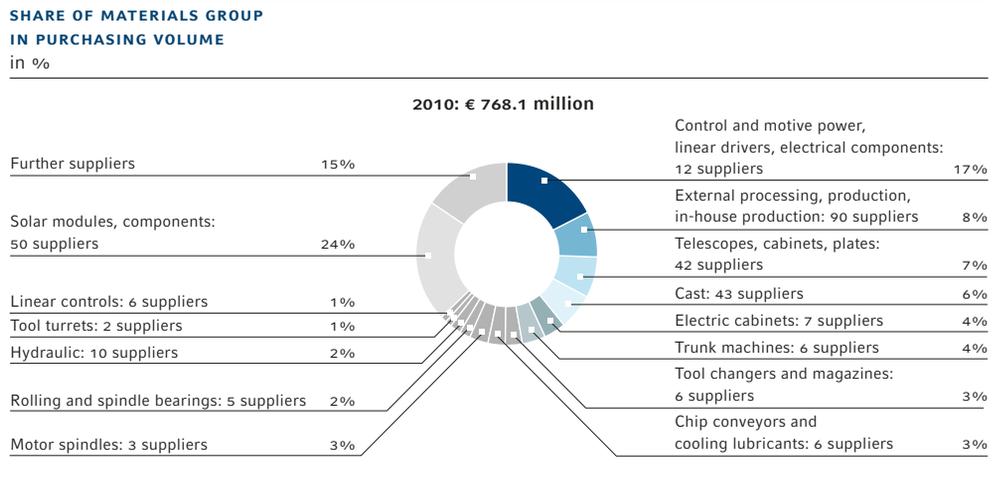
When expanding its **Supplier Capital Strategy**, GILDEMEISTER focused on developing globally active supply partnerships in order to exploit regional advantages of location with respect to quality, costs and time. In this connection, we have increased staff at our purchasing organisations in China and India. Alongside this, we have set up interdisciplinary teams at our plants, which are made up of employees from purchasing, construction and quality. Regular meetings are held where decisions in the area of global sourcing are taken. Through these measures we have designed the group purchasing structure to be viable long-term and have adapted it timely for the start of a renewed growth in purchasing

Global Sourcing strengthens
GILDEMEISTER

volume. In addition, alongside this we are reducing our exchange rate risks from sales revenues in the US dollar (**natural hedge**) through a constantly growing proportion of local procurement (**local content**) in the US dollar – especially in China and India. As a result of the positive order intake development, over the course of the second half of the year **security of supply** once again became the focus. The replacement times for essential components lengthened significantly during the reporting year. To secure materials supply, we turned to our enhanced Front Office workflow system. The supplier cockpit – a major element of Front Office – provides our suppliers with a long-term preview of delivery and demand needs. Through a close and timely exchange of information on demand, both sides were able to respond flexibly to the marked rise in orders from our end-customers. In addition, we publish important information online for our suppliers at our communication platform www.coSupply.de.

The materials group managers act as coordinators within the **GILDEMEISTER material groups management** for group-wide cooperation between purchasing and technology. In this way we drive the standardising activities of individual parts and components more intensely. As a result of this, in the reporting year we have saved materials costs, for example, in the area of ball screw drives.

The share of the individual materials groups in the purchasing volume can be seen in the following graph:



Within the framework of non-production materials and services GILDEMEISTER concentrates on optimising the purchase of energy. In this area a new energy concept has been drawn up and has already been successfully implemented at two sites. This energy concept has caused a significant reduction in basic price and secures a permanently low energy price for a period of two years.

GILDEMEISTER purchases components, such as spindles and ball screw drives within the framework of supply agreements with Mori Seiki. These components are produced by Mori Seiki in accordance with GILDEMEISTER's exact specifications. In addition, GILDEMEISTER purchases basic machines for the CTX alpha 450 TC cooperation product as well as the complete CTX delta TC machine from Mori Seiki.

Production, Technology and Logistics

In the field of **production, technology and logistics**, GILDEMEISTER has managed to arrange its capacity even more flexibly and to increase production efficiency constantly.

We achieve a reduction in the **assembly throughput times** of our machines through systematic monitoring and targeted optimisation measures. The consistent use of the progressive assembly principle in pre-assembly and final assembly helps to streamline processes, reduce throughput times and further raise quality. The extent of the order backlog and thus the average delivery time in the German machine tool industry, as determined by the German Association of Machine Tool Builders (VDW), is 7.7 months. This industry average, however, includes a large proportion of special machines and project business with high throughput times. As GILDEMEISTER is primarily active in the area of standard machines, the average extent of order backlog is below this level at four months.

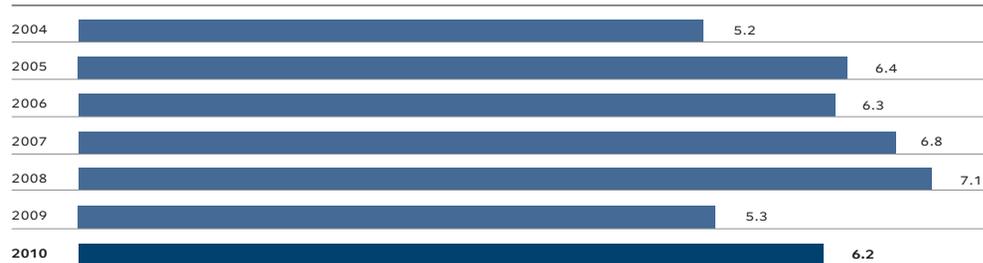
Cooperation provides
important impetus

The **cooperation** with the Japanese machine tool builder Mori Seiki is progressing successfully and is providing important impetus in the area of production and technology. With the start-up of production of the CTX alpha 450 TC and the CTX delta TC, GILDEMEISTER has completed the product range in the area of "Turning". Both machines are built on the basic machines from Mori Seiki. The DMG machines differ from the Mori Seiki products, for example in their control technology, drive technology, software and design. Moreover, the production of ECOLINE machines at the Chinese production plant in Shanghai has been further expanded jointly and supplemented with highly efficient expansion stages. This leads to a higher production volume and thus to further improvements in assembly procedures. In addition, the likewise rising purchase volume benefits optimum costs in purchasing high-quality, standardised components.

Through our integral **PULLplus value creation system** we have managed to optimise production and logistics processes still further so that they are even more efficiently organised. This process optimisation has been made possible through the use of the proven best practice methods throughout the group. These include the multi-award winning ideas management, which allows our employees to put their wealth of ideas and power of innovation to the test regularly. In this way, 19,143 **suggestions for improvement** were submitted in the reporting year (previous year: 19,257). This permitted a cumulative net benefit – benefit of the suggestions less the cost of implementation – of € 2.1 million to be achieved (previous year: € 2.4 million). With an average 6.2 suggestions for improvement per employee at the production plants, it was possible to surpass by far the excellent figure of the previous year (previous year: 5.3). The high level of motivation of all those involved played a significant role in increasing the **process capital** of the group creatively in economically difficult times. GILDEMEISTER was repeatedly able to claim three of the top five places in the industry rankings for ideas management of the *Deutschen Institutes für Betriebswirtschaftslehre e.V.* (German Institute of Business Administration).

SUGGESTIONS FOR IMPROVEMENT AT PRODUCTION PLANTS

Number per employee



In the **energy efficiency** of machine tools, GILDEMEISTER decisively proves its innovations leadership. In this role we are an active member of the international working group on establishing an ISO Norm on the energy-efficient layout and use of machine tools.

GILDEMEISTER leading in energy efficiency

GILDEMEISTER supports the **Blue Competence** initiative of the vdw as well as its efforts to reduce the energy requirements of production machines in Europe by up to 30%. The “self-regulating initiative” (SRI) resulting from this places an obligation on European manufacturers to adhere to jointly set standards for energy efficient components and construction measures.

In addition to optimising our products, we are similarly working on the energy efficient design of our infrastructures. We invest throughout the group in better building insulation, automatic lighting systems and projects for environmentally-friendly energy production. One measure to **reduce CO₂ emissions** is the installation of an up-to-date light control system, which helps to save up to 70% of the normal electricity consumption for lighting at the Pfronten site. An important element of our energy concept at the Bielefeld site is demonstrated by the installation of a modern combined heat and power unit, which has been in operation since the end of 2010. This compact module primarily serves to generate electricity, but in addition its thermal energy is used to provide heating in our assembly halls. Compared to standard energy production from boilers and power plants, this allows us to avoid emissions every year of more than 237 tonnes of CO₂, which equates to energy savings of 1,280 kWh per machine unit of GILDEMEISTER Drehmaschinen GmbH. The “Energy Solutions Park”, which was presented on the occasion of the in-house exhibition in Bielefeld and which comprises two “SunCarrier 250” and a “cellcube” big battery, ensures long-term improvements together with the new combined heat and power unit in our energy balance. In order to meet the overall standards of an environmentally-conscious industrial operation, GILDEMEISTER purposely avoids the use of any damaging materials and consumables. No damaging substances are produced in production operations.

Production Associations
jointly successful

With the aid of the **Production Associations**, which were restructured last year, GILDEMEISTER achieves the synergies aimed at and benefits from standardised, condensed processes and structures. The higher flexibility thus made it possible to respond quickly and efficiently to the rise in product demand over the course of the year.

In the **Milling Association**, through the integration of SAUER GmbH in the Pfronten plant structures, sustainable positive effects have been achieved. Under central management it was possible to achieve synergy potential and to increase innovative strength. The highlight of the engineering work at DECKEL MAHO Pfronten was the start of assembly of the DMU 600 P in autumn 2010. This XXL machining centre facilitates the complete machining of large parts with a total weight of up to 40 tonnes! Furthermore DECKEL MAHO in Pfronten optimised assembly and products areas. Through merging the two dispatch departments, it has been possible to gain an additional 400 square metres of assembly space. In addition, we have increased the showroom area in the modern technology center to 800 square metres.

Since January, a “SunCarrier 220” has been generating environmentally-friendly solar power on the works premises of DECKEL MAHO Pfronten.

In the **Milling and Machining Association** DECKEL MAHO Seebach and FAMOT Pleszew complemented each other in the efficient control and use of machine capacity within the group. By optimising existing machinery, it was possible to increase production capacity. With the DMF 360 milling center, which was developed and produced at the same site, mechanical machining in Seebach has been further enhanced. This travelling column machine is particularly suitable for long and complex production parts while retaining the same high productivity. In February the flow line assembly system was reorganised into two-shift operation; six different machine types are assembled on this line in a flexible model mix. Following the relocation of the HSC series to the Seebach site, the main focus of attention was placed on ramping up production of these precision centers.

In the **Turning Association**, GILDEMEISTER Drehmaschinen GmbH, GRAZIANO Tortona and GILDEMEISTER Italiana concentrate the “Turning” core competence. Under central management, synergies in assembly, production, development and the administrative area are jointly achieved. In the reporting year, GILDEMEISTER Drehmaschinen GmbH successfully implemented the start-up of production of the CTX alpha 450 TC. In addition to new machines, projects to **improve processes** continue to be core activities. The flow line assembly concept, which is successful throughout the group, has been extended at the Bielefeld site to the pre-assembly of fluid cabinets; depending on the order, from now on all the necessary pneumatic, hydraulic and lubricant parts of a machine will be installed in three work cycles. Furthermore, the “digital assembly box” project ensures a sustained rise in productivity. Assemblers are provided with information about the machine directly from the ERP system on touch screen monitors. By optimising logistics processes, we have noticeably reduced off-site rented warehouse space. For example, with its optimised warehouse system, GILDEMEISTER Italiana has been able to reduce its external warehouse space by more than 60%.

In the **Ecoline Association** we bring together the activities of DMG ECOLINE GmbH and DMG Shanghai Machine Tools Co. Ltd. A highlight was the start-up of production of the ECOLINE machine version for our cooperation partner, Mori Seiki, at the Shanghai plant. All ECOLINE turning machines and ECOLINE vertical machining centres are produced both for GILDEMEISTER and for Mori Seiki jointly on three assembly lines. Through this, DMG Shanghai Machine Tools has become the only group plant to combine the assembly

of turning and milling machines in a flexible model mix. Standardised and constantly optimised work processes are a pre-requirement for this. Employees not only receive work instructions via touch screen monitors, which are dealt with in the workflow, but also feedback on work that has already been performed. This direct feedback contributes to our continuous quality improvements. These processes, which are optimally designed and strictly adhered to, made a 200% rise in machine production possible within one year.

The young business area of **“Energy Solutions”** was expanded in April by entering the energy storage market. Through a majority equity interest in Cellstrom GmbH, in the future a+f GmbH will offer on one side an established photovoltaic tracking system and, on the other, an innovative energy storage system. The “cellcube” big battery has already been installed and put into operation at various locations, including India, China, France and Italy. Moreover, pilot projects are being realised in Angola, Brazil and in the Middle East. With the moving into the new production halls, Cellstrom GmbH has been able to increase production capacity fivefold. GILDEMEISTER likewise shows high performance in the area of energy production. In Italy and Spain, some 2,507 installed tracking systems impressively demonstrate the success of our “SunCarrier”. The Carlino and Masseria Saraceno solar parks alone supply more than 6,000 Italian households with environmentally-friendly solar power; this means that more than 12,000 tonnes of CO₂ emissions are prevented every year. Based on the successful markets in southern Europe, a+f GmbH is investing further in the promising Indian and US markets in order to grow sustainably there. With the “Energy Solutions Park”, GILDEMEISTER showed its customers at the Bielefeld site how efficiently the two innovative energy systems work together. Two installed “SunCarrier 250” ensure intelligent and environmentally-friendly energy production. With the “cellcube FB 10-100” energy storage unit, the electricity generated can be used independently and around the clock, for example as a solar fuelling station. In Würzburg, a+f GmbH also maintains a test field. The “SunCarrier” installed there serves as a permanent trial and further development of the tracking systems.

Energy concept
protects environment

Corporate communication

In the reporting year GILDEMEISTER relied on active corporate communication, which is geared towards both external and internal communication, and effectively supports our strong international market presence. Our model of market and value-based corporate management serves as a mandatory guiding principle. Our corporate communication also had many elements in the reporting year that came together to form a balanced and effective overall picture. Trade fairs and exhibitions formed a part, as did print information, advertising and our Internet presence, as well as investor and public relations activities. Innovations and the rounding off of our product lines remained in the foreground. Activities in corporate design, sales, pricing and innovations policy were carried out as usual in close coordination with marketing. Overall corporate communication played a role in ensuring greater use was made of market potential. Expenses in the area of corporate communication amounted to € 33.1 million (previous year: € 38.0 million).

Trade fairs and exhibitions played a key role as marketing instruments for GILDEMEISTER, for this is where our products are realistically presented. In the reporting year, DMG took part in 64 domestic and foreign trade fairs and exhibitions. It presented 677 turning, milling and ultrasonic / lasertec machines in operation. Furthermore, we were represented by our “Energy Solutions” at trade fairs and exhibitions. In total this resulted in an exhibition area of more than 15,000 square metres. Our strong presence had an effect: we registered 80,668 visitors representing 61,996 companies at the trade fairs and exhibitions. They ordered a total of 1,824 machines, thereby generating direct order intake of € 341.8 million. A trade fair highlight was the AMB in Stuttgart. Some 260 machines were sold and order intake was € 51.4 million. Positive signals came from the IMTS in Chicago and the BIMU in Milan. The cost of trade fairs and exhibitions in the reporting year totalled € 18.6 million (previous year: € 21.2 million). This corresponds to 56% of total marketing and corporate communication expenses (previous year: 56%).

Advertising at GILDEMEISTER is firstly by way of product marketing. Our popular customer magazine was published twice in the reporting year, each time in 41 versions and 18 languages; it was sent to 58 countries. Total circulation each time was 600,000. In addition, the magazine was heavily accessed on our Internet pages; in fact our website generally enjoys great popularity. With a total of 2 million user sessions the previous year's level remained constantly. In financial year 2010, an App was developed for the "Energy Solutions Park" as an innovative form of communication. The total number of brochures was 733,000. They were published in 15 languages. Again, there is a growing trend of downloading the brochures from the Internet. Direct marketing with innovative product and event mailings continued in 2010 to great effect. The total distribution worldwide reached a good two million items, spread across 29 campaigns. The year-end mailing had a circulation of 121,000 (14 versions in 10 languages). GILDEMEISTER added further focus with its trade press work: 164 advertisements, published in 100 different trade magazines, informed readers in 34 countries about our products and services. GILDEMEISTER invested a total of € 12.0 million in product marketing (previous year: € 14.6 million). This represents 37% of marketing and corporate communication costs (previous year: 38%).

**DISTRIBUTION OF CORPORATE COMMUNICATION COSTS
AT THE GILDEMEISTER GROUP**
in %



COOPERATION SUSTAINS INNOVATION

COOPERATION SUSTAINS INNOVATION
ENERGY SOLUTIONS

LARS MÖLLENHOFF
MANAGING DIRECTOR CELLSTROM GMBH

"Using our environment as a climate-friendly power station? For us that's the most natural thing in the world."

Generating green electricity in a cost-effective manner is completely feasible nowadays. But in practice it must be available for daily use exactly when it is needed. For us this is an exciting task that we can solve.

INDEPENDENT POWER SUPPLY

GOOD PROSPECTS FOR A CLEAN WORLD TOMORROW

Future generations will also need electricity and heating. The determining question is: How can we produce this power in an environmentally-friendly way, store it and use it as needed? GILDEMEISTER recognized the enormous potential offered by the sun, wind and water many years ago – and, by integrating innovative companies, already has the right answer to this today.

COOPERATION SUSTAINS INNOVATION

TURNKEY SOLUTIONS FOR THE USE OF RENEWABLE ENERGIES

In the area of energy generation and storage GILDEMEISTER again and again shows top performance, for example with SunCarrier solar parks in Spain. The optimal complement for the energy storage, generated environmentally friendly, is the long-lasting and low maintenance large battery cellcube that provides electricity round the clock.

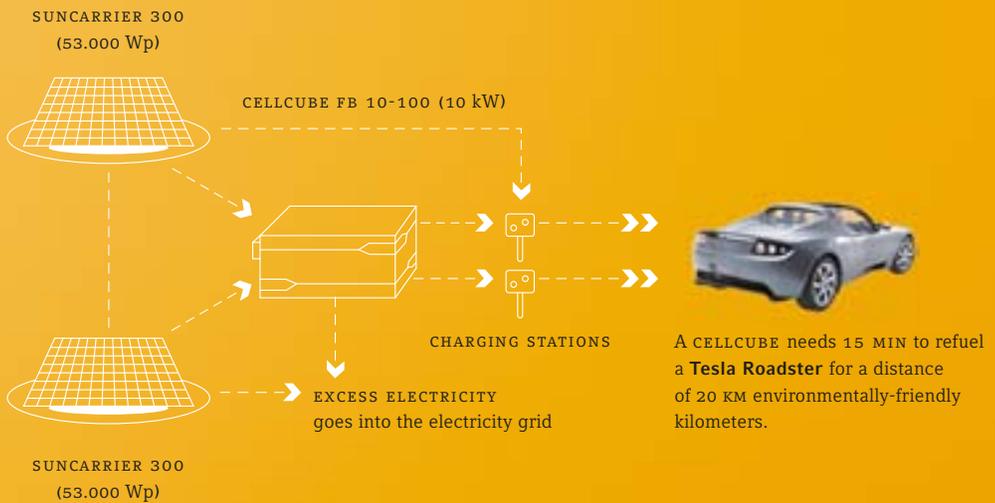




GILDEMEISTER ENERGY SOLUTIONS

Extensive know-how and decades of experience form the perfect basis for trend-setting technology. The unique SunCarrier tracking system always aligns solar plant modules optimally with the sun's position at any one time. This results in additional output of up to 35%.

E-FUELLING STATIONS: COMPLETE SOLUTIONS FOR EFFICIENT E-MOBILITY BY 100% GREEN ENERGY, AS E-MOBILITY IS ONLY AS CLEAN AS THE ELECTRICITY BY WHICH IT IS DRIVEN



CELLCUBE REDOX FLOW BIG BATTERY

PERCENTAGE OF RENEWABLE ENERGY

100%

CO₂ EMISSIONS

0 GRAMME

AVAILABILITY

24/7

The large battery cellcube, developed by Cellstrom GmbH, is regarded as a milestone in the history of the regenerative energy management. Whether in combination with photovoltaic, wind power plants, biogas generators, water power plants or as buffer in instable electricity networks – the vanadium redox flow large battery guarantees constant energy supply, independent of fluctuations caused by the weather, temperatures or length of the day.

Supplementary Report

Overall economic development continued to follow an upwards trend in the first months of this year. The economic cycle of the German machine tool industry improved further at the start of the year.

Economic Development 2011

Overall economic development continued its growth process in the initial months of the current year. The Organisation for Economic Co-operation and Development (OECD) is assuming that the upturn will continue in 2011 at a slower rate. Positive impetus is expected to continue to come primarily from China.

Sources: Institute for the World Economy (IfW), Kiel; Organisation for Economic Cooperation and Development (OECD), Paris

The economic cycle of the **German machine tool industry** also developed positively at the start of the year; correspondingly positive were the industry's sales. The German machine tool builders' association (VDW) estimates order backlog to be 8.2 months.

Source: vdw (German Machine tool builders' association)

Corporate situation after the end of the reporting year

GILDEMEISTER had a good start to **financial year 2011**. **Order intake** developed positively in January and February in line with expectations. Strengthened by the success of our traditional in-house exhibition in Pfronten, order intake of € 291.8 million (+67%) clearly surpassed that of the first two months of the previous year (€ 173.9 million). Also **sales revenues** in January and February progressed above the level of the comparable months of the previous year; they amounted to € 204.2 million (previous year: € 126.5 million). **Order backlog** rose as at 28 February to € 715.9 million (previous year: € 634.1 million). Earnings before tax (EBT) likewise improved in January and February in a year-on-year comparison. At this moment in time, a more precise statement would be premature. More information can be found in the **"Forecast report"** on **page 113**.

ORDER INTAKE AT THE GILDEMEISTER GROUP IN JANUARY AND FEBRUARY
in € million

2009	144.0
2010	173.9
2011	291.8

SALES REVENUES OF THE GILDEMEISTER GROUP IN JANUARY AND FEBRUARY
in € million

2009		220.6
2010	126.5	
2011		204.2

Most successful in-house
exhibition of all time

The highlight of our **marketing activities** at the start of the year was the **traditional in-house exhibition** at DECKEL MAHO in Pfronten. With order intake of € 107.7 million (+102%) and 391 machines sold, it was the most successful in-house exhibition of all time. DMG presented a total of 63 exhibits, including 5 world premieres. Some 5,022 national and international trade visitors gathered information on the full spectrum of cutting edge technologies as well as industry-specific solutions for the aerospace, automotive, medical and “Energy Solutions” sectors. A big crowd-puller were the new **xxl machines**, amongst others. These mega-turning and milling centers can machine workpieces weighing up to 40 tonnes and with turning lengths of up to six metres. Structural parts of this size are used in energy technology, as well as in vehicle and plant construction.

At the **IMTEX** in Bangalore, India, which is the largest exhibition for cutting machine tools in South Asia, GILDEMEISTER presented 14 exhibits from 20 to 26 January 2011 to mainly Asian trade visitors.

Our **cooperation with Mori Seiki** is progressing successfully long-term and is providing further important impetus in Asia and in the USA. We are well positioned in the market owing to the cooperation with Mori Seiki.

The **GILDEMEISTER Suppliers’ Day** took place on 1 February 2011 during the in-house exhibition in Pfronten. For the eleventh time the “Supplier of the Year Award” was presented before the invited top suppliers in the categories quality, supply performance, innovation and overall winner.

In the first two months of the year, the main focus of **capital expenditure** was placed on the acquisition of a seminar and conference center for customers and business partners at the Pfronten site as well as the procurement of parts to maintain production readiness.

At the start of the year we raised **selling prices** in “Machine Tools” and “Services” by between 1% and 5% with respect to specific markets and products.

In the first two months there were no changes in the **legal corporate structure** or in the organisational structure. Nor were any **equity investments** made.

Opportunities and Risk Report

Early identification and exploitation of opportunities while paying attention to risks: The systematic opportunities and risk management has been an integral part of corporate management for years. In this way GILDEMEISTER can act effectively and introduce any measures necessary.

GILDEMEISTER is offered various opportunities in its global corporate dealings, which constantly correspond with risks. Our opportunities and risk management assists in recognising and evaluating these timely. The Executive Board and the Supervisory Board are informed regularly about the current risk position of the group and of the individual corporate areas. Our opportunities and risk management system comprises five elements:

1. the company-specific Risk Management Manual, in which the system is defined,
2. a central Risk Management Representative, who is supported by a local Risk Representative from each group company, and who updates the risk management system (including software),
3. area-specific risk schedules, in which individual risks are quantitatively assessed and the risks are ranked and prioritised by the value-at-risk as a measure of risk,
4. the general internal divisional and cross-divisional reporting structure of the group, which is governed by thresholds and is also supported by ad hoc reports on significant risks,
5. the risk reporting system at the group level and at the individual company level.

The total risk is calculated by means of a risk simulation procedure, a so-called Monte Carlo simulation. This means the interaction between risks can be taken into account. The simulation encompasses both individual risks of group companies as well as possible deviances from planning measures (of a positive and negative nature). Once the overall risk position has been determined, the equity requirement is calculated that can bear any possible risk-related losses of a pre-defined probability, the confidence level. GILDEMEISTER's equity exceeds the overall risk position calculated to a probability level of 97.5%. The risks are thus controllable and the continued existence of the GILDEMEISTER group as a going concern is not at risk from today's perspective. The risks have declined compared to the last report as of the third quarter 2010.

Opportunities Management System (OMS)

Opportunities are identified and analysed within the opportunities and risk management system by also simulating positive deviances from planning assumptions. The marketing information system (MIS) identifies significant individual opportunities, by collecting all customer data worldwide and evaluates market and competitor data. On this basis we measure, evaluate and check all sales and service activities, as well as all measures for effectiveness and cost-efficiency. This allows us to draw up short-term and medium-term forecasts on expected customer orders per machine type and per sales region.

Overall economic opportunities arise for GILDEMEISTER in particular from the global economic recovery of the major industrial markets and the associated opportunities of obtaining greater orders from these countries. The global presence of GILDEMEISTER in the relevant markets is a significant contributing factor in making use of these opportunities.

Industry-specific opportunities open up to us with “Energy Solutions”. GILDEMEISTER is hereby taking part in the growing market for solar technology and energy storage. Increasing demand for power favours constant positive developments in this business area. We expect that energy policies worldwide will continue to support renewable energy sources. We intend to benefit from these opportunities with innovative technologies. We take advantage of market opportunities in global markets through our ECOLINE series, by which we serve the demand for cost-effective machines with innovative technology. After the worldwide economic slump of the last year, GILDEMEISTER is now recording growing interest in products in the machine tools business.

Strategic corporate opportunities present themselves to GILDEMEISTER through sustained leadership in innovations and technology, as well as by offering the leading product quality in the market. This gives rise to opportunities to further strengthen our position in numerous markets. In doing so, the MIS provides a large number of operations early indicators, such as market potential or order intake. As a full-liner, we are consistently building upon our services and expanding our advanced technologies in the area of ultrasonic and laser technologies. Furthermore, we also see opportunities in the automation of machine tools. We intend to further build upon the sustainably successful cooperation with Mori Seiki in the areas of production and components, purchasing, research and development, as well as in sales and services. In this context, in the first six months of 2011 the financing will be re-organised. Further information on the **capital increases** that were already announced at the end of last year with an investment of Mori Seiki is given in the “Share” chapter on **page 80 et seq.** Through MG Finance GmbH, GILDEMEISTER and Mori Seiki together with the Japanese trading company Mitsui & Co. Ltd., offer tailor-made financing solutions.

Performance effective opportunities arise by our actively involving our suppliers in the value added process. The optimisation approaches related to this enable us to counteract price increases, in particular for materials in the machine tools business. In addition, in principle at least two suppliers are sourced for all essential structural parts, subassemblies and modules. We provide excellent service to our customers through our worldwide direct sales and service network.

Risk Management System (RMS)

The risk management system at GILDEMEISTER is structured in such a way that significant risks must be systematically identified, assessed, aggregated, monitored and notified. The risks in the individual company divisions are identified in this way every quarter and the risk potential that is determined as a result is analysed and evaluated using quantitative indicators. In doing so, measures to reduce risk are also taken into consideration and any risks that may endanger the enterprise as a going concern are immediately notified outside the regular reporting schedule. We determine the individual local and central risks as well as the effect on the group, in order to present the overall risk situation of the group:

- _ Local risks are individual risks that the group companies are exposed to and that can be assessed locally.
- _ Central risks are risks that, at least in part, can only be assessed centrally. These include, for example, risks arising out of the group's financing.
- _ Group effects usually arise from consolidation requirements; these include, for example, the dual recording of risks, which has to be corrected accordingly.

The **accounting-related internal control system** is part of the overall internal control system (ICS) of the GILDEMEISTER group and is embedded in the risk management system throughout the company. It includes not only the organisation, but also the control and monitoring structures to ensure the recording, preparation and evaluation, confirming to law, of business accounting and its ultimate inclusion in the IFRS financial statements. The analyses carried out by risk management contribute to identifying risks that may have an effect on financial reporting and to introducing measures to minimise these risks. The accounting-related internal control system includes basic principles, procedures and measures to ensure that accounting principles are adhered to in group accounting. In this respect, we analyse new legislation, accounting standards and other communiqués with respect to their effect on the consolidated financial statements. Throughout the group, all relevant regulations are encoded in guidelines, such as the accounting guidelines, for example. Together with the financial statements calendar, which is applicable throughout the group, these guidelines provide the basis for the process of drawing up the financial statements. Local companies are responsible for complying with the relevant regulations

and are supported and monitored in this by the group accounting department. In addition, local regulations exist, which also have to be harmonised with the group accounting. This also includes complying with local accounting standards. The internal audit checks the effectiveness of the internal controls on accounting. Consolidation is carried out centrally by the group accounting department. If required, GILDEMEISTER uses external service providers, for example for the measurement of pension obligations. The employees who are involved in preparing the financial reports are given regular training. The control system covers both preventive activities and those intended to reveal any inconsistencies; this includes plausibility testing, the separation of functions and dual control. The analyses carried out by risk management complement the elements mentioned above and contribute to identifying risks that may have an effect on financial reporting and to introducing measures to minimise these risks. Assessments of effectiveness take place on the basis of self-assessments of the group companies and areas responsible; these are checked on a random sample basis by the internal audit department, and are evaluated. The results of the effectiveness checks are reported regularly to the Executive Board and Supervisory Board.

For GILDEMEISTER, **Macro-economic risks** arise from economic trends. Although there is an increase in order intake in the machine tool sector, the economic climate, in particular, in the USA and some European countries, is not stable yet. Moreover, the ongoing civil unrest in North Africa and Middle East could have a negative effect on economic development worldwide. In particular, a rise in the price of oil and gas as a consequence of political developments may curb global economic growth considerably. Exchange rate changes can also have an effect on our future competitive position (economic currency risk). Constant global talks on currency devaluations could also lead to a potential increase in price of GILDEMEISTER products in China, Japan and the USA and thus compromise the competitive position of GILDEMEISTER. We counteract this risk with international sourcing and an increase in regional production. We consider the probability of occurrence of damage from macroeconomic risks as low.

Industry-specific risks arise primarily from cyclical developments. We counteract these with a technological lead and a focus on our customers and markets. The major solar orders are subject to special approval procedures, which are costly and time-consuming abroad. The bureaucratic hurdles can cause time delays in the construction of solar plants and thus lead to a delay in sales revenues and possible contractual penalties. Overall we consider the probability of occurrence of damage from industry-specific risks as slight. Competitive pressure from the Asian region, especially from China, remains at a high level. We counteract this competitive pressure through a growing regionalisation of production, through our technological lead and through high service quality.

Corporate strategic risks occur from the risk of inaccurate estimates of future market development and erroneous technological developments. In research and development there is a risk of budget excesses, erroneous development, increased start-up costs for new products and a delay in introducing innovations onto the market.

We counteract these risks through intensive monitoring of the market and competition, regular strategy discussions with customers and suppliers, a comprehensive trade fair presence in all important markets and through our MIS early warning system as well as through the development partnerships with customers, suppliers and universities. We consider the probability of occurrence of losses from corporate strategic risks to be slight.

Procurement and purchasing risks that we are primarily exposed to are those of the possibility of price increases for materials in machine tool building as well as price volatility in solar modules. Due to rising costs of raw materials and material costs, we anticipate product-specific price increases in financial year 2011. Further risks exist in possible supplier shortfalls and quality problems. We counteract these by standardising structural parts and components, international sourcing and, in particular, through the cooperation with Mori Seiki in the area of procurement. We have calculated potential losses from purchasing and procurements risks at about € 8 million with a low probability of occurrence.

Production risks are subject to continuous control by GILDEMEISTER through key figures on assembly and manufacturing progress, process time and continuity. In principle, as we avoid incalculable projects, we consider these risks to be manageable and controllable. Moreover, GILDEMEISTER uses numerous other quality and product-related indicators to monitor potential risks. These include, for example, the contribution margin per machine type and the turnover rate of raw materials and consumables, as well as of other inventories. We strive to counteract plagiarism with our innovations-focused product strategy, by which we ensure a technological lead through our high speed of development. We have calculated any possible losses arising out of this at about € 14 million with a low probability of occurrence.

Personnel risks arise mainly from the fluctuation of employees in key positions. GILDEMEISTER limits these risks through intensive further training and management trainee programmes to increase employee qualifications and skills, as well as through performance-oriented remuneration with a performance-based incentive system, substitution arrangements, which should cushion any loss of key employees, as well as through early succession planning. We counteract risks of dismissal by preventive forms of contract as well preferably through settlement with those making claims. On the basis of the above-mentioned measures, we consider the probability of occurrence of estimated damages in an amount of about € 5 million as slight.

IT risks exist due to the increasing networking of our systems, some of which are highly complex. IT risks may arise from network failure or from data being falsified or destroyed through user and program errors or through external influences. We counteract these information technology risks through regular investment in our hardware and soft-

ware, by the use of virus scanning programs, firewall systems, and by controlling access and authorisations. Possible damages arising out of this area amount to about € 1 million and are controllable. We consider the probability of occurrence to be slight.

Risks from operative tasks: As before, our products continue to be subjected to constant price competition in the international markets, which we are counteracting through cost reductions, improved manufacturing and procurement processes, and by optimising production start-ups. We consider the probability of occurrence of damage from above-referred risks to be slight.

Financial risks arise, amongst others, from our international activities. We safeguard currency-related risks within the scope of our currency strategy. **More detailed information in this respect is given in the Notes to the Consolidated Financial Statements on page 190 et seq.** With respect to hedging, we estimate currency-related risks to be low. The main funding components of GILDEMEISTER are syndicated loans, borrowers' notes and factoring programmes. A risk from changes in interest rates from the borrowers' notes does not exist as a fixed interest rate has been agreed by way of a hedging instrument (swap). All financing agreements include an agreement to comply with standard covenants. In the event of non-compliance with the covenants, which might be the case when planned figures are not reached, the banks would have a right to re-evaluate the financing agreements. GILDEMEISTER's liquidity is appropriately measured. A risk could arise from the timing occurrence of payments in the project business. The agreed financing framework can absorb any possible time delays that are identifiable today. Possible damages amount to about € 29 million. The probability of occurrence of damages is slight.

Other risks arise out of the operative business. Legal risks grow, in particular, out of possible warranty claims due to customer complaints on the purchase of machine tools and services as well as projects. GILDEMEISTER strives to monitor these risks through efficient quality management; nevertheless, such claims of our customers cannot always be avoided. To maintain the resulting risks at a manageable and calculable level, GILDEMEISTER follows a policy of limiting the time period of our warranties and liabilities. We have an up-to-date contract management system and in addition regularly train our employees in the area of effective contractual terms and the minimisation of risks. Insofar as deferred taxes on loss carry forwards or interest carry forwards were not impaired, it is assumed that these tax reduction measures can be used in the planning period against taxable income. Should there be higher tax charges than expected or should it not be possible to use loss and interest carry forwards, this could have a detrimental affect on GILDEMEISTER's assets, financial position and results of operations. In addition, there is a risk of tax charges from ongoing tax audits. Overall, we have calculated any possible losses arising from tax risks at about € 6 million with a low probability of occurrence.

SWOT Analysis

The main strengths, weaknesses, opportunities and risks of GILDEMEISTER are summarised and presented following the criteria of a SWOT analysis (Strengths, Weaknesses, Opportunities, Threats) as follows:

SWOT ANALYSIS OF THE GILDEMEISTER GROUP

Strengths

- _ strategic cooperation with Mori Seiki,
- _ worldwide direct sales and services network to win a correspondingly high market share,
- _ comprehensive analysis of market and competition data by the marketing information system (MIS),
- _ independent production company in the Chinese growth market,
- _ offer of individual financing solutions for customers through MG Finance
- _ consistent market and customer focus through highly-integrated multi-channel marketing,
- _ large and diverse customer base,
- _ modern product range focused on customer needs,
- _ full range of products for turning and milling,
- _ high innovative strength,
- _ global sourcing by opening up new procurement markets,
- _ customised range of services covering the entire life cycle of the machine (full-service supplier),
- _ profitable service business,
- _ modular products / standard parts concept,
- _ high production flexibility
- _ long-term and flexible financing measures
- _ highly-integrated control and software products to provide the customer with comprehensive process support

company-specific

Weaknesses

- _ global presence requires high level of management resources,
- _ high readiness costs through reserved capacity in the production area,
- _ low margin products as part of full-line range,
- _ high start-up costs for a number of new products,
- _ logistics and quality demands through global purchasing activities,
- _ possible delays in project completion in "Energy Solutions" division

Opportunities

- _ dynamic growing market of renewable energies,
- _ promising energy storage market, which GILDEMEISTER services with the "cellcube", a vanadium redox flow big battery
- _ market opportunities from the cooperation with Mori Seiki, especially in Asian countries
- _ strong demand for simple machines with a high standard of quality (ECO series),
- _ advanced concentration process in the industry, for which GILDEMEISTER is well-positioned,
- _ focusing on growth industries, such as automotive, aerospace and medical technology,
- _ leveraging market potential,
- _ increasing legal stability in the growth markets in Asia and eastern Europe,
- _ currency-related price advantages,
- _ fast use of local market opportunities through global presence

market-specific

Threats

- _ price increases for materials in machine tools business and price volatility for solar modules,
 - _ dependency on volatile machine tools market,
 - _ economic instability in crisis regions,
 - _ currency-related price risks
-

Forecast Report

In the view of economic experts, the global economy will grow at a slower rate in the current financial year. Current forecasts for machine tool building expect further growth in 2011. The vdw expects worldwide consumption to rise by 20% and for consumption in Germany to increase even by some 30%.

Future Business Environment

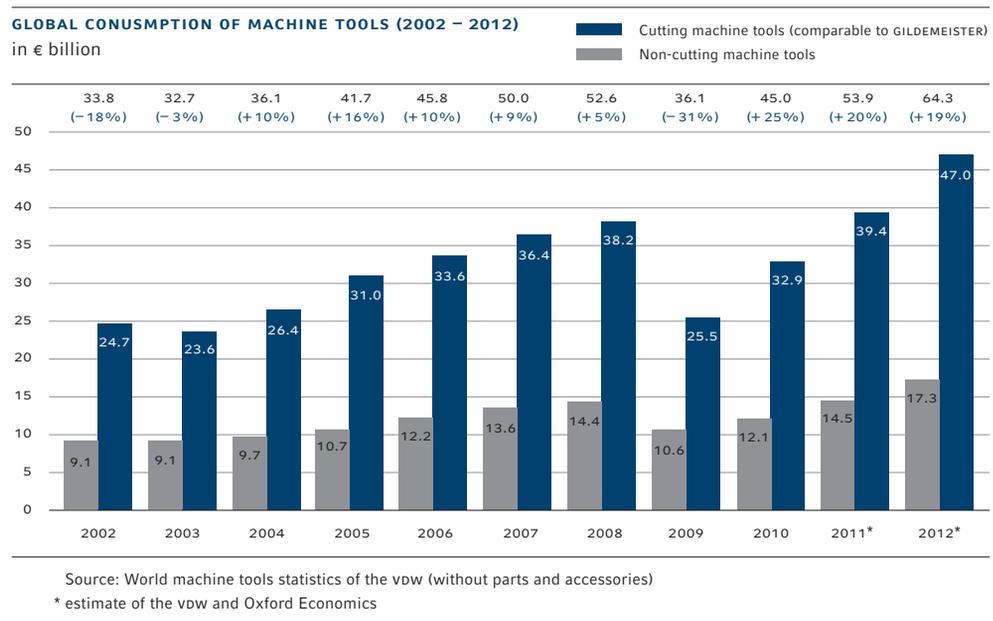
Overall economic development will continue its growth trend in 2011, although the dynamics will be less marked. The Institute for the World Economy (IfW) predicts an increase in global gross domestic product of 3.6%; an increase of 4.0% is predicted for 2012. In the **USA** the cyclical recovery will continue. Only restrained impetus will be generated by private consumption and by corporate capital expenditure. According to IfW estimates, gross domestic product in the USA in 2011 will grow by 2.5%, a 3.0% growth is expected for 2012. A slowdown is expected in **Asia**. **China** will retain its role as the strongest motor of global economy but is unlikely to achieve any double digit growth rates. A rise in gross domestic product is predicted there of 8.1% (2011) and 8.5% (2012). The Japanese economy will likewise slow down markedly in its continued development. The IfW forecast for 2011 is 1.5% and 1.6% for 2012. A similar trend applies to **Europe**. For the eurozone, economic researchers estimate that gross domestic product will grow in 2011 and 2012 by 1.3%, respectively.

In **Germany** a reduced rate of growth is similarly assumed. The latest ifo forecast is for 2.4% in the current year and 1.5% next year. In its autumn report 2010 / 2011, the German Council of Economic Advisors considers growth of 2.2% in 2011 to be likely. Further improvements in the situation are expected over the course of the year in the labour market. The same applies to state debt, according to initial forecasts, it might be possible to lie below the fixed deficit threshold of 3.0.

Quellen: Sources: Institute for the World Economy (IfW), Kiel, ifo Institute, Munich; German Council of Economic Experts on the Assessment of Economic Trends, Berlin; Federal Economic Ministry, Berlin; Organisation for Economic Cooperation and Development (oecd), Paris

The **worldwide market for machine tools** will continue to develop positively in 2011. Current forecasts of the German machine tool builders' association (vdw) and the British economic research institute, Oxford Economics, expect an increase in **production output** and **market volume** of 19.8%. We are therefore expecting a rise in **sales revenues in the industry** of 19.8%. This estimate is based on a worldwide recovery in demand for capital

expenditure, which will primarily be driven by the ongoing industrialisation process in the emerging markets. In 2012 the vdw expects growth in consumption of 19%. (Status: November 2010). Current statements on the development of the **industry's profitability** or on **price and wage** trends are not available. The **global consumption of machine tools and the market potential** are reflected in the graph below.



The **German machine tool industry** starts the year 2011 with positive expectations of the **industry's cyclical performance**. The vdw and the British economic research institute, Oxford Economics, are expecting a rise of 32% in production and 30% in consumption. On a medium-term basis, forecasts for the years 2011 to 2013 anticipate average growth in consumption of about 18% annually. The risk factors in this assumption are formed by the development of prices for raw materials and energy, changes in exchange rates and the prevailing political conditions.

Source: "Global Machine Tool Outlook", Oxford Economics.

The **consolidation processes** (mergers and acquisitions) in the machine tool industry will continue in 2011. The market entry of significant competitors and the introduction of fundamentally new **replacement products and services** are not expected.

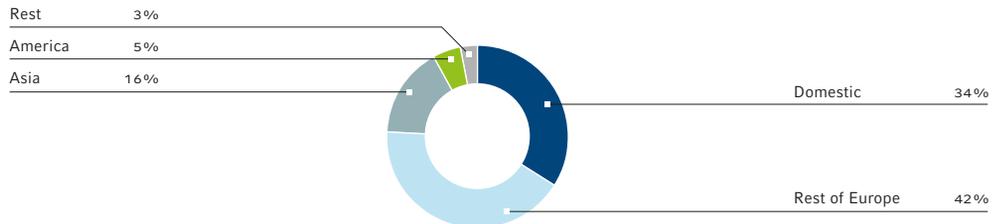
Future Development of the GILDEMEISTER group

GILDEMEISTER will further expand its global presence in major markets. The cooperation with Mori Seiki especially contributes to this in the Asian and American markets. With many years' experience, wide-ranging technological know-how and our power of innovation, we will continue to hold a leading position among leading producers of cutting machine tools. As a technology group, innovative ideas and breaking new ground in machine technology, services and software products are key factors for **GILDEMEISTER** in securing the future of the company.

We consider the **future consumer markets** with growth potential to be primarily those of the BRIC countries. Current forecasts from the vdw and the British economic research institute, Oxford Economics, expect a growth rate of 18% and a share in global consumption of 42% in these four markets. With an increase in order intake of more than 25%, **GILDEMEISTER** plans a higher than average share in this growth. In Brazil, Russia, India and China we will further strengthen sales and service and cement our leading competitive position. We will stringently focus on growing sales sectors, such as aerospace, medical technology and renewable energies. At the start of 2011, we plan to extend the cooperation with Mori Seiki to the African markets as well as to Mexico.

In the first quarter of 2011 we are expecting **order intake** of more than € 350 million (previous year's quarter: € 302.3 million). For the whole year we are anticipating growing demand for our "Machine Tools", "Services" and "Energy Solutions". We intend to achieve order intake of more than € 1.6 billion for the whole year. Our planning anticipates that the positive cyclical development will last throughout this year. The regional distribution of orders will shift further towards Asia. This premise is based on the estimate of the vdw on the development of machine tool consumption. We are expecting specific impetus to come from the international trade fairs: The most important machine tool trade fair in Asia is the CIMT in Beijing, where **GILDEMEISTER** will present 28 exhibits from 11 to 16 April. The EMO, the most important trade fair worldwide for machine tools, takes place from 19 to 24 September. **GILDEMEISTER** will present 70 exhibits in Hanover, of which 10 will be world premieres.

**EXPECTED DISTRIBUTION OF SALES 2011
OF THE GILDEMEISTER GROUP BY REGIONS**
in %



For the first quarter we are planning **sales revenues** of more than € 300 million (previous year's quarter: € 244.4 million). In the first six months of 2011, sales revenues will be noticeably above the level of the previous year. Order intake in the core segment of "Machine Tools" rose markedly. As a result sales revenues in "Machine Tools" will be significantly higher than in the previous year. In "Services" we are assuming a further increase in sales revenues. Also in "Energy Solutions" we plan to increase sales revenues once again. Overall for financial year 2011 we plan sales revenues of more than € 1.5 billion.

In the first quarter the **order backlog** will be higher than that of the previous year (€ 644.5 million).

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

Materials expenses will absolutely increase due to the planned increase in sales revenues. We plan to improve the **materials ratio**. As a consequence of the planned revenue growth, employee expenses and other operational expenses will also increase. We plan a small improvement in the personnel ratio and in other operating expenses in relation to total operating revenue.

For the whole year 2011, we anticipate positive **free cash flow**. Our measures are aimed at further improving the **financing structure** in financial year 2011 and the gearing. At the same time, focus continues to be placed on reducing working capital.

Our sound financing will provide the necessary **liquidity** for 2011 according to current estimates and moreover we will have a reasonable margin in lines of financing. No concrete statements can be made on liquidity due to the decided capital increase and a further promptly planned capital increase. We are working extremely hard to reduce the **costs of capital** compared to the previous year.

Our **value reporting** will continue to form an essential part of our value-based corporate management. We expect an improvement in the ROCE given the business development currently assumed. We plan to maintain the costs of capital (WACC) at the previous year's level.

For financial year 2011 we plan **capital expenditure** in property, plant and equipment and in intangible assets of some € 50 million. The planned volume of capital expenditure will be higher than the level of depreciation anticipated. A key aspect of our capital expenditure activity will focus, as in past years, on product innovations. In "Machine Tools" we will invest in building up the new generation of the monoblock and eVolution series and will press on with the consistent extension of our CTX series as well as automatic lathes. Lasertec and ultrasonic applications will also be constantly optimised. In addition, we are investing in the further development of the "SunCarrier" series as well as our "cellcube" battery system.

New logistics center
planned for Seebach

In the "**Machine Tools**" segment capital expenditure of about € 36.5 million is planned. Here the development of new machine types and the provision of the fixtures, models and supplies necessary for production lie at the forefront of capital expenditure activity. To optimise logistics procedures at the Seebach site, we plan to invest in a new logistics center. The "Technical Innovation Center", which has also been planned, will further increase the efficiency of the development process. At the Pfronten site we intend to improve through-put times by adapting further machine types to the existing progressive assembly system. Further capital expenditure funds are earmarked for setting up shop floor monitors at all assembly places at the site. By this, in the future all assembly-related information can be provided in real time. The enhancement of our business processes and IT systems will be secured by capital expenditure of GILDEMEISTER Beteiligungen AG.

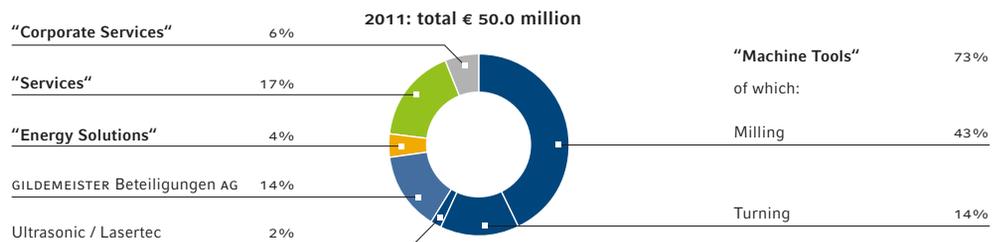
We have allowed for capital expenditure in the "**Services**" of about € 8.4 million. From 17 to 20 May 2011, it is planned to open the technology center in India with our cooperation partner, Mori Seiki. In addition, we intend to invest in building up our joint sales and service activities in Singapore. Further funds will flow into updating business equipment at our sales and service companies in line with requirements. To safeguard our service quality, we will also equip our service employees with the latest diagnostics tools and software programs, as well as electronic measuring devices in financial year 2011.

For the **“Energy Solutions”** division, capital expenditure of about € 2.2 million is planned in order to drive further development of our solar and energy storage technology.

We will invest about € 2.9 million in the **“Corporate Services”** segment. A key aspect will be realising a flagship project for trend-setting energy systems in cooperation with local partner companies. Additionally, investments in replacements are planned at the Bielefeld site.

The **investment structure** remains well-balanced: All segments will be taken into account in investments. There are no identifiable risks arising out of planned investments according to current estimates.

**SHARE OF THE INDIVIDUAL SEGMENTS / BUSINESS AREAS IN PLANNED INVESTMENTS
IN TANGIBLE ASSETS AND IN INTANGIBLE ASSETS**
in %



The number of **employees** will rise in financial year 2011 given the background of the order situation and the planned business development. We intend to take on a total of 200 employees, 100 each mainly in production and in services. Employee expenses will rise, in particular due to the ending of short time working in 2010 and wages and salary increases in 2011.

In the area of **research and development** we are consistently following our strategic aims and main areas of focus. We will further expand our successful product lines and strengthen our technological position through targeted innovations in areas with a promising future. The expense volume for research and development is expected to be about € 51 million. In total some 15% of the workforce at the plants works on the implementation of our technological goals.

The success of the cooperation with Mori Seiki will be demonstrated in the presentation of joint machine concepts. At the same time, we are rising to the challenge of providing a large variety of options while maintaining optimised prices. Further aspects are the machining of complex major structural parts as well as further extending our leading position in the area of 5-axis machining.

GILDEMEISTER presents
16 new developments

In the **“Machine Tools” segment** we are planning 16 new developments for the coming financial year. GILDEMEISTER Drehmaschinen GmbH is adding to the Turning Association range of products with 4-axis machines within the CTX series. GILDEMEISTER Italiana S.p.A. will round off the product portfolio in the area of CNC automatic lathe turning. Within the Milling Association, DECKEL MAHO Pfronten is extending the product line of the universal milling machines in the monoblock series. In addition, building up the gantry series forms the entry into a new dimension in large piece full machining. DECKEL MAHO Seebach will further expand the 5-axis milling machines of the new eVolution generation within the Milling and Machining Association. Within the Ecoline Association, we will extend the current product range further to include cutting edge concepts.

In the **“Services” segment** we will further enhance our trend-setting Life Cycle products. Through a range of comprehensive service solutions over the entire life cycle of the machine tool, we intend to increase the customer's benefits still further. Additional improvements in efficiency within our central spare parts supply are likewise included in the activities as is enhancement in the area of automation and in tool management.

In the **“Energy Solutions” segment** we will further expand our successful product portfolio and services and complement these with innovative, new concepts. In the business area of solar technology, the further development of the “SunCarrier” series is the focus of activities. The product range of the innovative “cellcube” battery system will be selectively extended.

Expand cooperation
with Mori Seiki

In **production, technology and logistics** in the current financial year, we will consistently continue with the optimisation of and transition to flexible production and logistics processes. We continue to work on implementing joint projects within the **cooperation** with Mori Seiki. The success of the partnership style cooperation will be reflected in the joint engineering and production of machines. By streamlining the supply routes to our customers and thereby achieving time and cost benefits, we are jointly meeting the growing demands of the market.

Our **Production Associations** will focus more intensely on improving our assembly and logistics processes in financial year 2011.

The **Milling Association** is working on projects that represent a continuous improvement in performance in all production and logistics processes. A core project is the adaptation of existing flow line assembly to the requirements of the enhanced **monoblock** machines; these include the **DMU 65**, which was presented at the autumn trade fairs in 2010. The high production numbers of this universal milling machine series permits the efficient use of the flow line assembly principle. Moreover, **DECKEL MAHO** is relying on the successful implementation of assembly monitors throughout the group. The core element of this improvement project is delivering information to employees in real time, including parts lists, deadline and work schedules, drawings and assembly progress notifications.

In the **Milling and Machining Association** we are concentrating on optimising the Seebach site. Strong demand for the milling machines produced at Seebach requires that logistics procedures be expanded and the assembly area extended. In the first construction stage the logistics areas that were previously separate will be integrated into a central logistics center. On the one hand this will make it possible to improve incoming goods processes and, on the other, to supply the production areas with materials efficiently. In addition, we will set up a new research center – the “Technical Innovations Center” – with integrated prototypes and experimental construction area. In this way we intend to accelerate the development process at the efficient Seebach site and in doing so to offer better conditions for the development of innovative products in the future. In the second construction stage, the assembly areas will be optimised. It is our goal to increase assembly capacity by more than 40%.

In the **Turning Association** we will extend the successful Kanban system to the external cover of the **CTX gamma** series. This procurement model is a core aspect of our **PULLplus** system catalogue and ensures materials supply throughout the group in line with requirements and optimised to suit the processes.

In the **“Energy Solutions”** segment, we are focusing on technological enhancements for the solar systems and energy storage technology. A further key aspect will likewise be placed on optimising the costs of the “cellcube” big battery. This applies both to reducing assembly times as well as optimising materials costs. In order to manage the large number of orders, production of battery components will be automated as far as possible. In the solar area, in addition to the development and market introduction of new products in the current year, the focus will likewise fall on the further development, cost optimisation and standardisation of the existing “SunCarrier” series.

Technical Innovations Center
increases development strength

Cellstrom optimises
assembly

In the area of **purchasing and procurement**, securing our production supply will present the main issue for 2011. Due to the growth to be expected in demand worldwide for machine tools, the purchasing volume is accordingly growing strongly. Detailed value analysis together with suppliers will become more important. The primary goal is to avoid having rising prices for materials costs, caused by the higher demand, spread throughout the entire group. Alongside these activities, we will push the group wide standardisation of components. For non-production materials we will place the focus on possibilities of use of new, trend-setting energy concepts.

Global sourcing activities will be intensified and constantly extended. In addition to China and India, Taiwan will also be taken more into consideration as a new procurement market. Through the global sourcing, we will continue to take advantage of **natural hedging**.

The cooperation with Mori Seiki in the area of purchasing makes it possible for us to operate on the Japanese market more intensively than before. Additional machine projects within the cooperation will be supported proactively by purchasing.

In **logistics**, rising freight rates must be expected due to high capacity utilisation in the transport industry. To counteract this effect, on the side of incoming transport, we will press on with optimising packaging more intensely than before. Within the scope of **CIP workshops** the transport volume should be reduced, which in turn will lead to cost reductions. Furthermore, we will centralise the procurement of transport services still further. Through pooling and concentrating on particularly efficient service providers, we will achieve additional cost advantages.

For the current financial year, GILDEMEISTER is assuming there will be little room to manoeuvre in the procurement markets in view of the economic situation. Through forward-looking material planning and stocking up of key components, we will secure the necessary **production flexibility** we require. In addition to quality and an ability to innovate, we will measure our suppliers even more than before by their **delivery performance**. This year will see a need for a very high level of flexibility on the part of our supplier partners in order to ensure production in line with orders.

We want to simplify processes by the connection of ERP systems. An important goal for the current year is a further rise in data transparency by suppliers reliability and quality by optimised reporting tools. We will thereby increase efficiency in working together with our supply partners.

In financial year 2011, the **legal corporate structure (future group structure)** is not expected to change significantly.

Exploiting further potential
for optimisation

General statement on future business development 2011 and 2012

GILDEMEISTER plans to replicate the successful years 2007 and 2008 against the background of a fast economic recovery and the growing demand worldwide for machine tools. General economic conditions remain challenging. The world markets for machine tools have undergone fundamental structural changes in a short space of time. We continue to see Asia as offering good opportunities for growth (forecast 2011: +17.4%) and especially China, the largest market worldwide for machine tools, as well as in India.

GILDEMEISTER looks forward optimistically to **financial year 2011**. We expect further growth in global demand for machine tools and in the service business. The “Energy Solutions” business will also continue to develop positively. We intend to achieve order intake for the whole year of more than € 1.6 billion and sales revenues of more than € 1.5 billion. GILDEMEISTER is strategically well-positioned to grow once again with a focus on earnings. We are expecting clear growth in EBT and the annual net income. Based on the positive outlook for business and earnings, we are planning to pay a dividend for financial year 2011.

We are also expecting positive, dynamic growth in **financial year 2012** in all our business areas. We are assuming another rise in order intake, sales revenues and earnings.

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Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft

Consolidated Income Statement for the period 1 January to 31 December 2010 of GILDEMEISTER Aktiengesellschaft

	Notes	2010 € K	2009 € K
Sales revenues	6	1,376,825	1,181,222
Changes in finished goods and work in progress		- 12,115	- 44,281
Own work capitalised	7	8,832	6,704
Total work done		1,373,542	1,143,645
Other operating revenues	8	55,321	86,465
Operating performance		1,428,863	1,230,110
Cost of materials	9		
Cost of raw materials, consumables and goods for resale		654,707	463,400
Cost of purchased services		113,441	96,383
		768,148	559,783
Personnel costs	10		
Wages and salaries		279,490	291,019
Social security contributions, pensions and other benefits		53,660	55,006
		333,150	346,025
Depreciation	11	29,456	29,119
Other operating expenses	12	253,129	263,341
Operating result		44,980	31,842
Financial income	13		
Interest receivable		1,281	3,013
Other income		1,122	689
		2,403	3,702
Financial expenses	14		
Interest payable		34,288	23,621
Interest expense from pension provisions		2,004	1,766
Other financial expenses		4,156	3,048
		40,448	28,435
Financial result		- 38,045	- 24,733
Share of profits and losses of equity-accounted investments	15	- 403	0
Earnings before taxes		6,532	7,109
Income taxes	16	2,232	2,403
Annual profit		4,300	4,706
Profit share of shareholders of GILDEMEISTER Aktiengesellschaft	17	4,205	4,658
Profit share attributed to minority interests		95	48
Earnings per share pursuant to IAS 33 in €	18		
Undiluted		0.09	0.10
Diluted		0.09	0.10

**Reconciliation to comprehensive Income
of the GILDEMEISTER group for the period
from 1 January to 31 December 2010**

	Notes	2010 € K	2009 € K
Annual profit		4,300	4,706
Remaining result			
Differences from currency translation		12,915	664
Changes in market value of derivative financial instruments		1,435	-2,176
Change in the fair value measurement of available-for-sale assets	20	11,681	-3,095
Income tax expense on other comprehensive income	27	-413	627
Remaining result for the period after taxes		25,618	-3,980
Total comprehensive income for the period		29,918	726
Profit share of shareholders of GILDEMEISTER Aktiengesellschaft		29,835	681
Profit share attributed to minority interests		83	45

**Consolidated Balance Sheet as at 31 December 2010
of GILDEMEISTER Aktiengesellschaft**

ASSETS	Notes	31 Dec. 2010 € k	31 Dec. 2009 € k
Long-term assets			
Goodwill	19	81,451	75,740
Other intangible assets	19	31,306	24,409
Tangible assets	20	201,807	197,354
Equity-accounted investments	22	6,214	0
Other equity investments	21	44,561	28,521
Trade debtors	23	1,739	679
Other long-term assets	23	10,136	16,460
Deferred taxes	27	41,265	35,428
		418,479	378,591
Short-term assets			
Inventories	24	410,289	391,235
Trade debtors	25	304,313	238,838
Other short-term assets	25	112,677	59,550
Cash and cash equivalents	26	111,769	80,940
		939,048	774,063
		1,357,527	1,152,654
EQUITY AND LIABILITIES			
Equity			
Subscribed capital	28	118,513	118,513
Capital provision		80,113	80,113
Revenue provisions		207,704	182,427
Total equity of shareholders of GILDEMEISTER Aktiengesellschaft		406,330	381,053
Minority interests' share of equity		6,563	- 238
Total equity		412,893	380,815
Long-term liabilities			
Long-term financial debts	31	220,180	237,260
Pension provisions	29	26,316	26,331
Other long-term provisions	30	19,856	33,934
Trade creditors	32	417	166
Other long-term liabilities	30	24,057	24,639
Deferred taxes	27	5,880	2,781
		296,706	325,111
Short-term liabilities			
Short-term financial debts	31	100,057	92,034
Tax provisions	30	7,145	12,105
Other short-term provisions	30	125,972	115,681
Payments received on account		97,023	43,811
Trade creditors	33	264,431	141,120
Other short-term liabilities	33	53,300	41,977
		647,928	446,728
		1,357,527	1,152,654

**Consolidated Cash Flow Statement
of GILDEMEISTER Aktiengesellschaft from
1 January to 31 December 2010**

CASH FLOW FROM OPERATING ACTIVITIES			
	Notes	2010 € K	2009 € K
Earnings before taxes (EBT)		6,532	7,109
Depreciation		29,456	29,119
Financial result	14	38,045	24,733
Change in long-term provisions		-14,093	-13,824
Other expense not affecting payments		694	1,517
Change in short-term provisions		8,788	-55,260
Income from the disposal of fixed assets		-1,740	55
Income tax refunds		273	323
Income taxes paid		-12,334	-6,171
Interest received		878	2,440
Interest paid		-33,221	-24,576
Dividends received	14	799	485
Changes in asset and liabilities items			
Inventories		-12,693	34,623
Trade debtors		-61,018	46,467
Other assets not from investments or financing activity		-52,296	4,232
Trade creditors		122,474	-57,710
Other liabilities not from investments or financing activity		54,072	-68,797
	37	74,616	-75,235
CASH FLOW FROM INVESTMENT ACTIVITY			
Amounts received from the disposal of tangible assets and intangible assets		4,408	1,324
Amounts paid out for investments in tangible assets		-22,285	-18,717
Amounts paid out for investments in intangible assets		-11,512	-7,846
Amounts paid out for the disposal of financial assets		-10,976	-31,260
	37	-40,365	-56,499
CASH FLOW FROM FINANCING ACTIVITY			
Dividends paid		-4,558	-17,321
Payments made for repaying of financial debts		-3,787	-42,535
Proceeds from capital increase		0	18,076
Payments for the costs of the capital increase		0	-500
	37	-8,345	-42,280
Changes affecting payments		25,906	-174,014
Effects of exchange rate changes on financial securities		1,423	532
Cash and cash equivalents as at 1 January		84,440	257,922
Cash and cash equivalents as at 31 December	26	111,769	84,440

See explanatory notes included to the Consolidated Financial Statements

**Development of Group Equity
of GILDEMEISTER Aktiengesellschaft for the period
1 January 2010 to 31 December 2010**

			Revenue provisions			Shareholders equity of GILDEMEISTER Aktiengesellschaft		Minority interest share of equity € K	Total € K
	Subscribed capital € K	Capital provision € K	Revenue provisions € K	Difference from currency translation € K	Changes in the value of available-for-sale-assets € K	Market valuation of financial derivatives € K	€ K		
As at 01 Jan. 2009	112,587	68,319	217,622	-7,177	0	-11,378	379,973	-283	379,690
Total comprehensive income									
Annual profit			4,661				4,661	45	4,706
Other comprehensive income									
Differences from currency translation				664			664		664
Change in fair value of derivative financial instruments (after taxes)						-1,549	-1,549		-1,549
Change in fair value of available-for-sale assets					-3,095		-3,095		-3,095
Other comprehensive income for the period after taxes				664	-3,095	-1,549	-3,980		-3,980
Total comprehensive income for the period			4,661	664	-3,095	-1,549	681	45	726
Transactions with owners									
Capital increase from authorised capital	5,926	12,150					18,076		18,076
Reduction of the proceeds of the issue considered in the capital provision		-356					-356		-356
Dividend for financial year 2008			-17,321				-17,321		-17,321
Sum of transactions with owners	5,926	11,794	-17,321				399		399
As at 31 Dec. 2009	118,513	80,113	204,962	-6,513	-3,095	-12,927	381,053	-238	380,815

See explanatory notes included in the Consolidated Financial Statements page 140 et seq.

			Revenue provisions					Minority interest share of equity € K	Total € K
	Subscribed capital € K	Capital provision € K	Revenue provisions € K	Difference from currency translation € K	Veränderung Changes in the value of available-for-sale-assets € K	Market valuation of financial derivatives € K	Shareholders equity of GILDEMEISTER Aktiengesellschaft € K		
As at 01 Jan. 2010	118,513	80,113	204,962	- 6,513	- 3,095	- 12,927	381,053	- 238	380,815
Total comprehensive income									
Annual profit			4,205				4,205	95	4,300
Other comprehensive income									
Differences from currency translation				12,927			12,927	- 12	12,915
Change in fair value of derivative financial instruments (after taxes)						1,022	1,022		1,022
Change in fair value of available-for-sale assets					11,681		11,681		11,681
Other comprehensive income for the period after taxes				12,927	11,681	1,022	25,630	- 12	25,618
Total comprehensive income for the period			4,205	12,927	11,681	1,022	29,835	83	29,918
Transactions with owners									
Capital increase from authorised capital									
Total capital contributions / withdrawals to owners								6,718	6,718
Dividend for financial year 2009			- 4,558				- 4,558		- 4,558
Sum of transactions with owners			- 4,558				- 4,558	6,718	2,160
As at 31 Dec. 2010	118,513	80,113	204,609	6,414	8,586	- 11,905	406,330	6,563	412,893

See explanatory notes included in the Consolidated Financial Statements page 140 et seq.

Fixed Asset Movement Schedule
as at 31 December 2010 of GILDEMEISTER Aktiengesellschaft
(Part of the notes)

ACQUISITION AND PRODUCTION COSTS

Intangible assets

Goodwill
Assets arising from development
Industrial property and similar rights
Payments on account

Tangible assets

Land and buildings
Technical equipment and machinery
Other equipment, factory and office equipment
Payments on account and construction in progress

Financial assets

Investments in associates accounted for at equity
Other equity investments
Securities

Total fixed assets

DEPRECIATION

	As at 01 Jan. 2010 € K	Other changes € K
Intangible assets		
Goodwill	0	0
Assets arising from development	49,594	3
Industrial property and similar rights	48,612	37
Payments on account	110	0
	98,316	40
Tangible assets		
Land and buildings	77,363	364
Technical equipment and machinery	48,339	384
Other equipment, factory and office equipment	98,531	1,186
Payments on account and construction in progress	4	0
	224,237	1,934
Financial assets		
Investments in associates accounted for at equity	0	403
Other equity investments	3,213	-11,681
Securities	0	0
	3,213	-11,278
Total fixed assets	325,766	-9,304

As at 01 Jan. 2010 € K	Other changes € K	Change in the group of consolidated companies € K	Additions € K	Disposals € K	Book transfers € K	As at 31 Dec. 2010 € K
75,740	432	0	5,279	0	0	81,451
71,070	7	1,974	9,207	- 397	- 163	81,698
51,430	73	228	2,035	- 226	631	54,171
225	1	315	263	- 115	0	689
198,465	513	2,517	16,784	- 738	468	218,009
220,796	1,986	57	1,321	- 895	2,252	225,517
63,780	3,910	413	2,155	- 3,137	909	68,030
131,837	2,266	163	10,615	- 7,385	265	137,761
5,178	132	133	8,194	- 575	- 3,894	9,168
421,591	8,294	766	22,285	- 11,992	- 468	440,476
0	0	0	6,617	0	0	6,617
31,733	0	0	4,359	0	0	36,092
1	0	0	0	0	0	1
31,734	0	0	10,976	0	0	42,710
651,790	8,807	3,283	50,045	- 12,730	0	701,195

NET BOOK VALUE						
Change in the group of consolidated companies € K	Additions € K	Disposals € K	Book transfers € K	As at 31 Dec. 2010 € K	As at 31 Dec. 2010 € K	As at 31 Dec. 2009 € K
0	0	0	0	0	81,451	75,740
0	5,776	- 113	0	55,260	26,438	21,476
0	1,411	- 178	0	49,882	4,289	2,818
0	67	- 67	0	110	579	115
0	7,254	- 358	0	105,252	112,757	100,149
0	7,193	- 480	10	84,450	141,067	143,433
0	3,344	- 2,874	61	49,254	18,776	15,441
0	11,665	- 6,350	- 71	104,961	32,800	33,306
0	0	0	0	4	9,164	5,174
0	22,202	- 9,704	0	238,669	201,807	197,354
0	0	0	0	403	6,214	0
0	0	0	0	- 8,468	44,560	28,520
0	0	0	0	0	1	1
0	0	0	0	- 8,065	50,775	28,521
0	29,456	- 10,062	0	335,856	365,339	326,024

Fixed Asset Movement Schedule
as at 31 December 2009 of GILDEMEISTER Aktiengesellschaft
(Part of the notes)

ACQUISITION AND PRODUCTION COSTS

Intangible assets

Goodwill
Assets arising from development
Industrial property and similar rights
Payments on account

Tangible assets

Land and buildings
Technical equipment and machinery
Other equipment, factory and office equipment
Payments on account and construction in progress

Financial assets

Other equity investments
Securities

Total fixed assets

DEPRECIATION

	As at 01 Jan. 2009 € K	Other changes € K
<hr/>		
Intangible assets		
Goodwill	0	0
Assets arising from development	44,068	2
Industrial property and similar rights	48,325	-123
Payments on account	608	0
	93,001	-121
<hr/>		
Tangible assets		
Land and buildings	70,466	3
Technical equipment and machinery	50,090	198
Other equipment, factory and office equipment	89,717	71
Payments on account and construction in progress	48	-1
	210,321	271
<hr/>		
Financial assets		
Other equity investments	118	3,095
Securities	0	0
	118	3,095
<hr/>		
Total fixed assets	303,440	3,245

As at 01 Jan. 2009 € K	Other changes € K	Additions € K	Disposals € K	Book transfers € K	As at 31 Dec. 2009 € K
75,723	15	2	0	0	75,740
64,910	11	6,537	- 880	492	71,070
50,846	109	1,265	- 1,119	329	51,430
890	0	42	- 35	- 672	225
192,369	135	7,846	- 2,034	149	198,465
208,250	19	3,401	- 107	9,233	220,796
64,362	248	3,743	- 5,289	716	63,780
126,134	232	7,666	- 3,584	1,389	131,837
13,181	- 20	3,907	- 403	- 11,487	5,178
411,927	479	18,717	- 9,383	- 149	421,591
473	0	31,260	0	0	31,733
1	0	0	0	0	1
474	0	31,260	0	0	31,734
604,770	614	57,823	- 11,417	0	651,790

NET BOOK VALUE

Additions € K	Disposals € K	Book transfers € K	As at 31 Dec. 2009 € K	As at 31 Dec. 2009 € K	As at 31 Dec. 2008 € K
0	0	0	0	75,740	75,723
5,816	- 790	498	49,594	21,476	20,842
1,520	- 1,113	3	48,612	2,818	2,521
0	0	- 498	110	115	282
7,336	- 1,903	3	98,316	100,149	99,368
6,924	- 30	0	77,363	143,433	137,784
2,983	- 4,934	2	48,339	15,441	14,272
11,876	- 3,128	- 5	98,531	33,306	36,417
0	- 43	0	4	5,174	13,133
21,783	- 8,135	- 3	224,237	197,354	201,606
0	0	0	3,213	28,520	355
0	0	0	0	1	1
0	0	0	3,213	28,521	356
29,119	- 10,038	0	325,766	326,024	301,330

Segmental Reporting in the Consolidated Financial Statements 2010 of GILDEMEISTER Aktiengesellschaft

(Part of the notes)

SEGMENTATION BY BUSINESS SEGMENTS	"Machine Tools"		Changes against previous year		"Services"		Changes against previous year	
	2010	2009			2010	2009		
	€ K	€ K	€ K	%	€ K	€ K	€ K	%
Sales revenues with other segments	462,903	419,139	43,764	10.4	66,953	89,799	-22,846	-25.4
Sales revenues with third parties	769,941	757,721	12,220	1.6	367,196	311,037	56,159	18.1
EBIT	6,216	-18,199	24,415	-134.2	58,652	53,878	4,704	8.7
Financial result	-12,055	-13,130	1,075	-8.2	-6,449	-6,636	187	-2.8
thereof interest receivable	1,615	1,952	-337	-17.3	5,673	5,370	303	5.6
thereof interest payable	-13,637	-15,021	1,384	-9.2	-11,779	-11,951	172	-1.4
Share of profit for the period of associates included at equity	0	0	0	0	-562	0	-562	
EBT	-5,839	-31,329	25,490	-81.4	51,641	47,312	4,329	9.1
Carrying amount of associates included at equity	0	0	0	0	506	0	506	
Segment assets	657,440	686,912	-29,472	-4.3	627,086	547,425	79,661	14.6
Investments	22,423	19,193	3,230	16.8	8,136	4,545	3,591	79.0
Scheduled depreciation	20,611	21,190	-579	-2.7	5,732	5,479	253	4.6
Employees	3,097	3,208	-111	-3.5	2,120	2,092	28	1.3

INFORMATIONS ON GEOGRAPHICAL AREAS

AREAS	Germany		Changes against previous year		Rest of Europe		Changes against previous year		North America		Changes against previous year	
	2010	2009			2010	2009			2010	2009		
	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	%
Sales revenues												
with third parties	723,354	656,475	66,879	10.2	439,552	340,083	99,469	29.2	47,620	62,269	-14,649	-23.5
Long-term assets	177,309	176,776	533	0.3	102,822	88,850	13,972	15.7	8,408	8,386	22	0.3

"Energy Solutions"				"Corporate Services"				Transition				Group			
2010	2009	Changes against previous year		2010	2009	Changes against previous year		2010	2009	2010	2009	Changes against previous year			
€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	€ K	€ K	€ K		
1,210	944	266	28.2	10,337	11,235	-898	-8.0	-541,403	-521,117	0	0	0	0		
239,462	112,274	127,188	113.3	226	190	36	18.9	0	0	1,376,825	1,181,222	195,603	16.6		
428	11,039	-10,611	-96.1	-20,341	-15,013	-5,328	35.5	25	67	44,980	31,842	13,138	41.3		
-9,688	-3,451	-6,237	180.7	-9,853	-1,516	-8,337	549.9	0	0	-38,045	-24,733	-13,312	53.8		
0	70	-70	-100.0	25,374	23,436	1,938	8.3	-31,195	-27,815	1,467	3,013	-1,546	-51.3		
-9,686	-3,590	-6,096	169.8	-32,708	-22,578	-10,130	44.9	30,793	27,753	-37,017	-25,387	-11,630	45.8		
-3	0	-3		162	0	162				-403	0	-403			
-9,263	7,588	-16,851	-222.1	-30,032	-16,529	-13,503	81.7	25	67	6,532	7,109	-577	-8.1		
497	0	497		5,211	0	5,211				6,214	0	6,214			
287,971	147,369	140,602	95.4	891,681	720,402	171,279	23.8	-1,158,289	-994,847	1,305,889	1,107,261	198,628	17.9		
12,538	1,189	11,349	954.5	6,948	32,896	-25,948	-78.9	0	0	50,045	57,823	-7,778	-13.5		
1,347	669	678	101.3	1,766	1,781	-15	-0.8	0	0	29,456	29,119	337	1.2		
160	87	73	83.9	68	63	5	7.9	0	0	5,445	5,450	-5	-0.1		

Asia				Other				Transition				Group			
2010	2009	Changes against previous year		2010	2009	Changes against previous year		2010	2009	2010	2009	Changes against previous year			
€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	€ K	€ K	€ K		
147,842	111,055	36,787	33.1	18,457	11,340	7,117	62.8	0	0	1,376,825	1,181,222	195,603	16.6		
24,745	19,329	5,416	28.0	575	488	87	17.8	705	3,674	314,564	297,503	17,061	5.7		

Notes to the Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft

Accounting policies of the financial statements

1 APPLICATION OF REGULATIONS

The Consolidated Annual Financial Statements for GILDEMEISTER Aktiengesellschaft as at 31 December 2010 were prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union and their interpretation by the International Accounting Standards Board (IASB), London, Great Britain, applicable on the reporting date. The Notes to the Consolidated Financial Statements include further explanations pursuant to Section 315a of the German Commercial Code (HGB).

The following disclosures include statements and comments that, pursuant to the IFRS, must be included as notes to the consolidated financial statements along with the income statement, the reconciliation to total comprehensive income for the reporting period, the balance sheet, the development of changes in equity and the statement of cash flows.

To enable a clearer and more comprehensible presentation, individual items have been combined in the balance sheet and in the income statement; these are shown separately in the notes to the financial statements with further disclosures.

The consolidated financial statements have been drawn up on an historical cost basis or at cost of production, exceptions to this are certain financial instruments and provisions that are measured at fair value. The reporting currency is the euro. Unless otherwise specified, all amounts are shown in thousand euro (€ K).

GILDEMEISTER Aktiengesellschaft, with its registered place of business in Bielefeld, Gildemeisterstrasse 60, is the parent company of the GILDEMEISTER group and is a listed company under German law. GILDEMEISTER is a worldwide leading manufacturer of cutting machine tools and offers innovative machine technologies, expert services and needs-based software products. The Consolidated Financial Statements and the Group Management Report of GILDEMEISTER Aktiengesellschaft for the end of the reporting period as at 31 December 2010, will be available through the electronic Federal Gazette (Bundesanzeiger) and the Commercial Register, and are also available from our website www.gildemeister.com.

The Executive Board of GILDEMEISTER Aktiengesellschaft released the Consolidated Financial Statements and the Group Management Report on 4 March 2011 for submission to the Supervisory Board. The Supervisory Board is responsible for inspecting the Consolidated Financial Statements and for stating its approval of the Consolidated Financial Statements.

2 CONSOLIDATED GROUP

NUMBER OF FULLY CONSOLIDATED COMPANIES

	31 Dec. 2010	31 Dec. 2009
National	28	27
International	96	49
Total	124	76

At the end of the reporting period the GILDEMEISTER group comprised 127 companies (previous year: 79) including GILDEMEISTER Aktiengesellschaft, 124 of which (previous year: 76) are subsidiaries and were included in the Consolidated Financial Statements as part of the full consolidation process. GILDEMEISTER Aktiengesellschaft has the direct or indirect majority of voting rights in, or has a dominant influence over, the fully consolidated companies. This includes two lease object companies (“Special Purpose Entities”). Compared to financial year 2009, the consolidated group has changed due to the first-time inclusion of the following companies as well as subsidiaries that were not fully consolidated in the previous year:

- _ Cellstrom GmbH, Vienna,
- _ DMG Service Dreher Italia S.r.l., Brembate di Sopra (Bergamo),
- _ a+f SunCarrier France SAS, Les Ullis,
- _ a+f Italia Holding S.r.l., Milan,
- _ Alpenhotel Krone Beteiligungsgesellschaft mbH, Pfronten,
- _ Alpenhotel Krone GmbH & Co. KG, Pfronten,
- _ 42 additional subsidiaries of a+f Italia S.r.l.

The following companies were fully consolidated as of the date of their foundation or the acquisition of the equity interests:

Effective as of 16 April 2010 GILDEMEISTER acquired 50.001% of the equity interests in Cellstrom GmbH, Vienna, within the scope of a cash capital increase. With the majority equity investment in this company, GILDEMEISTER extends its product portfolio in the “Energy Solutions” segment to include the area of energy storage with big battery systems. The purchase costs for this amounted to € 9,000 K. The following individual assets and liabilities were acquired and recognised at fair value upon initial consolidation: € 1,986 K intangible assets (of which € 1,974 K for battery technology), € 633 K property, plant and equipment, € 317 K inventories, € 178 K trade debtors, € 174 K other assets, € 9,204 K cash and cash equivalents (including the cash funds brought in by the capital increase), € 578 K other provisions, € 3,965 K liabilities and € 492 K deferred taxes. Net assets amount to € 3,729 K. In measuring non-controlling interests, the option of the revised IFRS 3 (2009) was used, to apply the proportionate re-measured equity to the non-controlling interest (€ 3,728 K). An amount of € 5,272 K was recognised as goodwill and arises out of synergy effects, which are expected from including Cellstrom GmbH in the group. The acquisition of intangible assets and property, plant and equipment is presented in the assets schedule in the column “change in the group of consolidated companies”.

Since 16 April 2010, Cellstrom GmbH has contributed € 816 K to the group sales revenues. The share of earnings before tax for the same period amounted to € -2,139 K. If Cellstrom GmbH had already been consolidated as of 1 January 2010, sales revenues of € 816 K would have been recognised in the consolidated income statement and earnings before taxes of € -2,421 K.

On 24 June 2010, GILDEMEISTER Partecipazioni S.r.l. founded DMG Service Dreher Italia S.r.l. with registered office in Brembate di Sopra, Italy. As a 100% subsidiary, this company is intended to build up sales and service activities in Italy. The share capital of € 26 κ is fully paid up.

On 7 September 2010, a+f Italia S.r.l. founded a+f Italia Holding S.r.l. Milan, with share capital of € 10 κ, as a 100% subsidiary. The share capital was fully paid up.

On 25 October 2010, DMG France S.a.r.l., Les Ullis, founded a+f SunCarrier France SAS, Les Ullis, as a 100% subsidiary. The share capital amounts to € 10 κ and was fully paid up. The sale and production of SunCarrier products in France should be intensified with this company.

On 22 December 2010, DECKEL MAHO Pfronten GmbH, Pfronten, founded Alpenhotel Krone Beteiligungsgesellschaft mbH, Pfronten and Alpenhotel Krone GmbH & Co. KG, Pfronten. DECKEL MAHO Pfronten holds 100% of the equity in Alpenhotel Krone Beteiligungsgesellschaft mbH. The share capital of € 25 κ is paid in as to 50%. The unpaid subscribed capital amounts to € 13 κ. DECKEL MAHO Pfronten GmbH is a limited partner in Alpenhotel Krone GmbH & Co. KG, Pfronten, with a limited partner's interest of € 200 K. The general partner is the Alpenhotel Krone Beteiligungsgesellschaft mbH, Pfronten. This investment lays the foundation for the construction of a modern seminar and conference center for the GILDEMEISTER group.

In the months September to December 2010, a+f Italia S.r.l. founded 42 additional project companies in the "SunCarrier" business area or acquired 100% of the equity in the companies. The share capital for all the companies amounts to between € 5 κ and € 10 κ and is fully paid up. The initial costs amounted to € 10 κ in each case. There were no undisclosed reserves and encumbrances in the assets and liabilities of the companies acquired, goodwill has not arisen.

The following named companies were classified pursuant to IAS 31 as joint ventures. Pursuant to the option under IAS 31.38, the equity interests are accounted for at equity from the date of their formation or purchase in the consolidated financial statements:

- _ DMG / Mori Seiki Australia Pty. Ltd., Clayton Victoria, Australia,
- _ SUN CARRIER OMEGA PVT. LTD., Bhopal, India.

Effective as of 24 February 2010, DMG Vertriebs und Service GmbH, Bielefeld, invested as to 50.0% in DMG / Mori Seiki Australia Pty. Ltd., Clayton Victoria. The share capital amounts to AUD 3,200 κ. DMG Vertriebs und Service GmbH has fully paid up the pro rata amount of the investment of AUD 1,600 κ (€ 1,218 κ). Within the framework of the cooperation with Mori Seiki, this equity investment should serve to strengthen the operations of the sales and service business in the Australian market.

Effective as of 4 May 2010, a+f GmbH has invested as to 50.0% in SUN CARRIER OMEGA Ltd., Bhopal, India. The purchase price of the equity investment amounted to € 500 K. The share capital of the company amounts to INR 60.0 million (€ 989 K) and is fully paid up. Through this equity investment, a+f GmbH intends to establish and expand the sales and marketing of the "SunCarrier" on the Indian market.

In addition, MG Finance GmbH was classified as an associated company and from the date of the purchase of the investment was also included in the consolidated financial statements at equity.

Effective as of 4 June 2010, GILDEMEISTER AG has invested as to 33.0% in MG Finance GmbH, Wernau. The acquisition costs for 33.0% of the equity investment in the share capital amounted to € 5,049 K and were fully paid up. The aim is to offer optimum and tailor-made country-specific financial solutions through the investment in this financing company together with the cooperation partners.

As at 31 December 2010, compared to the previous year, the following companies were no longer included in the group of consolidated companies:

GILDEMEISTER Italiana Deutschland GmbH, Stuttgart, was merged during the financial year with DMG Stuttgart Vertriebs und Service GmbH, Leonberg.

The equity interest of a+f Italia S.r.l., Milan, in Soleintenso S.r.l., Spinazzola, was disposed of as of 1 December 2010 at book value due to the completion of the solar park.

DMG Gebrauchtmachines Czech s.r.o., Zlin, was liquidated in the financial year just ended. The operating business was transferred to DMG Gebrauchtmachines GmbH, Geretsried.

In December 2010, the 100% investments in seven Italian subsidiaries of a+f Italia GmbH were disposed of to investors before completion of various solar parks. The equity interests in six of these companies were acquired during the reporting year and were fully consolidated from the date of their acquisition. Soleintenso S.r.l. was already included in the group of consolidated companies as of 31 December 2009 and was fully consolidated in the previous year.

With the sale of equity interests in these companies, all assets and liabilities are de-consolidated from the group. Overall this resulted in a disposal loss for the group of € 38 K, which is recognised in the income statement.

The consolidated group has not changed significantly since the previous year so that comparison with the consolidated financial statements of the previous year with respect to net worth, the financial position and results of operations is not significantly affected.

A **complete overview of all GILDEMEISTER group companies**, classified according to affiliated companies, jointly-controlled entities (joint ventures) or associates, is presented on **page 206 et seq.**

3 CONSOLIDATION PRINCIPLES Accounting for subsidiaries purchased is carried out in accordance with the acquisition method. The acquisition costs correspond to the fair value of the assets surrendered, and the liabilities incurred at the date of the transaction. Furthermore, they include the fair value of any assets or liabilities recognised, which arise out of a contingent consideration agreement. Costs related to the acquisition are recognised as an expense when they accrue. Within the scope of a merger, identifiable assets, liabilities and contingent liabilities will be measured at fair value at the time of acquisition at initial consolidation. The group decides on an individual basis with respect to each company acquisition as to whether the non-controlling interests in the company acquired are recognised at fair value or by means of a pro rata interest in the net assets of the company acquired. Goodwill is recognised at the value that arises from the surplus of the acquisition costs, from the amount of the non-controlling interests in the company acquired as well as from the fair value of any previously held equity interests as of the acquisition date above the equity interest of the group in the net assets measured at fair value. Should the acquisition costs be less than the net asset value measured at fair value of the subsidiary acquired, the difference in amount shall be recognised directly in the income statement.

IFRS 3 “Business Combinations” and IAS 36 “Impairment of Assets” provide for amortisation of goodwill only if a valuation adjustment requirement was determined instead of scheduled amortisation. Any shares in the equity of the subsidiaries that the parent company is not entitled to are shown as shares of non-controlling interests within equity.

Any reciprocal receivables and payables between the companies included in the Consolidated Financial Statements are set off against each other. Intercompany profits from intragroup supplies are eliminated; deferred tax debits and deferred tax credits from consolidation transactions recognised in the income statement included. Intragroup sales revenues are, as in any intragroup income, set off against the related expenses without being recognised in the income statement.

The consolidation methods applied remain unchanged in comparison with the previous year.

4 ACCOUNTING AND VALUATION PRINCIPLES All annual financial statements of the companies that were included in the Consolidated Financial Statements were prepared at the end of the reporting period of the Consolidated Financial Statements and in accordance with group uniform accounting and valuation principles. For this purpose those accounts that were prepared in accordance with local regulations were adjusted to the group standardised accounting and valuation principles of GILDEMEISTER Aktiengesellschaft to the extent that they do not comply with IFRS and the deviations in the valuation are major. The accounting and measurement principles applied correspond to those principles applied in the previous year.

Changes in accounting and valuation methods due to new standards

In the financial year 2010, the following new and revised standards, as well as IASB / IFRIC interpretations, had to be applied for the first time:

IFRS 3	Business combinations (revised 2008)
IAS 27	Consolidated and separate financial statements according to IFRS (revised 2008)
IAS 39	Amendment to IAS 39 – Eligible hedged items
IFRS 2	Group cash-settled share-based payment transactions
IFRIC 12	Service concession arrangements
IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net investment in a foreign operation
IFRIC 17	Distributions of non-assets to owners
IFRIC 18	Transfers of assets from customers
Various	Improvements to IFRS (July 2009 / January 2010)

GILDEMEISTER has applied the following new and revised IFRS as of 1 January 2010 that are relevant to the consolidated financial statements:

IFRS 3 (revised) “Business combinations” and the resulting changes to IAS 27 “Consolidated and separate financial statements according to IFRS”, IAS 28 “Investments in associates” and IAS 31 “Interests in joint ventures” are to be applied to acquisitions in financial years that commence on or after 1 July 2009. The revised standard still prescribes that mergers be accounted for applying the acquisition method, however with some significant changes. For example: All company purchase price payments are measured at fair value at the acquisition date. In doing so, contingent consideration is recognised as liability and changes in subsequent measurement are recognised in profit or loss. There is an option per acquisition of a non-controlling interest either to measure at fair value or at the proportionate share of re-measured net assets of the acquiree. All acquisition related costs have been recognised as expense.

The revised IAS 27 requires the presentation of the effects of significant transactions with minority interests in equity insofar as there is no change to the control and these transactions do not lead to any goodwill or to any profit or loss. In the event of a loss of control, the standard provides detailed instructions on accounting presentation. According to this, the remaining interest must be measured at fair value and any profit or loss arising out of the re-measurement should be recognised as such. The revised standard has no effect on the reporting period as there is no negative balance for any of the non-controlling interests, no transaction have taken place, by which interests have been retained following the loss of control over the corresponding company, and no transactions have taken place with non-controlling interest subsidiaries.

The other new and revised standards and interpretations referred to above are not relevant for GILDEMEISTER and therefore have not been further discussed.

It was not necessary to make any changes to the accounting and measurement methods used by GILDEMEISTER on the basis of the newly applicable standards.

New accounting principles

The following standards and interpretations, which were issued and adopted by the European Union by 31 December 2010 and have not yet entered into force, have not been observed in these financial statements and will probably not have an effect on the consolidated financial statements of GILDEMEISTER Aktiengesellschaft upon first application:

Amendments to IAS 24	Related party disclosures
Amendments to IAS 32	Classification of rights issues
Amendments to IFRIC 19	Extinguishing financial liabilities with equity instruments
Amendments to IFRIC 14	IAS 19 – Prepayments of minimum funding requirements

Furthermore, the following standards and interpretations have been issued by the IASB and have not yet been adopted by the EU:

IFRS 9	Financial instruments
Amendments to IFRS 7	Disclosures – Transfer of financial assets
Amendments to IAS 12	Deferred taxes on investment property
Diverse	Improvements to IFRS

There will likely be no significant effects on the consolidated financial statements from first time application.

Use of estimates and assumptions

Preparing the Consolidated Financial Statements in accordance with IFRS requires that assumptions are made and estimates are used that have an effect on the amount and the statement of the assets and liabilities, the disclosure of contingent liabilities at the end of the reporting period and income and expenses during the reporting period.

When using accounting and valuation methods, the Executive Board was able to use its discretion to make the following decisions with respect to estimates and assumptions, which significantly influence the amounts in the financial statement:

Impairment of goodwill

The group reviews goodwill at least once a year for impairment and whenever there is an indication to do so. This requires an allocation of goodwill to the cash-generating units as well as the higher of the two values of fair value less purchase costs and the value in use of the cash-generating units, to which the goodwill is allocated. To assess the value in use, the company management must assess the foreseeable future cash flow of the cash generating unit and, moreover, select an appropriate discount rate in order to determine the cash value of this cash flow. As at 31 December 2010, the carrying amount of **goodwill** amounted to € 81,451 K (previous year: € 75,740 K). Further information is given on **page 162 et seq.**

Pension provisions

Expenses from benefit-oriented pension plans are determined on the basis of actuarial calculations. The actuarial calculations take place on the basis of assumptions with respect to discount rates, expected returns on plan assets, future wage and salary increases, the mortality rate and future pension increases. Corresponding to the long-term focus of these plans, such assessments are subject to significant uncertainties. On 31 December 2010 **provisions for pension obligations** amounted to € 26,316 K (previous year: € 26,331 K). Further information is given on **page 175 et seq.**

Intangible assets arising from development

Intangible assets arising from development are capitalised according to the accounting and valuation method presented on **page 144 et seq.** To determine the amounts to be capitalised, the company management must make assumptions as to the amount of expected future cash flow from intangible assets, the interest rates to be applied and the period of accrual of expected future cash flow that the intangible assets generate. On 31 December 2010, intangible assets arising from development had a carrying amount according to the best possible assessment of € 26,438 K (previous year: € 21,476 K).

Assumptions and estimates are additionally required for value adjustments for doubtful debts as well as for contingent liabilities and other provisions; moreover, they are required for determining the fair value of long-lasting fixed assets and intangible assets, determining the net disposal value of inventories, as well as for the assessment of deferred taxes on tax losses carried forward (see page 160 et seq.).

The main assumptions on which the respective estimates are based are commented upon for the individual items in the income statement and balance sheet.

In individual cases the actual values may differ from the assumptions and estimates made, requiring a significant adjustment in the carrying amount of the assets or liabilities concerned. Pursuant to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, changes will be taken into account at the time of their discovery and recognised in the income statement. The previous year’s amounts need not be adjusted and can be compared.

The application of specific IFRS is included in the explanatory notes on individual statement of financial position items. In principle the following accounting and valuation methods have been applied:

Intangible and tangible assets

USEFUL ECONOMIC LIFE OF ASSETS

Software and other intangible assets	1 to 5 years
Intangible assets arising from development	3 to 10 years
Office and factory buildings	10 to 50 years
Technical equipment and machines	2 to 30 years
Factory and office equipment	1 to 23 years

Development costs that are directly attributable to the development of identifiable individual machine tools, services or software solutions, which lie within the group's power of disposition, were recognised pursuant to IAS 38 "Intangible Assets" if it is probable that the use of the asset is associated with a future economic benefit and the cost of the asset can be reliably measured. They were accounted for at cost and amortised on a straight-line basis corresponding to their useful life. Production costs include all costs that can be directly and indirectly attributed to the development process and necessary portions of development-related overheads. Capitalised development costs are depreciated on a straight-line basis from the start of production over the expected product life cycle. Research costs are recognised as expense in the period in which they accrue.

Pursuant to IFRS 3 "Business Combinations", scheduled depreciation is not applied to goodwill with an indefinite useful economic life, rather it is tested for impairment annually and if ever there is any criterion to test for impairment. If a value adjustment requirement is determined, goodwill is amortised.

Tangible assets were measured at cost, reduced by regular depreciation over the useful life of the asset. Borrowing costs are not recognised as part of the cost of the asset as the pre-conditions of IAS 23 are not met (see page 154 "Borrowing costs"). Depreciation was normally carried out by the straight-line method in accordance with the useful life. A re-measurement of tangible assets pursuant to IAS 16 "Property, Plant and Equipment" was not carried out. There was no property held as financial investment pursuant to IAS 40 "Investment Property".

The production costs of internally generated assets include all costs that can be directly attributed to the manufacturing process and the necessary portions of product-related overheads. This includes production-related depreciation, prorated administration costs and prorated costs of social contributions. Borrowing costs are not recognised as part of the cost of the asset. Costs of repair are immediately recognised as expense.

Lease agreements for which a significant share of the risks and opportunities that are associated with the lease object remain with the lessor, are classified as operating leases. In connection with an operating lease, payments (net after taking incentive payments into account that have been made by the lessor) are recognised on a straight-line basis for the period of the lease agreement in profit and loss.

The group leases certain property, plant and equipment (lease objects). Lease agreements for property, plant and equipment for which the group bears the significant risks and the benefits from the ownership in the lease object are classified as finance leases. Assets under finance leases are recognised at the start of the term of the lease agreement at the lower of fair value of the lease object and cash value of the minimum lease payments. A lease liability of the same amount is recognised as a liability under long-term liabilities. Each lease payment is divided into an interest portion and a repayment portion, so interest is continuously paid on the lease liability. The interest portion of the lease payment is recognised as an expense in the income statement. Property, plant and equipment held under a finance lease are depreciated over the shorter of the two following periods: the economic useful life of the asset or the term of the lease agreement.

Impairment

Pursuant to IAS 36 “Impairment of Assets”, the assets of the GILDEMEISTER group, with the exception of inventories and deferred tax assets, are tested for signs of impairment at the end of every reporting period. If such signs exist, the fair value of the assets will be estimated and, if required, adjusted accordingly. This adjustment will be recognised in the income statement. An impairment test for individual assets is only possible if recoverable amounts can be allocated to the individual asset. If this is not possible, the recoverable amount of the cash-generating unit pertaining to the asset must be determined (asset’s cash-generating unit).

Pursuant to IAS 36 “Impairment of Assets”, goodwill has to be tested for impairment at least once a year and whenever criterion arises for an impairment test. GILDEMEISTER Aktiengesellschaft carried out an impairment test on 30 September 2010. In the impairment test the carrying amount of a cash-generating unit is compared with the recoverable amount. The recoverable amount of the cash-generating unit is the higher of the asset’s fair value less costs to sell and its value in use.

In the GILDEMEISTER group the recoverable amount equals the value in use and was determined as the present value of future cash flows according to the discounted cash flow method. The future cash flows were derived from the planning of the GILDEMEISTER group. The calculation of cash values for estimated future cash flow is based primarily on assumptions as to future sales prices or volume and costs. Planning is based on a detailed planning period extending up to the financial year 2013. A growth rate of 1% was assumed for the period following the detailed planning period, which is in line with general expectations of future business development.

For purposes of impairment testing, the cash-generating unit, “Machine Tools” was allocated goodwill in an amount of € 39,072 κ (previous year: € 39,072 κ), the cash-generating unit “Services” was allocated goodwill in an amount of € 32,855 κ (previous year: € 32,411 κ) and the cash-generating unit “Energy Solutions” was allocated goodwill in an amount of € 9,852 κ (previous year: € 4,240 κ).

The cash flows determined were discounted at a pre-tax weighted average cost of capital rate (WACC) of 11.9% (previous year: 11.1%) for the cash-generating units “Machines Tools” and “Services” as well as 12.1% (previous year: 14.1%) for the cash-generating unit “Energy Solutions”. If the recoverable amount of a cash-generating unit is lower than its book value, the value of goodwill allocated to the cash-generating unit will, initially, be reduced at an amount equal to the remaining balance. In financial year 2010 there was no need for impairment.

In the cash-generating units “Machine Tools”, “Services” and “Energy Solutions”, a long-term reduction in the EBIT margin of 1%, a reduction in the long-term growth rate of 1% or a rise in the weighted average cost of capital (WACC) before tax of 1% would not lead to a need for impairment on the goodwill allocated to the cash-generating units.

Associates

Associates are entities over which the group can exercise significant influence but cannot exercise any control. Significant influence is basically assumed to be if GILDEMEISTER has a share of at least 20% to 50% of the voting rights either directly or indirectly. Interests in associates are accounted for at the equity method of accounting and at cost upon acquisition. The group's interest in associates includes goodwill arising out of the acquisition (after taking accumulated impairment into account).

The interest of the group in the profit and loss of associates is recognised from the acquisition date in the income statement, the interest in changes in provisions in group provisions. Accumulated changes after acquisition are offset against the carrying amount. If the share in losses of the group in an associate corresponds to the group's interest in the associate, including other unsecured receivables, or exceeds the interest, the group does not recognise any other losses unless it has entered into obligations on behalf of the associate or has made payments on behalf of the associate.

Unrealised profits from transactions between group companies and associates are eliminated to the extent of the group's interest in the associate. Unrealised losses are likewise eliminated, unless the transaction provides evidence of an impairment of the asset transferred. The accounting and measurement methods of associates were – insofar as necessary – changed in order to ensure uniform accounting throughout the group.

Jointly-controlled entities (joint ventures) are likewise accounted for at equity pursuant to IAS 31.38. Unrealised gains or losses from transactions with joint ventures are eliminated proportionately within the scope of consolidation insofar as the underlying assets are significant.

Share holdings

The financial assets show investments in enterprises, over which GILDEMEISTER does not exercise any significant influence.

Share holdings for which a quoted price is available are classified as “available for sale” and are measured at this value. Share holdings for which there is no active market are classified as “available for sale” and recognised at amortised cost (see page 151 “Financial instruments”). There is no active market for these enterprises; therefore it is assumed that the carrying amount corresponds to the fair value. A reliable evaluation of the fair value would only be possible within the scope of specific purchase negotiations. At the present time there are no prospects of disposal.

Inventories

Valuation of inventories was carried out at the acquisition or production costs or the lower net selling price. Pursuant to IAS 2 “Inventories” elements of the production costs include, along with production material and manufacturing labour, prorated materials and production overheads. Expenses for administration and expenses arising in the social contribution area are included insofar as these are allocated to production. The proportion of overheads is evaluated on the basis of ordinary employment. Borrowing costs are not recognised as part of the cost of the asset as the pre-conditions of IAS 23 are not met (see page 154 “Borrowing costs”). When determining the net realisable value, inventory risks arising from the period of storage and reduced usability were recognised through appropriate reductions in values. If the causes that led to a reduction in value no longer exist, the original value will be reinstated.

Lower values at the end of the reporting period, arising from a reduction in sales revenues, were recognised. Raw materials and consumables as well as merchandise were primarily assessed by the average cost method.

There were no orders at the end of the reporting period that would have required accounting in accordance with IAS 11 (Construction Contracts).

Receivables and other assets

Receivables and other assets were shown in the statement of financial position at their amortised acquisition cost. Long-term non-interest bearing or low-interest bearing receivables have been discounted. Impairments in the form of individual value adjustments make adequate allowance for the expected risk of default. Specific cases of default lead to derecognition of the respective receivables. Within the scope of individual impairments, receivables, for which there is a potential devaluation requirement, will be tested for impairment and, if necessary, impaired. The calculation of impairment for doubtful receivables is based to a large extent on estimates and assessments of individual receivables, which, in addition to credit worthiness and late payment of the respective customer, also take into account the current cyclical trend and previous cases of deficit. Impairments of trade receivables are recognised in some cases using value adjustment accounts. The decision to account for deficit risks using an allowance account or by directly reducing the receivable will depend on the reliability of the risk assessment. Reclassification among the individual categories of financial assets was not carried out either in the financial year 2010 nor in the previous year.

Within the scope of factoring agreements, selected trade receivables are sold on a revolving basis to a bank. A total volume of € 159.6 million as of 31 December 2010 (previous year: € 111.4 million) has been agreed for factoring. Trade receivables sold under these arrangements are excluded from accounts receivable at the time of sale insofar as all risks and rewards have been substantially transferred to the acquirer and the transmission of the cash flows related to those receivables is assured.

Cash and cash equivalents

Cash and cash equivalents include, in addition to liquid funds in the narrowest sense, cheques, cash in hand and money on account at banks, as well as short-term financial investments that can be converted to cash amounts at any time and are only subject to immaterial fluctuations in value. Cash and cash equivalents are measured at amortised cost.

Deferred taxes

Pursuant to IAS 12 "Income Taxes" deferred taxes are assessed in accordance with the statement of financial position oriented liability method. For this purpose, deferred tax assets and liabilities were basically recognised for all temporary accounting and valuation differences between the IFRS statement of financial position valuations for group purposes and the tax valuations (temporary differences), and with respect to consolidation processes

recognised in the statement of the comprehensive income. Deferred tax assets for future financial benefits arising from tax-loss credits were also reported in the balance sheet. However, deferred tax assets for all deductible temporary differences and for tax loss carry forwards were only recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or unused tax losses can be utilised. The deferred taxes were calculated on the basis of income tax rates that, pursuant to IAS 12 “Income Taxes”, apply on the evaluation date or have been enacted in the individual countries in accordance with the legal status on that date. Deferred tax assets and liabilities were balanced out only to the extent that an offset is legally permissible. Deferred tax assets and liabilities were not discounted in accordance with the provisions contained in IAS 12 “Income Taxes”.

Provisions and liabilities

Provision for pensions is determined according to the projected unit credit method pursuant to IAS 19 “Employee Benefits”. Under this method, not only those pensions and pension rights known or accrued at the end of the reporting period are recognised, but also expected future increases in pension payments and salaries by estimating the relevant factors impacting such payments. Calculation is based on actuarial reports taking into account biometric calculation principles. The amounts not yet shown in the statement of the financial position emanate from actuarial gains and losses from inventory changes and deviations between assumptions made and actual development. Actuarial gains and losses are only recognised as income or expense if they exceed a 10% margin of the defined benefit obligation. Distribution is carried out over the participating employees’ expected average remaining period of service. The option pursuant to IAS 19.93a to fully recognise actuarial gains and losses and to set these off against revenue reserves was not used. The service cost is reported under employee expenses and the interest component in appropriation to pension provisions is reported in the financial result.

Pursuant to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”, other provisions were only recognised in the case of an existing present obligation to third parties from an event in the past, the use of which is probable and if the anticipated amount of the required provision can be reliably estimated. In this case the probability of occurrence must exceed 50%. In each case the most probable amount of performance was recognised. The calculation is made at production-related full cost taking into account possible increases in price and cost. The calculation is carried out using the best estimate of the amount required to settle the obligation at the end of the reporting period. Provisions with a remaining term of more than one year were discounted at the customer conditions.

The provision for the long-term incentive (LTI) as a variable remuneration component for members of the Executive Board is determined initially at fair value at the date of granting and is re-measured at the closing date of the period. Any expense / revenue resulting from this is recognised in profit or loss as employee expense and is spread over the term of the program and booked as provisions.

Financial liabilities are recognised at amortised cost by applying the effective interest rate method. Transaction costs are also taken into account in determining initial measurement.

Liabilities were recognised at their amortised costs. Liabilities from finance leases were recognised in other liabilities at the present value of the future lease payments. Customer prepayments were recognised under liabilities.

Selected suppliers of the GILDEMEISTER group finance trade receivables against individual subsidiaries in advance on the basis of reverse factoring agreements concluded with individual subsidiaries and factoring companies. Through this agreement, the subsidiaries involved are guaranteed longer payment periods in principle. The reverse factoring agreement leads neither under civil law nor pursuant to the provisions of IFRS to a reclassification of the trade liabilities in another type of liabilities, as due to the contractual arrangement, no novation exists under the law of obligations. As of 31 December 2010, a total of € 52,071 K (previous year: € 14,684 K) trade liabilities had been purchased through the respective factor.

Financial instruments

A financial instrument is an agreement that at the same time constitutes a financial asset for one company and a financial liability or equity instrument for another company. Financial assets include in particular cash and cash equivalents, trade debtors and other originated loans and receivables as well as derivative and non-derivative financial instruments held for trading. Financial liabilities generally substantiate claims for repayment in cash or other financial liabilities. Included in this, in particular, are borrowers' notes and other securitised liabilities, liabilities to banks, trade creditors, liabilities from financial leasing arrangements and other original financial instruments.

The accounting of financial instruments takes place pursuant to IAS 39 "Financial Instruments: Recognition and Measurement". Financial instruments are assessed in principle as soon as GILDEMEISTER becomes a contractual partner in the financial instrument arrangement. Within the group, all dealings for cash are accounted for at the settlement date irrespective of their classification. The settlement date is the date on which an asset is delivered to or through the enterprise. The trading day, on the other hand, is the date on which the enterprise has already entered into the obligation to purchase or sell an

asset. Derivative financial instruments are accounted for at the trading date. Financial instruments entered as financial assets and financial liabilities are, as a rule, reported as unbalanced, they are only balanced insofar as a set-off claim exists and it is intended to bring about settlement on a net basis.

Financial assets are measured at fair value on initial recognition. At the same time the directly attributable transaction costs must be taken into account for financial assets, which, as a result of measurement at fair value, do not affect net income. The fair values recognised in the balance sheet generally correspond to the market prices of the financial assets. If these are not directly available through recourse to an active market, they are calculated by applying recognised valuation models and on the basis of standard market interest rates. In financial year 2010 and in the previous year, financial asset conditions were not re-negotiated.

In accounting, IAS 39 differentiates between financial assets in the classifications “loans and receivables”, “available for sale”, “held to maturity”, and “at fair value through profit and loss”. The latter, pursuant to the Standard, is once again assigned to the subcategories “held for trading” and “for initial recognition to be measured at fair value in the statement of the financial position” (the so-called “fair value option”). Use has not been made of this option neither for financial assets nor for financial liabilities.

Assigned to the category “held to maturity” are non-derivative financial assets with a fixed or defined payment and a fixed term, which GILDEMEISTER intends to and may hold until maturity.

The “available for sale” category represents for GILDEMEISTER the residual amount of original financial assets, which fall under the application of IAS 39 and have not been assigned to any other category. Essentially, this comprises equity securities such as equity interests in joint ventures as well as equity interests in associates and other equity investments. Measurement takes place in principle at fair value. Any gains or losses from measuring at fair value are recognised in equity. This does not apply if it involves a permanent or significant impairment, which is recognised in profit or loss. Only upon the divestiture of the financial assets are the accumulated profits and losses in equity recognised from the measurement at fair value in the income statement. The fair value of non-listed equity instruments is assessed in principle according to the discounted cash flow method. If the fair value cannot be sufficiently and reliably measured, the shares are measured at purchase price (if necessary, less impairment). In the financial year 2010, changes in the value of financial assets held for sale in an amount of € 11,681 K (previous year: € -3,095 K), were recognised directly in equity and no changes in value arose that were recognised in the income statement.

The “loans and receivables” category at the GILDEMEISTER group contains trade receivables, other original financial assets, and cash and cash equivalents. In principle, assets in this category are measured applying the effective interest method. Non-interest bearing loans and non-interest bearing receivables are discounted unaccrued interest on their cash value.

Assets “held for trading” are measured at fair value. This includes, in addition to securities in current assets for which there is an active market, derivative financial instruments, which are not included in an effective hedging arrangement according to IAS 39 (Financial instruments: Recognition and Measurement) and thus have to be compulsorily classified as “held for trading”. Any profit or loss resulting from subsequent measurement is recognised in the income statement.

Conversion of financial instruments to other measurement categories did not occur either in the financial year 2010 or in the previous year.

Financial liabilities are measured at fair value on initial recognition. For all financial assets not subsequently measured at fair value, the transaction costs directly attributable to the acquisition are also assessed and amortised over the term. Within the scope of subsequent measurement, IAS 39 differentiates between the category “financial liabilities at amortised cost” and the category “held for trading”.

Derivative financial instruments

The hedging of risk items from currency and interest rate fluctuations is carried out through the use of derivative financial instruments such as foreign exchange future contracts and interest rate swaps. The hedging covers financial risks from underlying transactions entered in the books, for interest rate swaps risks out of future interest rate changes and, in the case of currency risks, also risks from pending supply and service transactions.

Pursuant to IAS 39 “Financial Instruments: Recognition and Measurement”, all derivative financial instruments are recognised at fair value at their initial measurement. Fair value is also relevant for subsequent measurements. Fair value of traded derivative financial instruments corresponds to market value. This value may be positive or negative. If no market values are available, the fair value must be calculated using an accepted economic method. The fair value of derivatives corresponds to the cash value of estimated future cash flows. The fair value of foreign exchange future contracts is calculated on the basis of the foreign exchange reference rate applicable at the end of the reporting period, taking into account the forward discounts and mark-ups for the respective residual term of the contract compared to the contracted forward exchange rate. Interest swaps are

measured at fair value through the discounting of future expected cash flows. In doing so, the market interest rates applicable for the remaining term of the contract are taken as a basis. Recognised models for determining option prices are applied to currency options. In addition to the residual term of an option, the fair value of an option is additionally influenced by other determining factors, such as, for example, the current amount and volatility of the respective underlying exchange rate or underlying basic interest rate.

Value adjustments of financial instruments that are not classified as hedging instruments within hedge accounting are immediately recognised in the income statement. Insofar as a hedging instrument fulfils the pre-conditions for hedge accounting, depending on the respective type of the hedge accounting relationship, it is measured as follows:

Fair Value Hedge

Changes in the fair value of hedging instruments that hedge risk arising from changes in the fair value of recognised assets or liabilities are recognised together with the change in fair value of the hedged underlying transaction in the income statement. Fair value hedges were not made in the reporting year.

Cash flow Hedge

Changes in fair value of hedging instruments that have been concluded to hedge cash flow fluctuations are recognised directly in equity for the effective portion of the hedging instrument, taking into account deferred tax effects. The ineffective portion of the change in fair value is recognised in the income statement. Amounts reported in equity are booked to the income statement as soon as the hedged underlying transaction affects profit and loss.

The risk of rising expenditure on interest for re-financing is limited by concluding interest rate swaps. In this way GILDEMEISTER receives a variable interest rate and pays a fixed interest rate (payer interest rate swap). The residual term of these interest rate swaps is up to four and a half years. In 2008 GILDEMEISTER concluded interest rate swaps in order to limit the impact of future interest rate changes on financing costs of the variable interest rate borrowers' notes.

Foreign exchange future contracts and currency options are used to hedge future cash flows from expected incoming payments on the basis of present order intake. Payment is expected within in a period of up to one year. Derivative financial instruments are neither held nor issued for speculative or trading purposes. However, derivatives are measured as for held for trading if the pre-conditions for a cash flow hedge are not fulfilled.

Government grants

Government grants are recognised at fair value if it can be assumed with reasonable certainty that the grant will be made and the group fulfils the necessary conditions to receive the grant. Government grants for costs are recognised in the period in which the related costs, which the grants are intended to compensate, were incurred. Government grants for investments are recognised as deferred income within other liabilities. They are amortised on a straight line basis over the expected useful life of the related asset in the income statement under other operating income.

Borrowing costs

According to IAS 23.5, borrowing costs are capitalised if a so-called qualifying asset exists, that is, an asset takes a substantial period of time to get ready for its intended use or sale. At GILDEMEISTER a period of more than 12 months is considered a substantial period of time. Borrowing costs that can be directly attributed to the acquisition, construction or production of a qualifying asset did not arise in financial year 2010. Borrowing costs were therefore directly recognised as expense in the period.

Sales revenues

Pursuant to the criteria laid down in IAS 18 “Revenues”, sales revenues arising from the sale of goods are recognised at the time of transfer of the relevant risks and rewards if a price has been agreed or can be determined and it can be assumed that such price will be paid. In the sale of goods this is regularly the time when the delivery takes place and the risk has been transferred to the customer. Moreover, GILDEMEISTER must reliably determine the amount of the sales revenues and be able to assume the collectability of the receivable. Sales revenues from services are recognised when the services are rendered. Recognition in accordance with the percentage of completion method is not carried out as the requirements of IAS 11 are not met. Interest income is recognised on a specific period of time basis taking into account the effective interest rate. Dividend income is recognised at the time the right to receipt of dividend payment arises.

Consideration receivable for deliveries and services charged to the customer and reduced by any sales deductions, contract penalties and cash discounts are shown in the sales revenues.

5 FOREIGN CURRENCY TRANSLATION

The currency translation of all Annual Financial Statements of the international group companies that were prepared in foreign currencies was carried out in accordance with the functional currency principle pursuant to IAS 21 “The Effects of Change in Foreign Exchange Rates”. Since all subsidiaries operate their business independently in financial, economic and organisational respects, their respective currencies represent the respective local currency. Assets and liabilities of foreign subsidiaries were translated at the average rate of exchange of the euro as of the end of the reporting period, and all revenue and expenses at the average annual market price of the euro pursuant to IAS 21.40. The translation differences arising from items being translated at different rates in the balance sheet and income statement were recognised directly in equity. In the individual financial statements monetary items (cash, receivables and liabilities) in a foreign currency were valued at the exchange rate at the reporting date. Non-monetary items in foreign currencies were assessed at historical values. The differences arising from the currency translation of monetary items were shown in the income statement. Goodwill resulting from the acquisition of international companies was translated at the exchange rates at the time of the transactions. Accounting in accordance with the regulations contained in IAS 29 “Financial Reporting in Hyper-inflationary Economies” was not required, as the GILDEMEISTER group has no significant subsidiaries with registered offices in a hyper-inflationary economy.

The exchange rates of the major currencies developed as follows:

	ISO-Code	Exchange rate on reporting date = 1 €		Average exchange rate = 1 €	
		31 Dec. 2010	31 Dec. 2009	2010	2009
British pound	GBP	0.86075	0.88810	0.85848	0.89454
Swiss franc	CHF	1.25040	1.48360	1.37870	1.50587
Polish zloty	PLN	3.97500	4.10450	4.01255	4.33347
Czech crowns	CZK	25.0610	26.47300	25.35615	26.52539
us dollar	USD	1.33620	1.44060	1.32990	1.39530
Canadian dollar	CAD	1.33220	1.51280	1.37731	1.59099
Mexican pesos	MXN	16.54750	18.92230	16.88475	18.91564
Brazilian real	BRL	2.21770	2.51130	2.33789	2.80113
Japanese yen	JPY	108.65000	133.16000	116.63615	130.09462
Singapore dollar	SGD	1.71360	2.01940	1.81191	2.02169
Malaysian ringgit	MYR	4.09500	4.93260	4.29283	4.90091
Indian rupee	INR	59.89583	67.10387	60.73130	67.34209
Chinese Renminbi	CNY	8.82200	9.83500	8.99747	9.52937
Taiwan dollar	TWD	39.04376	46.41697	41.81734	46.10813
Korean Won	KRW	1.499.06000	1.666.97000	1.540.28462	1.775.8807
Australian dollar	AUD	1.31360	1.60080	1.45143	1.78562

Source: Deutsche Bank AG, Frankfurt / Main

Notes to individual items in the Income Statement

6 SALES REVENUES Broken down according to area of sales, that is, according to the customer's place of business, the following distribution of sales revenues occurs:

	2010 € K	2009 € K
Germany	499,328	496,475
EU (excluding Germany)	504,705	387,087
USA	54,211	52,006
Asia	208,295	136,291
Other countries	110,286	109,363
	1,376,825	1,181,222

A breakdown and explanations to the sales revenues from the sale of goods and the provision of services are given in **segment reporting** on **pages 200 et seq.** and in the **"Segment Reporting"** chapter of the **Group Management Report** on **page 49 et seq.**

7 OWN WORK CAPITALISED Capitalised payments primarily arise from the capitalisation of development costs of intangible assets for machine tool projects pursuant to IAS 38 "Intangible Assets". Capitalised production costs include all costs that are directly and indirectly attributable to the development process and necessary parts of development-related overheads.

8 OTHER OPERATING INCOME

INCOME UNRELATING TO ACCOUNTING PERIOD	2010 € K	2009 € K
Retransfer of provisions	13,936	32,564
Retransfer of value adjustments	3,448	5,243
Profit on asset disposals	2,015	460
Receipt of payment for written off delinquent accounts	72	121
Other income unrelated to accounting period	2,826	3,885
	22,297	42,273
OTHER OPERATING INCOME		
Changes in exchange rates	22,026	19,377
Refund of expenses and on-debiting	4,857	4,491
Compensation for damages	1,006	1,708
Letting and leasing	436	404
Bonuses and allowances	201	579
Earnings from granting licenses	0	10,000
Other	4,498	7,633
	33,024	44,192
Total	55,321	86,465

The release of provisions and value adjustments involves a number of provisions and value adjustments which were set up in previous years and have not been fully used.

A breakdown of the **dissolution of provisions** can be found on **page 180** of the notes to the consolidated financial statements.

Income from changes in exchange rates can be seen in relation to exchange rate and currency losses in other operating expenses and is offset against these.

Income from the refund of expenses and on-debiting mainly include income from the on-debiting of advertising charges in customer journals of € 3,090 κ (previous year: € 1,969 κ) and refunds of charges from the German Unemployment Office for part-time retirement agreements of € 187 κ (previous year: € 532 κ). Income from licenses granted in the previous year resulted from the granting of licenses for specific rights of use.

Other income includes € 431 κ (previous year: € 648 κ) of accrued earnings from sale-and-lease back transactions that are classified as financial lease arrangements where GILDEMEISTER is the lessee and € 276 κ (previous year: € 301 κ) income from subletting arrangements where GILDEMEISTER is the lessor.

9 COST OF MATERIALS The purchased services relate predominantly to expense for external production.

10 PERSONNEL COSTS For financial year 2010, the total remuneration of the Executive Board amounted to € 4,638 κ (previous year: € 3,533 κ); of which direct remuneration of Executive Board members accounted for € 4,027 κ (previous year: € 2,988 κ), the fixed remuneration accounted for € 1,821 κ (previous year: € 1,673 κ), the STI for € 1,295 κ (previous year: € 400 κ) and the LTI for € 0 κ (previous year € 0 κ), as the EBIT margin set for the tranche was not achieved in the allocation year 2010. Some € 800 κ was awarded as payment for services rendered for 2010. Benefits in kind accounted for € 111 κ (previous year: € 115 κ). In addition, an amount of € 611 κ (previous year: € 565 κ) was spent on pension commitments. Former members of the Executive Board and their surviving dependants received € 618 κ (previous year: € 604 κ). Pension provisions for former members of the Executive Board and their surviving dependants amounted to € 8,635 κ (previous year: € 7,063 κ).

The **remuneration structure** for the Executive Board and the Supervisory Board is explained in the Management Report on **page 71 et seq.** An individual and detailed presentation of the **Executive Board remuneration** in the financial year is set out in the Corporate Governance Report **page 70 et seq.**

Advances and loans to officers were not granted nor was any liability assumed in favour of officers. Nor did the companies of the GILDEMEISTER group pay any remuneration to officers for services personally rendered, in particular consulting and introduction services.

In the financial year 2010 pension plan expenses in the group, including employer's contributions to the statutory pension insurance, amounted to € 20,479 κ (previous year: € 23,467 κ). This includes the employers' contributions to the statutory pension insurance amounting to € 17,473 κ (previous year: € 19,129 κ).

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

	Average number of persons employed		At the balance sheet date	
	2010	2009	31 Dec. 2010	31 Dec. 2009
Wage earners	1,579	1,814	1,595	1,560
Salary earners	3,608	3,949	3,637	3,637
Trainees	214	244	213	253
	5,401	6,007	5,445	5,450

11 DEPRECIATION A distribution of amortisation / depreciation and write-downs of intangible assets, tangible assets and financial assets is given in the asset movement schedule on page 128 et seq.

12 OTHER OPERATING EXPENSES

	2010 € K	2009 € K
EXPENSES UNRELATED TO ACCOUNTING PERIOD		
Losses from the disposal of fixed assets	275	515
Other taxes	275	1
Other expenses unrelated to accounting period	2,281	3,381
	2,831	3,897
OTHER OPERATIONAL EXPENSES		
Corporate communication, trade fairs and other advertising expenses	33,080	37,958
Rental and leases	25,162	29,051
Travelling and entertainment expenses	24,977	23,877
Freight out, packaging	26,216	23,492
Other external services	22,023	23,678
Sales commissions	21,822	28,142
Cost of preparation of accounts, legal and consultancy fees	15,706	12,947
Stationery, post and telecommunication expenses	8,440	9,258
Exchange rate and currency losses	20,439	21,544
Transfer to provisions	7,354	11,559
Other personnel costs	6,802	6,435
Monetary transactions and capital procurement	1,751	1,456
Impairments on receivables	5,991	6,074
Insurance	4,695	5,126
Other taxes	1,628	1,500
Investor and Public Relations	2,441	2,460
Licences and trademarks	2,105	2,262
Other	19,666	12,625
	250,298	259,444
Total	253,129	263,341

Expense for corporate communication, trade fairs and other advertising expense have fallen compared to the previous year due to a reduction in the central marketing budget.

An increase in outward freight and packaging compared to the previous year is due to a rise in sales and the associated higher transport costs. In addition to the rise in the number of machines sold, the proportionate increase in transport volume to Asia has also increase outwards freight and packaging costs. Overall, expense for outward freight and packaging did not rise disproportionately to the rise in sales.

Other external services include expenses for temporary and freelance workers of € 5,156 κ (previous year: € 7,507 κ).

Exchange rate and currency losses in connection with exchange rate and currency gains can be seen in other operational income. On balance, exchange rates and currency gains arose in an amount of € 1,587 κ (previous year: € -2,167 κ).

The transfer to provisions results primarily from expenses for warranty commitments and potential losses from pending transactions.

An increase in the financial statements, legal and advisory expenses resulted mainly from more advisory services in the business area of "Energy Solutions". This arose out of extending the project business, as well as expanding sales and service activities in Europe and America.

In the financial year 2010, € 778 κ (previous year: € 894 κ) accrued for the total remuneration of Supervisory Board members; this was recognised under other external services. Further details on the remuneration of the Supervisory Board are given in the Group Management Report. An individual and **detailed presentation of the Executive Board remuneration** in the financial year is set out in the chapter **Corporate Governance Report** on **page 70 et seq.**

13 FINANCIAL INCOME Interest receivable and other income of the GILDEMEISTER group amounted to € 2,403 κ (previous year: € 3,702 κ). Other income includes income from equity investments of € 831 κ (previous year: € 518 κ). Of these € 799 κ (previous year: € 485 κ) arose from dividend payments made by Mori Seiki Co. Ltd. An amount of € 186 κ (previous year: € 0 κ) includes interest income from discounting long-term provisions.

14 FINANCIAL EXPENSES Interest expenses of € 34,288 κ (previous year: 23,621 κ) are related primarily to interest expenses for group financial liabilities. The increase arises mainly from higher interest rates.

Finance expenses include an interest component of € 2,004 κ (previous year: € 1,766 κ) of allocations to pension provisions. In addition, € 725 κ (previous year: € 0 κ) from the interest accrued on long-term other provisions have been taken into account.

Under other financial expenses the amortised transaction costs that arose when taking out the current syndicated loan facility of € 175.0 million (€ 677 κ; previous year: € 674 κ) and when taking out the borrowers' note (€ 286 κ; previous year: € 431 κ) are recognised. In addition, further transaction costs from taking up the new syndicated loan in an amount of € 793 κ and from the re-financing of the borrowers' notes of € 1,125 κ have arisen.

**15 SHARE OF PROFITS AND
LOSSES OF EQUITY-
ACCOUNTED INVESTMENTS**

Losses from equity accounted investments amount to € -403 κ (previous year: € 0 κ). This includes the assumption of losses of a total of € -564 κ (previous year: € 0 κ). These resulted from the pro rata result in the reporting year of DMG / Mori Seiki Australia Pty. Ltd., in an amount of € -561 κ (previous year: € 0 κ) as well as from SUN CARRIER OMEGA Pvt. Ltd. in an amount of € -3 κ (previous year: € 0 κ). In addition, in financial year 2010 pro rata income from the equity investment in MG Finance GmbH in an amount of € 161 κ (previous year: € 0 κ) was recognised.

16 INCOME TAXES

This account represents current and deferred tax expenditure and income that break down as follows:

	2010 € κ	2009 € κ
Current taxes	6,869	9,466
of which domestic	1,510	2,443
of which foreign	5,359	7,023
Deferred taxes	-4,637	-7,063
of which domestic	-2,539	-2,870
of which foreign	-2,098	-4,193
	2,232	2,403

At the domestic companies current taxes include corporate income and trade tax, and at the international companies comparable earnings-linked taxes that were determined on the basis of the appropriation of profits. The computation was made on the basis of the tax regulations applicable to the individual companies.

In the accounting period 2010, an amount of € 417 κ (previous year: € 982 κ) resulted from tax income for prior years. An amount of € 1,198 κ (previous year: € 280 κ) is included for tax expenses for prior years.

Deferred tax income unrelated to the accounting period of € 1,595 κ (previous year: € 2,135 κ) is set off against deferred tax expenditure unrelated to the accounting period of € 204 κ (previous year: € 225 κ).

Current income tax expense was reduced through the use of tax loss carry forwards not yet recognised from previous accounting periods by € 32 κ (previous year: € 1,887 κ), for which no taxes had yet been accrued. In addition, a tax reduction of deferred tax expense took place due to tax losses not yet recognised from previous periods in the amount of € 1,298 κ (previous year: € 1,357 κ).

Write-downs of prior years' deferred tax assets from tax loss carry forwards were made in an amount of € 0 κ (previous year: € 0 κ). Write-downs arose from temporary differences in an amount of € 204 κ (previous year: € 225 κ) as well as deferred tax assets from temporary differences in an amount of € 297 κ (previous year: € 777 κ). Current taxes in connection with the discontinuation of business divisions did not occur in operating activities the reporting period. Due to the continued application of the accounting methods no additional tax expenditure or income arose. There were no material errors in the past so that no consequences arose in this respect.

Deferred taxes are calculated on the basis of income tax rates that at the time of realisation apply or are expected in the individual countries in accordance with the legal status at the time. In the financial year 2010, the corporation tax charge comprised corporation tax rate of 15% plus the solidarity surcharge of 5.5%. This results in an effective corporation tax rate of 15.8%. Including the trade earnings tax, which amounted to 13.0%, the total tax rate amounted to 28.8%. This results in the tax rate for the measurement of deferred taxes for domestic companies (previous year: 28.8%).

International tax rates are between 18% and 41%.

The deferred tax assets recognised in equity amounted at the end of the reporting period to € 4,815 κ (previous year: deferred tax assets of € 5,229 κ). In financial year 2010, the recognised income tax expense of € 2,232 κ (previous year: € 2,403 κ) is some € 351 κ higher (previous year: € 356 κ) when compared to the expected income tax expense of € 1,881 κ (previous year: € 2,047 κ), which would arise in theory if the national tax rate of 28.8% (previous year: 28.8%) applicable for financial year 2010 had been applied at group level. The difference between current and expected income tax expenditure is due to the following:

	2010 € κ	2009 € κ
Results of ordinary activities before taxes	6,532	7,109
GILDEMEISTER Aktiengesellschaft tax rate in percent	28.8	28.8
Theoretical tax income / expenditure	1,881	2,047
Tax consequences of the following influences		
Adjustment due to differing tax rate	-776	-273
Effects from changes in tax rate	-32	-2
Tax reduction due to revenues exempt from taxation	-2,399	-2,338
Deferred taxable losses	-1,303	-1,101
Temporary differences	-93	-552
Tax increase due to non-deductible expenses	4,325	5,192
Tax income or expenditure for prior years	781	-702
Other adjustments	-152	132
Income taxes	2,232	2,403

Tax income / expenditure from earnings is attributable solely to the operative business activities in the GILDEMEISTER group.

Future dividends of GILDEMEISTER Aktiengesellschaft payable in Germany will not influence the group's tax charge.

**17 PROFIT SHARE ATTRIBUTED
TO MINORITY INTERESTS**

A proportionate net loss was allotted to non-controlling interests in equity of € 95 κ (previous year: € 48 κ). This includes mainly the proportionate share in profit or loss in Cellstrom GmbH as well as in DMG Mori Seiki India Pvt. Ltd. In the reporting year 49% of the interest in DMG Vertriebs und Service GmbH, Bielefeld was divested to Mori Seiki Co. Ltd., Nagoya.

18 EARNINGS PER SHARE

In accordance with IAS 33 "Earnings per Share", the undiluted earnings per share ("basic earnings per share") are determined by dividing the consolidated profit – excluding profit shares of other owners – by the average number of shares outstanding, as follows:

		2010	2009
Group result excluding profit share of other shareholders	€ κ	4,205	4,658
Average weighted number of shares (pieces)		45,582,003	44,982,463
Earnings per share	€	0.09	0.10

Earnings result exclusively from continued business. There were no diluted earnings per share in the financial year 2010 or in the previous year .

Notes to individual Balance Sheet items

19 INTANGIBLE ASSETS

The goodwill shown relates as to € 78,453 κ (previous year: € 73,451 κ) to the revaluation difference from the consolidation of investments and as to € 2,998 κ (previous year: € 2,289 κ) to goodwill from the individual financial statements. The rise in goodwill in individual financial statements resulted from the currency translation of goodwill into the group's euro currency.

Intangible assets arising from development relate to new machine tool projects in the domestic and international product companies, to service products of DMG Vertriebs und Service GmbH and to specific software solutions. Intangible assets arising out of development at the end of the reporting period amounted to € 26,438 κ (previous year: € 21,476 κ). Research and development costs are immediately shown as an expense and amounted to € 35,437 κ in the financial year 2010 (previous year: € 37,817 κ).

The amount stated for industrial property rights and similar rights includes acquired patents, design patents and trademarks as well as data processing software. Changes and a breakdown of items in the group's intangible assets are illustrated in the consolidated fixed asset movement schedule. **Investments** are explained in further detail in the **Group Management Report** on **page 47 et seq.**

20 TANGIBLE ASSETS Changes and a breakdown of items in the group's tangible assets are illustrated in the consolidated fixed-asset movement schedule. **Investments** are explained in further detail in the **Group Management Report** on **page 47 et seq.**

The change in currency between the ends of each reporting period is shown in the consolidated fixed-asset movement schedule under "Other changes".

Neither value adjustments due to impairments nor reversals of depreciation were required for tangible assets in the reporting year.

Land and buildings are mortgaged for the security of long-term financial debt in an amount of € 14,616 κ (previous year: € 17,502 κ).

Tangible assets include leased assets to the value of € 4,170 κ (previous year: 2,310 κ) that must be charged to the respective group company as beneficial owner due to the structuring of the underlying leases ("finance lease"). The carrying amounts of capitalised lease items are broken down as follows:

	31 Dec. 2010 € κ	31 Dec. 2009 € κ
Land and buildings	1,140	1,328
Technical equipment and machinery	2,039	104
Other fixed assets, factory and office equipment	991	878
	4,170	2,310

21 OTHER EQUITY INVESTMENTS Changes in the group's financial position are presented in the consolidated fixed asset movement.

The recognition of investments involves an interest in an amount of € 270 κ in VR Leasing Frontania GmbH & Co. κG, an interest of € 80 κ in Pro-Micron GmbH & Co. κG Modular System, and an interest in an amount of € 3 κ in Air+Park Allgäu GmbH & Co. κG. GILDEMEISTER does not exercise any significant influence over the companies.

GILDEMEISTER Aktiengesellschaft acquired a 5% equity interest in Mori Seiki Co. Ltd. in financial year 2009 pursuant to the cooperation agreement. A total of 4,427,400 ordinary shares were acquired on the stock exchange in several tranches at acquisition costs of JPY 793 to JPY 1,060 per share. Payments for the share acquisition amounted to € 31,260 κ (incl. incidental costs of acquisition). The fair value as at 31 December 2010 amounted to € 39,846 κ (previous year: € 28.165 κ). As at the reporting date, GILDEMEISTER held 4.0% of Mori Seiki Co. Ltd., after the latter carried out a capital increase in December 2009.

In April 2010, a+f GmbH acquired a 5% equity investment in Younicos AG, Berlin, the former parent company of Cellstrom GmbH, at a purchase price of € 4,338 κ. The investment acquisition supplemented the purchase of an equity interest in Cellstrom GmbH.

Within the scope of expanding the “Energy Solutions” segment, a+f GmbH has invested in Sonnenstromalpha GmbH Co. KG, Hamburg. The equity interest amounts to 40% and was acquired at acquisition costs of € 21 κ.

As in the previous year, no impairment losses on share holdings were made in the reporting year.

An **overview of all GILDEMEISTER companies** and information on registered offices, equity and equity interests in financial year 2010 are set out on **page 206 et seq.**

GILDEMEISTER Aktiengesellschaft has entered into profit and loss transfer and control agreements with the following companies:

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

GILDEMEISTER Beteiligungen AG has entered into profit and loss transfer and control agreements with the following companies:

- _ DECKEL MAHO Pfronten GmbH,
- _ GILDEMEISTER Drehmaschinen GmbH,
- _ DECKEL MAHO Seebach GmbH,
- _ DMG Spare Parts GmbH,
- _ DMG Electronics GmbH,
- _ DMG Automation GmbH.

In addition, a profit and loss and control agreement was entered into between DECKEL MAHO Pfronten GmbH and SAUER GmbH.

DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER has entered into profit and loss transfer and control agreements with the following subsidiaries:

- _ DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- _ DMG Berlin Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- _ DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER,
- _ DMG Service Fräsen GmbH,
- _ DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER,
- _ DMG Gebrauchtmachines GmbH DECKEL MAHO GILDEMEISTER,
- _ a+f GmbH,
- _ DMG Microset GmbH.

DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER has entered into profit and loss transfer and control agreements with the following subsidiaries:

- _ DMG München Vertriebs und Service GmbH für Werkzeugmaschinen
DECKEL MAHO GILDEMEISTER,
- _ DMG Hilden Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- _ DMG Bielefeld Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- _ DMG Frankfurt Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER.

22 EQUITY ACCOUNTED INVESTMENTS

The following overview shows aggregated key financial figures for companies accounted for at equity included in the consolidated financial statements. The figures refer to equity interests, carrying amounts and notes on the balance sheet as well as to sales revenues:

	31 Dec. 2010		31 Dec. 2009	
	Equity interest %	Carrying amount € K	Equity interest %	Carrying amount € K
DMG / Mori Seiki Australia Pty. Ltd.	50.0	506	0	0
MG Finance GmbH	33.0	5,211	0	0
SUN CARRIER OMEGA Pvt. Ltd.	50.0	497	0	0
		6,214		0

	31 Dec. 2010 € K	31 Dec. 2009 € K
Non-current assets	80,310	0
Current assets	1,116	0
Non-current liabilities	33,938	0
Current liabilities	29,100	0
Sales revenues	8,018	0

23 LONG-TERM RECEIVABLES AND OTHER ASSETS

	31 Dec. 2010 € K	31 Dec. 2009 € K
Trade debtors	1,739	679
Other long-term financial assets	10,136	16,460
	11,875	17,139

Trade debtors are assigned to financial assets.

Other long-term financial assets include the following items:

	31 Dec. 2010 € K	31 Dec. 2009 € K
Discounted customers' bills	5,767	12,541
Loans to third parties	519	738
Security deposits and other security payments	345	494
Fair market value of derivative financial instruments	0	414
Other assets	740	335
	7,371	14,522

Other long-term assets include the following items:

	31 Dec. 2010 € K	31 Dec. 2009 € K
Tax refund claims	2,015	1,626
Other assets	750	312
	2,765	1,938

As in the previous year, the tax refund claims resulted primarily from claims for value added tax.

24 INVENTORIES Inventories are made up as follows:

	31 Dec. 2010 € K	31 Dec. 2009 € K
Raw materials and consumables	183,061	153,658
Work in progress	100,358	80,500
Finished goods and goods for resale	114,893	150,269
Payments on account	11,977	6,808
	410,289	391,235

Of inventories recorded on 31 December 2010, € 95,324 K (previous year: € 93,470 K) were recognised at their net realisable value. In the financial year adjustments of inventories in an amount of € 13,951 K (previous year: € 22,946 K) were recognised as expense in the income statement. In the financial year revaluations amounting to € 1,766 K (previous year: € 0 K) occurred and essentially result from the rise in net residual values.

25 SHORT-TERM RECEIVABLES AND OTHER ASSETS	31 Dec. 2010 € K	31 Dec. 2009 € K
Trade debtors	304,313	238,838
Other short-term assets	112,677	59,550
	416,990	298,388

In the reporting year GILDEMEISTER had a factoring program. German receivables with a volume of up to € 75,019 K and foreign receivables with a volume of up to € 84,550 K are sold within the framework of this agreement. As of the close of the reporting period, German receivables to a value of € 56,257 K (previous year: € 28,860 K) and foreign receivables to a value of € 36,881 K were sold. In the previous year within the factoring additional trade receivables to a value of € 20,283 K were disposed of.

Trade debtors include receivables against the company accounted for at equity DMG / Mori Seiki Australia Pty. Ltd. in an amount of € 1,866 K (previous year: € 0 K).

In the following table the terms of long-term and short-term trade debtors are presented:

	Book value € K	Of which neither impaired nor past due at the closing date € K	Of which not impaired at the closing date and past due in the following time periods			
			Up to 3 months € K	Between 3 and 6 months € K	Between 6 and 12 months € K	More than 1 year € K
Trade debtors						
31 Dec. 2010	306,052	274,157	18,126	4,495	1,486	2,422
Trade debtors						
31 Dec. 2009	239,517	201,678	21,144	7,380	2,887	1,334

With respect to trade debtors that have neither been impaired nor are they past due at the closing date, there is no indication that the debtors will not fulfil their payment obligations.

Trade debtors and accumulated value adjustments have developed as follows:

	2010 € K	2009 € K
Trade debtors not value adjusted	300,686	234,423
Carrying amount of trade debtors before value adjustment	16,942	19,080
Accumulated value adjustments	11,576	13,986
Value adjusted trade debtors	5,366	5,094
Trade debtors	306,052	239,517

Value adjustments of trade debtors have developed as follows:

	2010 € K	2009 € K
Value adjustments as at January 1	13,986	18,380
Allocations (expenses for impairments)	3,598	3,990
Consumption	-2,560	-3,141
Dissolution	-3,448	-5,243
Value adjustments as at December 31	11,576	13,986

The following table shows the expenses for the complete write down of trade receivables as well as income from recoveries of trade debtors:

	2010 € K	2009 € K
Expenses for full write-off of receivables	2,393	2,084
Income from recoveries on trade debtors written off	72	121

Expenses relating to impairments and write downs of trade debtors are reported under other operating expenses. These involve a large number of individual cases. Income from receipt of payments for derecognised trade debtors are reported under other operating income. Impairments or derecognition of other financial assets were not made neither in the financial year nor in the previous year.

Other short-term financial assets include the following items:

	31 Dec. 2010 € K	31 Dec. 2009 € K
Loans to third parties	28,370	5,097
Creditors with debit balance	11,093	3,828
Receivables from factoring	8,943	3,680
Discounted customers bills	6,636	6,095
Security deposits and other security payments	2,534	2,150
Fair market value of derivative financial instruments	2,148	1,167
Receivables from employees and former employees	354	421
Purchase price receivables from asset disposal	371	0
Other short-term financial assets	27,160	14,032
	87,609	36,470

No financial assets were provided as collateral either in the reporting year or in the previous year.

Loans to third parties relate primarily to current loans in the “Energy Solutions” segment to project companies in an amount of € 28,149 K (previous year: € 5,020 K). These loans are repaid by the investors following settlement of the solar park projects.

The overdue periods of other long-term and short-term financial assets are shown as follows:

	Book value € K	Of which not impaired nor overdue on the closing date € K	Of which not impaired at the closing date and past due in the following time periods			
			Up to 3 months € K	Between 3 and 6 months € K	Between 6 and 12 months € K	More than 1 year € K
Other financial assets						
31 Dec. 2010	94,980	94,337	345	0	0	283
Other financial assets						
31 Dec. 2009	50,992	49,619	637	171	30	352

With respect to the other financial assets that have neither been subject to impairment nor are they past due as at the closing date, there is no indication that the debtors will not fulfil their payment obligations.

Other short-term assets include the following items:

	31 Dec. 2010 € K	31 Dec. 2009 € K
Tax refund claims	21,579	19,828
Receivables from compensation claims	63	104
Other assets	3,426	3,148
	25,068	23,080

Tax refund claims include primarily receivables from value added tax. The remaining other assets include refund claims of € 187 K (previous year: € 501 K) with respect to additional compensation paid from part-time retirement agreements against the Federal Labour Office (Bundesanstalt für Arbeit). In addition, this includes claims for the refund of partial unemployment benefits in an amount of € 2 K (previous year: € 632 K); income from the refund of € 1,190 K (previous year: € 967 K) was recognised under employee expenses.

26 CASH AND CASH EQUIVALENTS

At the end of the reporting period bank credit balances amounted to € 111,769 K (previous year: € 84,440 K). Of these, credit balances of subsidiaries in Germany were recognised in an amount of € 81,585 K (previous year: € 52,211 K), in Europe in an amount of € 19,296 K (previous year: € 21,227 K), in Asia in an amount of € 8,884 K (previous year: € 9,128 K) and in America in an amount of € 2,004 K (previous year: € 1,874 K).

The development of cash and cash equivalents constituting the financial resources pursuant to IAS 7 “Statement of cash flows” is illustrated in the **statement of cash flows** on **page 127**.

27 DEFERRED TAXES Deferred tax assets and liabilities are allocated to the following accounts:

	31 Dec. 2010		31 Dec. 2009	
	Assets € K	Liabilities € K	Assets € K	Liabilities € K
Intangible assets	1,124	5,947	2,862	4,452
Tangible assets	6,869	2,704	4,008	2,742
Financial assets	0	23	0	23
Inventories	6,188	6,743	9,438	4,368
Receivables and other assets	4,167	1,539	4,384	1,292
Provisions	6,480	1,898	5,655	2,371
Liabilities	16,280	2,407	14,971	3,191
Tax loss carried forward	15,538	–	9,768	–
	56,646	21,261	51,086	18,439
Balancing	–15,381	–15,381	–15,658	–15,658
Total	41,265	5,880	35,428	2,781

A determining factor for the valuation of the recoverability of deferred tax assets is the evaluation of the probability of the reversal of the valuation differences and the usefulness of tax loss carried forward, which have led to the deferred tax assets. This is dependent upon future taxable profits arising during the periods in which tax valuation differences reverse and tax loss carry forwards can be utilised. Based on our past experience and the expected taxable income situation, it is assumed that the corresponding advantages from the deferred tax assets can be realised. As at 31 December 2010 tax loss asset carry forwards amounted to € 15,538 K (previous year: 9,768 K). Deferred tax assets are allocated to German corporate tax loss carry forwards in an amount of € 870 K (previous year: € 0 K); no deferred tax assets were allocated to trade tax loss carry forwards. Due to the German earning stripping rules, deferred taxes for purposes of corporate tax in an amount of € 3,444 K (previous year: € 1,696 K) and for purposes of trade tax in an amount of € 2,117 K (previous year: € 1,040 K) were capitalised on interest carry forwards; recognition took place under deferred tax assets on loss carry forwards. Deferred tax assets for tax loss carry forwards are attributable to foreign subsidiaries in an amount of € 9,107 K (previous year: € 7,032 K). The loss carry forwards are either usable for an indefinite period or may be carried forward up to 10 years. GILDEMEISTER assumes that on the basis of future business activities there will be sufficient positive taxable income to realise the tax asset claims. The tax losses carried forward amount to € 66,661 K (previous year: € 41,707 K), of which € 12,068 K (previous year: € 7,147 K) have not been taken into account. The theoretically possible deferred tax assets on tax loss carry forwards not taken into account amount to € 2,980 K (previous year: € 1,803 K).

Tax loss carry forwards not taken into account expire in an amount of € 3,012 κ in 2014. Non-Deferred taxes are calculated on the basis of income tax rates that at the time of realisation apply or are expected in the individual countries in accordance with the legal status at the time. Taking into account trade earnings tax and the solidarity surcharge, this results in a tax rate of 28.8% (previous year: 28.8%) for domestic companies. International tax rates are between 18% and 41%.

Income tax on other comprehensive income in an amount of € -413 κ (previous year: € 627 κ) relate – as in the previous year – exclusively to changes in fair value of derivative financial instruments included in other earnings.

28 EQUITY The movement of individual components in group equity for the financial years 2010 and 2009 is illustrated in the **Development of Group Equity on page 127 et seq.** Business transactions are presented under “Transactions with owners” in which the owners have acted in their capacity as owners.

Subscribed capital

The share capital of GILDEMEISTER Aktiengesellschaft amounts to € 118,513,207.80 and is fully paid up.

The share capital is unchanged and divided into 45,582,003 bearer shares with an accounting par value of € 2.60 per share.

The following statements have essentially been taken from the articles of association of GILDEMEISTER Aktiengesellschaft (version as of May 2010).

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital by up to € 59,256,600.00 in nominal terms during the period until 13 May 2015 by issuing up to 22,791,000 new no-par value bearer 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 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 € 5,000,000.00. In this respect the shareholders' statutory subscription rights are excluded with the approval of the Supervisory Board.

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) a non-cash capital increase through non-cash capital contribution so as to acquire, in applicable cases, companies, parts of companies or equity interests in companies or other assets in return 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, 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 bearer shares (conditional capital I). The contingent capital increase is for granting new no-par bearer shares to the holders of options or warrants issued by the company or by a group company controlled by the company under the authorisation passed by resolution of the Annual General Meeting of 15 May 2009 under agenda item 7 against cash payment and grants a warrant or option right to the new no-par bearer shares of the company or provides for a conversion requirement.

The new shares will be issued at an option or conversion price to be determined in accordance with the aforementioned authorisation resolution.

The capital increase is to be effected only insofar as the holders of option or conversion rights or those obliged to exercise conversion or options rights exercise their options or conversion rights, insofar as they are obliged to exercise their conversion or option rights, they fulfil their obligation to exercise the conversion or option right and neither shares already in existence nor the payment of a cash amount is used to fulfil the option or conversion rights.

The new shares will participate in the profit as of the beginning of the financial year in which they are issued following the exercising of option or conversion rights, or the fulfilment of conversion or option obligations.

Capital reserves

The group's capital reserves include the premiums for the issue of shares of GILDEMEISTER Aktiengesellschaft in an amount of € 83,447,597 (previous year: € 83,447,597). Transaction costs of € 5,288,362 that are allocated directly to capital procurement reduced by related tax benefits on income of € 1,954,022 were deducted from the capital reserves. The capital reserves amount to € 80,113,257 (previous year: € 80,113,257).

Retained earnings

Statutory reserves

The disclosure does not affect the statutory reserves of GILDEMEISTER Aktiengesellschaft in an amount of € 680,530.

Other retained earnings

Retained earnings include prior-period profits generated by the companies included in the Consolidated Financial Statements as far as they were not distributed. Retained earnings also include the offset of liabilities-side differences from the consolidation of investments of those subsidiaries that were consolidated before 1 January 1995, and the adjustments directly in equity in accordance with the first application of IFRS rules. Finally, they show the differences arising from foreign currency translation not reported in profit or loss in the financial statements of international subsidiaries and the post-tax effects from the valuation of financial instruments in equity. Deferred taxes recognised directly in equity amount to € 4,815 κ (previous year: € 5,229 κ).

A detailed overview on the composition of, or changes in, other retained earnings in the financial year 2010 and in the previous year is included in the Development of Group Equity.

Proposed appropriation of profits

In accordance with the German Commercial Code (HGB), the Annual Financial Statements of GILDEMEISTER Aktiengesellschaft form the basis for the appropriation of profits of the financial year. The dividend to be distributed to owners is therefore subject to the retained profits shown in the Annual Financial Statements of GILDEMEISTER Aktiengesellschaft.

The financial year 2010 of GILDEMEISTER Aktiengesellschaft closes with net income for the year of € 1,078,460.76. It will be proposed to the annual general meeting of shareholders on 13 May 2011, taking into account the profit carry forward from the previous year in an amount of € 1,905,532.82, to carry the remaining net retained profits of € 2,983,993.58 forward to new account.

A dividend of € 0.10 per share was distributed for the financial year 2009.

Non-controlling interests

Non-controlling interests include non-controlling interests in the consolidated equity of the companies included and, as at 31 December 2010, amounts to € 6,563 κ (previous year: € -238 κ). The increase resulted from the following changes from the previous year:

In financial year 2010, DMG Vertriebs und Service GmbH, Bielefeld, sold 49.0% of the equity interest in DMG DECKEL MAHO GILDEMEISTER (India) Pvt. Ltd., Bangalore. In addition, a+f GmbH purchased 50.001% of the equity interest in Cellstrom GmbH, Vienna. In each case the minority interests were recognised under non-controlling interests in equity.

Capital management disclosure

A strong equity capital base is an important pre-condition for GILDEMEISTER in order to ensure the ongoing existence of the company. The capital is regularly monitored on the basis of various key indicators. The ratio of net indebtedness to non-controlling interests (gearing) and the equity share are key indicators for this. Net indebtedness is determined as the sum of financial liabilities less cash and cash equivalents.

		31 Dec. 2010	31 Dec. 2009
Cash and cash equivalents	€ κ	111,769	84,440
Financial debts	€ κ	320,237	329,294
Net financial debts	€ κ	208,468	244,854
Total equity	€ κ	412,893	380,815
Equity ratio	%	30.4	33.0
Gearing	%	50.5	64.3

Total equity has risen in absolute terms by € 32,078 κ. The equity ratio fell due to the increase in total assets to 30.4% (previous year: 33.0%). This resulted mainly due to the closing date increase in receivables as well as trade payables and the high amount of cash and cash equivalents. Gearing changed due to a decline in net financial debt and a simultaneous rise in equity to 50.5% (previous year: 64.3%).

29 PENSION PROVISIONS

Pension provisions are set up for obligations arising from legal rights to future pension payments and from current pension payments to those active and former employees of companies within the GILDEMEISTER group entitled to such, and to their surviving dependants. According to the respective legal, economic and tax conditions prevailing in each country, there are different forms of old age protection that are usually based on the duration of employment and the employees' remuneration.

Employee pension schemes are based as a rule either on contribution-oriented or performance-oriented benefit systems.

In the case of contribution-oriented pension plans (“defined contribution plans”) the respective company does not assume any further obligations which go beyond the payment of contributions into an earmarked reserve fund. In financial year 2010, the related expenses amounted to € 3,006 κ (previous year: € 4,338 κ).

In the case of benefit-oriented pension plans, it is the company's obligation to pay the promised benefits to active and former employees (“defined benefit plans”), whereby a distinction is made between pension plans that are financed through reserves and those that are financed through a fund.

In the GILDEMEISTER group, pension commitments are financed through transfer to provisions.

The amount of the pension obligation (present value of future pension commitments or “defined benefit obligation”) was calculated on the basis of actuarial methods by estimating the relevant factors impacting the pension commitment. Along with the assumptions on life expectancy, the following premises for the parameters to be applied to the actuarial calculations in the reports were defined:

	Germany		Other countries	
	2010 %	2009 %	2010 %	2009 %
Interest rate	4.60	5.20	2.25 – 2.75	2.25 – 3.25
Salary trend	0.00	0.00	1.00 – 3.00	1.00 – 3.00
Pension trend	2.00	2.00	0.00	0.00

The pension development includes expected future increases in salary that are assessed annually and are subject to, amongst other things, inflation and the duration of employment at the company. Since the pension commitments that were entered into at the national subsidiaries are not subject to future increases in salary, salary development was not taken into account when determining the relating company pension provisions.

Due to increases or reductions in the present value of defined-benefit obligations, actuarial gains or losses may arise, which may result, amongst others, from changes in the calculation parameters or changes in the risk development assessment relating to the pension commitments.

The pension provisions net value can be derived from the following:

	31 Dec. 2010 € K	31 Dec. 2009 € K
Cash value of unfunded pension commitments	36,920	34,996
+ Cash value of funded pension commitments	9,706	6,751
- Current value of the pension plan assets	-8,759	-6,190
= Cash value of the pension commitments (after deduction of the plan assets)	37,867	35,557
- Balance of actuarial profits / losses not yet recognised in the balance sheet	-11,551	-9,226
= Net value of amounts shown in the balance sheet on the reporting date	26,316	26,331
of which pensions	26,316	26,331

The plan assets takes into account on the one hand risk payments that depend on the insured salary. On the other hand they include retirement benefits that are dependent on the accumulated retirement assets at the time of retirement. The pension plan assets comprise shares in an amount of € 1,792 K or 20.46% (previous year: € 1,413 K or 22.82%), obligations in an amount of € 3,048 K or 34.80% (previous year: € 2,532 K or 40.91%), real estate in an amount of 1,090 K or 12.44% (previous year: € 782 K or 12.63%) and other assets in an amount of € 2,829 K or 32.29% (previous year: € 1,463 K or 23.64%). When assessing the plan assets, an expected interest rate of 4.0% is applied (previous year: 4.0%).

The principle for determining the expected long-term returns is based on past experience. The actual return on plan assets amounts to € 1,099 K (previous year: € 139 K). The current value of the pension plan assets can be derived from the following:

	31 Dec. 2010 € K	31 Dec. 2009 € K
Fair value of the assets at the start of the year	6,190	5,172
+/- Exchange rate changes	1,154	8
+ Expected revenues from the plan assets	300	224
+/- Actuarial profits (+) and losses (-)	799	-41
+ Employer contributions	330	400
+ Pension plan participant contributions	262	229
+/- Benefits paid	-276	198
= Fair value of the assets at the end of the year	8,759	6,190

The benefits actually granted including the insureds' contributions are disclosed as benefits paid.

Of the company pension provisions in an amount of € 26,316 K (previous year: € 26,331 K), € 25,841 K (previous year: € 25,799 K) are attributable to domestic group companies; this corresponds to about 98% (previous year: 98%) of the total amount. The changes in the cash value compared to the previous year are due to an adjustment of the underlying interest rate from 5.20% to 4.60% and to the change in the number of pensioners included in the calculations.

The part of the new actuarial profit and loss that is due to experience-based adjustments can be derived from the following table:

	2010 € K	2009 € K	2008 € K	2007 € K	2006 € K
Profits (-) and losses (+) on obligations	887	2,158	937	406	-295
Profits (+) and losses (-) on plan assets	799	-41	-791	-122	-166

In financial year 2010, total expenditure amounted to € 2,898 K (previous year: € 2,152 K), which breaks down into the following components:

	2010 € K	2009 € K
Current length of service expense	566	433
+ Amortisation of past service cost	0	204
+ Interest expense	2,004	1,766
- Expected revenues from the plan assets (-)	-300	-224
+/- Actuarial profits and losses (+)	628	-27
= Total expense for defined contribution pension plans	2,898	2,152

The cash value of pension commitments has changed as follows:

	2010 € K	2009 € K
Carrying amount as at 1 January	26,331	27,125
Current length of service expense	566	433
+ Retroactive service cost	0	204
+ Interest expense	2,004	1,766
- Expected revenues from the plan assets	-300	-224
+/- Actuarial profits (-) and losses (+)	628	-27
- Pension payments made	-2,913	-2,946
= Carrying amount as at 31 December	26,316	26,331

In the past five years, the funding status, comprising the cash value of all pension commitments and the present value of the plan assets, has developed as follows:

	2010 € K	2009 € K	2008 € K	2007 € K	2006 € K
Cash value of all pension commitments	46,626	41,747	36,608	37,816	41,349
Current value of the pension plan assets of all funds	-8,759	-6,190	-5,172	-4,999	-4,704
Funding status	37,867	35,557	31,436	32,817	36,645

Payments to beneficiaries from unfunded pension plans next year are expected to amount to about € 2,498 K (previous year: € 2,470 K), while payments to funded pension plans in the financial year 2011 are estimated to amount to about € 283 K (previous year: € 269 K).

30 OTHER PROVISIONS

The following lists the major contents of provisions:

	Total € K	31 Dec. 2010 of which short-term € K	Total € K	31 Dec. 2009 of which short-term € K
Tax provisions	7,145	7,145	12,105	12,105
Obligations arising from personnel	61,505	45,479	63,260	36,987
Risks arising from warranties and retrofitting	29,350	26,425	30,823	24,987
Obligations arising from sales	36,909	36,137	33,570	32,155
Legal and consultancy fees and costs of preparation of accounts	4,042	4,042	4,025	4,025
Other	14,022	13,889	17,937	17,527
	145,828	125,972	149,615	115,681
Total	152,973	133,117	161,720	127,786

Tax provisions include current taxes on income and returns of € 3,914 K (previous year: € 9,394 K) and other operating taxes, which have been accumulated for the reporting period and for previous years.

Provisions for employee expenses in the group include profit-sharing and staff bonuses of € 15,583 K (previous year: € 9,099 K), part-time retirement payments of € 9,823 K (previous year: € 11,946 K), holiday pay of € 9,300 K (previous year: € 7,737 K) and anniversary payments of € 5,453 K (previous year: € 5,452 K). The provisions for anniversary bonuses and part-time retirement will be discounted and carried as liability at their present value. Obligations arising from part-time retirement are secured against

potential insolvency through a mutual trust relationship. To secure the pension plan, cash assets are transferred into a trust property. The members of this trust property are domestic group companies.

The assets are defined as “plan assets” in accordance with IAS 19.7 and balanced against the related provision. Any proceeds arising from the pension plan assets are balanced against the related expenses. On 31 December 2010 liquid assets of € 3,020 κ (previous year: € 4,426 κ) were transferred to the trust property.

Risks arising from warranties and retrofitting relate to present obligations to third parties, the use of which is probable and the anticipated amount of which can be reliably estimated. Due to previous experience, measurement of provisions was carried out on the basis of the conditions and considering possible increases in value at the end of the reporting period.

The other obligations primarily include provisions for installations to be carried out, invoiced sales and other various services.

The movement in the other provisions is illustrated in the analysis of provisions:

	1 Jan. 2010 € κ	Transfers € κ	Used € κ	Retransfers € κ	Other changes € κ	31 Dec. 2010 € κ
Tax provisions	12,105	7,909	11,796	29	-1,044	7,145
Obligations arising from personnel	63,260	31,134	30,453	2,827	391	61,505
Risks arising from warranties and retrofitting	30,823	10,859	10,530	2,042	240	29,350
Obligations arising from sales	33,570	31,467	27,328	5,080	4,280	36,909
Legal and consultancy fees and costs of preparation of accounts	4,025	3,537	3,177	427	84	4,042
Other	17,937	13,188	10,666	3,064	-3,373	14,022
	149,615	90,185	82,154	13,440	1,622	145,828
Total	161,720	98,094	93,950	13,469	578	152,973

The other changes include currency adjustments and transfers.

Obligations arising from personnel include provisions for the long-term incentive totalling € 1,465 κ (previous year: € 320 κ). A detailed description of the **long-term incentive** can be found in the **Corporate Governance chapter** on **page 70 et seq.** of the Group Management Report.

Obligations in the sales area include obligations for commission, contractual penalties and other obligations.

The following table shows the number of performance units awarded in 2008, 2009 and 2010, and the amount of the provisions.

	2008 tranche term 3 years		2009 tranche term 3 years			2009 tranche term 4 years			2010 tranche term 4 years		
	Number of perfor- mance units awarded	Amount of allo- cation for 2010 € K	Number of perfor- mance units awarded	Fair value	Provision	Number of perfor- mance units awarded	Fair value	Provision	Number of perfor- mance units awarded	Fair value	Provision
				31 Dec. 2010 € K	31 Dec. 2010 € K		31 Dec. 2010 € K	31 Dec. 2010 € K		31 Dec. 2010 € K	31 Dec. 2010 € K
Dr. Rüdiger Kapitza	10,422	0	28,209	274	182	20,790	377	189	37,879	842	211
Dr. Thorsten Schmidt	7,817	0	21,157	205	137	13,860	251	126	25,253	562	140
Günter Bachmann	7,817	0	21,157	205	137	13,860	251	126	25,253	562	140
Kathrin Dahnke	–	–	–	–	–	–	–	–	13,889	309	77
Total	26,056	0	70,523	684	456	48,510	879	441	102,274	2,275	568

From the tranches issued in 2010, an expense arose in 2010 in an amount of € 568 K. From the tranches issued in 2009 with a term of three years, expense arose in an amount of € 456 K, from the tranche with a term of four years, expense of € 41 K arose.

31 FINANCIAL DEBTS Details of short-term and long-term financial debts are listed in the following tables:

	31 Dec. 2010 € K	Of which due within 1 year € K	Of which due within 1 to 5 years € K	Of which due after 5 years € K
Borrowers' notes	200,705	0	200,705	0
Bank loans and overdrafts ¹⁾	107,129	93,421	4,254	9,454
Discounted customers' bills	12,403	6,636	5,767	0
	320,237	100,057	210,726	9,454

¹⁾ of which secured by mortgages: € 14,616 K

	31 Dec. 2009 € K	Of which due within 1 year € K	Of which due within 1 to 5 years € K	Of which due after 5 years € K
Borrowers' notes	198,919	0	139,243	59,676
Bank loans and overdrafts ¹⁾	111,739	85,939	15,487	10,313
Discounted customers' bills	18,636	6,095	12,541	0
	329,294	92,034	167,271	69,989

¹⁾ of which secured by mortgages: € 17,502 K

GILDEMEISTER re-structured the existing borrowers' notes with a volume of € 200,000 κ in February 2010. The borrowers' note with an original volume of € 140,000 κ was reduced by a termination agreement by € 20,500 κ to € 119,500 κ. It had a term until 2013. The borrowers' note with an original volume of € 60,000 κ and a term of seven years was reduced by a termination agreement by € 8,000 κ to € 52,000 κ. The term was shortened by two years from seven years to 2013. In addition, a further borrowers' note of € 30,000 κ was likewise subscribed with a term until 2013.

All borrowers' notes bear interest at 6-month EURIBOR plus a premium of a maximum of 4.75%.

To safeguard the variable interest rate, interest rate swaps have been concluded (see page 192 et seq.).

Set out below are the major liabilities to financial institutions:

	31 Dec. 2010				31 Dec. 2009			
	Currency	Book value € κ	Remaining period in years	effective interest rate %	Currency	Book value € κ	Remaining period in years	effective interest rate %
Loan	EUR	14,896	up to 8	3.2 – 6.8	EUR	16,366	up to 9	3.2 – 6.8
Loan	JPY	0			JPY	1,428	up to 3	0.95 – 3.0
Loan	CZK	80	up to 1	5.82	CZK	220	up to 2	5.82
Overdrafts	various	92,153	up to 3	0.34 – 8.45	various	93,725	up to 2	1.26 – 12.5
		107,129				111,739		

Liabilities towards credit institutes reduced in comparison with the previous year by € 4,610 κ. Long-term loans reduced within the framework of the planned repayment of € 3,038 κ whilst making use of overdraft loans fell compared to the previous year by € 1,572 κ.

The short and medium term resource requirements of GILDEMEISTER Aktiengesellschaft and, as part of the intra-group cash management system, of the majority of domestic subsidiaries are covered by syndicated loan agreements.

In February 2010, the existing syndicated loans were re-financed. In addition to the existing syndicated loan of € 175,000 κ with a term until 30 June 2011, a new syndicated loan with a volume of € 211,900 κ was concluded, with the goal of securing the company's financing until 2012 and to adjust it to the planned capital requirements. The existing loan is divided into two different tranches and the terms and conditions were adjusted within the scope of the refinancing.

The first tranche with a volume of € 154,900 κ comprises a forward start facility and matures in December 2012. It can be drawn upon in cash from 26 June 2011 and replaces the existing syndicated loan with a volume of € 175,000 κ. The second tranche with a volume of € 57,000 κ could be drawn upon immediately. It likewise matures in December 2012. The new syndicated loan was undersigned by banks in the existing banking consortium. The loan agreements pay interest at a 6-month EURIBOR plus a premium of a maximum of 4.75%.

The financing commitments have been guaranteed by 32 banks. The largest bank provides an amount of € 40,500 κ. The finance agreements were signed in February 2010.

The syndicated loan is classified as current as it can be drawn upon for a maximum of six months.

The financing agreements for the syndicated loan and the borrowers' notes bind GILDEMEISTER to adhere to covenants. As the key financial figures had changed as a consequence of the growth in orders in the machine tools segment and through delays in the project business, and as it was possible that the key financial figures could be breached as at 31 December 2010, GILDEMEISTER held negotiations timely with the lenders in order to make a one-off adjustment of the leverage threshold. All the lenders agreed to this change.

As for the previous financing, in the refinancing, both for the syndicated credit line as well as for the borrowers' notes, the lending banks have completely waived the right to collateral.

The companies DECKEL MAHO Pfronten GmbH, DECKEL MAHO Seebach GmbH, GILDEMEISTER Drehmaschinen GmbH, DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, GILDEMEISTER Italiana S.p.A., FAMOT Pleszew S.A. and GILDEMEISTER Partecipazioni S.r.l. continue to be guarantors for the loan agreements and the borrowers' notes. a+f GmbH has been added as an additional guarantor.

In addition, there are still some long-term loans and short-term bilateral loans of individual subsidiaries with a deduction amounting to € 22.8 million (previous year: € 23.4 million).

As of 31 December 2010, the international share in liabilities to banks amounted in total to about 7.1% (previous year: about 14.5%). The average cost of borrowings amount to 9.1% (previous year: 5.8%).

Open credit lines at the balance sheet record date amount to € 287.7 million (previous year: € 220.6 million). These comprise free cash lines of € 156.4 million (previous year: € 89.9 million) and additional open lines of credit (guaranteed bills outstanding, bills of exchange, ABS, factoring) of € 131.3 million (previous year: € 130.7 million).

In addition to the granted mortgage loans SAUER GmbH has assigned fixed assets and current assets in an amount of € 1,546 κ (previous year: € 1,769 κ) to the lending banks by transfer of ownership by way of security.

For liabilities to banks of € 107,129 κ (previous year: € 111,739 κ), no significant differences between the carrying amount and fair market value arise due to the mainly short terms.

**32 TRADE CREDITORS
AND OTHER LONG-TERM
LIABILITIES**

Long-term financial liabilities are shown as follows:

	31 Dec. 2010 € κ	31 Dec. 2009 € κ
Trade creditors	417	166
Other long-term liabilities	24,057	24,639
	24,474	24,805

Trade creditors are classified as financial liabilities.

Other long-term financial liabilities include the following items:

	31 Dec. 2010 € κ	31 Dec. 2009 € κ
Liabilities from finance lease arrangements	2,662	1,545
Fair market value of derivative financial instruments	17,512	18,530
Debtors with credit balance	0	0
Other long-term financial liabilities	793	1,205
	20,967	21,280

Liabilities arising from finance leases amounted to € 2,662 κ (previous year: € 1,545 κ) and show the discounted value of future payments from finance leases. These are liabilities arising from finance leases for buildings.

Fair market values of derivative financial instruments apply to fair market values of interest rate swaps in an amount of € 17,512 κ (previous year: € 18,347 κ and for forwards in an amount of € 183 κ).

In other financial liabilities, the fair market value of non-current liabilities corresponds to the carrying amount values. Payables that, in legal terms, arise after the end of the reporting period, only have a minor impact on the company's financial situation.

Other long-term liabilities take account of deferred income. These include the guaranteed investment grants from the funds of the joint aid programme “Improvement of the Regional Economic Structure” and investment subsidies pursuant to the investment subsidy act in an amount of € 3,090 κ (previous year: € 3,359 κ) as applied under IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”.

In the financial year 2010, investment allowances in an amount of € 222 κ (previous year: € 444 κ) were paid. The accruals will be dissolved in accordance with the depreciation procedure for tax-privileged capital assets and recognised in the income statement.

33 TRADE CREDITORS AND OTHER SHORT-TERM LIABILITIES

Short-term financial liabilities are shown as follows:

	31 Dec. 2010 € κ	31 Dec. 2009 € κ
Trade creditors	264,431	141,120
Fair market value of derivative financial instruments	1,798	1,006
Debtors with credit balance	5,035	3,432
Liabilities from finance lease arrangements	1,601	1,614
Liabilities from accrued interest paid for the borrowers' notes	1,927	1,264
Other short-term financial liabilities	15,569	12,413
	290,361	160,849

Trade creditors include payables to Younicos AG in an amount of € 276 κ (previous year: € 0 κ).

The fair value of derivative financial instruments mainly involves the fair value for forward exchange contracts in USD, in CAD and in GBP.

Liabilities arising from current finance leases amounted to € 1,601 κ (previous year: € 1,614 κ) and show the discounted value of future payments from finance leases. These are mainly liabilities arising from finance leases for buildings.

Current liabilities arising from finance leases are recognised without future interest payable. All future payments arising from finance leases total € 4,791 κ (previous year: € 3,430 κ).

Liabilities from the accrual of interest expense resulted mainly from taking account of the accrued interest expense for the respective period for the borrowers' notes in an amount of € 1,927 κ (previous year: € 1,264 κ) for the period 29 November 2010 to 31 December 2010, which will be paid out in May 2011.

Other financial liabilities include liabilities from bills of € 9,536 κ (previous year: € 4,929 κ), which arise from the acceptance of drafts and the issue of promissory notes.

The minimum lease payments for the respective lease agreements are as follows:

	31 Dec. 2010 € K	31 Dec. 2009 € K
TOTAL FUTURE MINIMUM LEASE PAYMENTS		
Due within one year	1,819	1,782
Due within one and five years	2,972	1,648
Due in more than five years	0	0
	4,791	3,430
INTEREST COMPONENT INCLUDED IN FUTURE MINIMUM LEASE PAYMENTS		
Due within one year	218	168
Due within one and five years	310	103
Due in more than five years	0	0
	528	271
NET PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS		
Due within one year	1,601	1,614
Due within one and five years	2,662	1,545
Due in more than five years	0	0
	4,263	3,159

The minimum lease payments from subleases, for which GILDEMEISTER is the lessor, in 2011 amount to € 276 K (previous year: € 276 K) and for 2012 to € 69 K (previous year: € 345 K). The agreements refer to the leasing of machine tools.

Other current liabilities include the following items:

	31 Dec. 2010 € K	31 Dec. 2009 € K
Tax liabilities	17,192	9,713
Liabilities relating to social insurance	3,136	3,439
Payroll account liabilities	2,633	4,080
Deferred income	4,314	4,599
Other liabilities	95	417
	27,370	22,248

Tax liabilities refer to liabilities arising from value added tax amounting to € 9,849 κ (previous year: € 2,071 κ) as well as liabilities arising from wage and church tax of € 6,578 κ (previous year: € 5,085 κ).

Deferred income relates in an amount of € 756 κ (previous year: € 1,503 κ) to deferred future interest income from a specific financing programme of the Italian state (Sabatini funding). It also includes further deferred income from sale-and-lease-back transactions that resulted in finance lease arrangements and for which GILDEMEISTER is the lessee.

34 CONTINGENCIES AND OTHER FINANCIAL OBLIGATIONS

No reserves were set up for the following contingent liabilities, which are recognised at their notional amounts, since the risk of utilisation is estimated as not very probable:

CONTINGENCIES	31 Dec. 2010 € κ	31 Dec. 2009 € κ
Guarantees	10,675	7,114
Warranties	1,360	1,828
Other contingencies	4,307	7,707
	16,342	16,649

The guarantees primarily include advance payment guarantees at foreign group companies. The rise compared to the previous year arose in particular due to the higher business volume. The decline in other contingencies compared to the previous year resulted in particular from the reduction of a guarantee in connection with the offer of financing solutions through leasing.

Other financial obligations consist mainly of lease agreements and long-term tenancy agreements. In operating lease agreements, the beneficial owner of the leased items is the lessor, which means risks and rewards are borne by the lessor.

The total minimum lease payments from permanent tenancy and lease agreements (finance lease arrangements and operating lease arrangements) are as set out below by due dates. The agreements have terms from two to fourteen years and some include options to extend or purchase options.

TOTAL FACE VALUE OF FUTURE MINIMUM LEASE PAYMENTS	31 Dec. 2010 € κ	31 Dec. 2009 € κ
Due within one year	20,017	21,104
Due within one and five years	25,842	25,778
Due in more than five years	6,321	6,367
	52,180	53,249

Of which operating lease arrangements account for:

TOTAL FACE VALUE OF FUTURE MINIMUM LEASE PAYMENTS	31 Dec. 2010	31 Dec. 2009
	€ K	€ K
Due within one year	18,198	19,322
Due within one and five years	22,870	24,130
Due in more than five years	6,321	6,367
	47,389	49,819

Operating lease agreements exist in connection with the financing of buildings of DMG Europe Holding GmbH in Klaus, Austria, in an amount of € 2.3 million and of DECKEL MAHO Pfronten GmbH in an amount of € 2.8 million. The operating lease agreement for the buildings include a purchase option upon expiration of the basic rental period.

Further operating lease agreements exist at FAMOT Pleszew Sp. z.o.o., Poland, for machines in an amount of € 3.0 million. At DECKEL MAHO Pfronten GmbH lease agreements in connection with the financing of crane installations exist in an amount of € 1.2 million and telephone installations in an amount of € 0.4 million. The agreements contain purchase options upon expiry of the basic rental period.

At other group companies leasing agreements exist for machines, vehicle fleets and other plant, factory and business equipment. The agreements contain purchase options in part upon expiry of the basic rental period. The operating lease agreements have a minimum period of between two and 15 years.

There are no permanent sub-tenancy agreements that have to be included in the total of future minimum lease payments. There are no contingent rental payments that are recognised in the income statement.

35 DERIVATIVE FINANCIAL INSTRUMENTS At the end of the reporting period, foreign exchange futures contracts were held by the GILDEMEISTER group essentially in USD, CHF, CAD, GBP, JPY, CZK and AUD, as well as interest rate swaps in euros. The face and fair market values of derivative financial instruments existing at the end of the reporting period are set out below:

	Nominal value € K	31 Dec. 2010 Fair market value			31 Dec. 2009	
		Asset € K	Debt € K	Total € K	Nominal value € K	Fair market value € K
Foreign exchange contracts						
of which cash flow hedges	102,923	925	1,458	- 533	52,591	- 119
of which USD	88,119	770	1,294	- 524	47,145	18
of which CAD	6,756	15	131	- 116	3,280	- 99
of which JPY	5,356	116	9	107	889	- 13
of which GBP	2,333	24	17	7	1,181	- 24
of which other currencies	359	0	7	- 7	96	- 1
Currency options as cash flow hedges	0	0	0	0	0	0
Currency options for trading purposes	0	0	0	0	0	0
Interest rate swaps as cash flow hedges	200,000	0	17,512	- 17,512	200,000	- 18,347
Foreign exchange contracts for trading purposes	50,107	1,223	339	884	43,028	512
of which USD	21,055	301	279	22	26,027	316
of which CHF	17,015	810	9	801	8,412	154
of which GBP	3,600	36	16	20	3,301	32
of which CZK	3,712	11	32	- 21	493	- 3
of which JPY	0	0	0	0	1,541	5
of which CAD	0	0	0	0	637	- 24
of which other currencies	4,725	65	3	62	2,617	32
	353,030	2,148	19,309	- 17,161	295,619	- 17,954

The nominal values correspond to the total of all purchase and sales amounts of derivative financial transactions. The fair market values recognised correspond with the price at which, as a rule, third parties would assume the rights or obligations arising from the financial instruments at the end of the reporting period. It cannot be assumed overall that the assessed value will also be actually realised upon dissolution. 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 value of currency options is separated into an intrinsic value and a time value, whereby only the intrinsic value of the options is drawn on for hedging purposes. The values are assessed on the basis of an option price model.

The fair market values of interest rate swaps are recognised in the statement of financial position under other non-current financial liabilities.

The fair market values of foreign exchange futures contracts and currency options are recognised in the balance sheet under other non-current and current financial assets or other non-current and current financial liabilities.

At the end of the reporting period, GILDEMEISTER also held forward foreign exchange contracts held for trading purposes, which, although they do not fulfil the strict requirements of hedge accounting pursuant to IAS 39, make an effective contribution to the securing of financial risks pursuant to the principles of risk management. For the hedging of currency risks recognised as monetary assets and liabilities, GILDEMEISTER does not use hedge accounting pursuant to IAS 39, as the realised profits and losses from the underlying transactions from the currency translation pursuant to IAS 21 are recognised in the income statement at the same time as the realised profits and losses from the derivatives applied as hedging instruments. In the event that third parties do not fulfil their obligations arising from forward foreign exchange contracts, as at the end of the reporting period, GILDEMEISTER had a deficit risk amounting to € 2,148 K (previous year: € 1,582 K).

Interest rate swaps with a nominal volume of a total of € 200,000 K have a remaining term of up to five years. In the previous year, Interest rate swaps with a volume of € 140,000 K had a remaining term of up to five years. One interest rate swap with a nominal volume of € 60,000 K had a remaining term of more than five years.

All existing forward exchange contracts as of the closing date with a nominal volume of € 153,030 K have a remaining term of up to one year (previous year: € 88.415 K). In the previous year, forward exchange contracts of a volume of € 7,204 K had a remaining term of more than one year.

In the financial year 2010, expenses arising from the market valuation of financial instruments allocated to cash flow hedges in an amount of € 16,774 K (previous year: € 18,902 K) were allocated to equity and an amount of € 191 K (previous year: € 691 K) was removed from equity and recognised in profit or loss for the reporting period. It was recognised in the income statement under exchange rate and currency profits or in the exchange rate and currency losses. Neither in the financial year nor in the previous year was there any ineffectiveness.

Risks from financial instruments

36 RISKS FROM FINANCIAL INSTRUMENTS

Currency and interest rate fluctuations can lead to considerable profit and cash flow risks for GILDEMEISTER. For this reason, GILDEMEISTER centralises these risks as far as possible and manages them with a view to the future and by using derivative financial instruments. The controlling of risks is based on regulations that are valid throughout the group and in which the targets, principles, responsibilities and competencies are defined.

Currency risks

In its global business activities GILDEMEISTER is exposed to two types of currency risks. Transaction risks arise through changes in value of future foreign currency payments due to exchange rate fluctuations in individual accounts. In the GILDEMEISTER group both purchases and sales are made in foreign currencies. To hedge currency risks arising from activities within the GILDEMEISTER group, foreign exchange futures contracts and options are used. The conclusion and processing of derivative financial instruments is based on binding internal regulations defining scope, responsibilities, reporting and accounting.

The translation risks describes the risk of a change in the statement of financial position and income statement items of a subsidiary due to exchange rate differences in the translation of local individual accounts to the group currency. Any changes in the financial position items of these companies caused by currency fluctuations in translation will be recorded in equity. Risks arising from the translation of sales revenues and results in foreign currency from subsidiaries are not hedged.

GILDEMEISTER determines foreign currency sensitivity through aggregating all foreign currency items that are not represented in the functional currency of the respective company and sets these against hedging. The fair market value of the basic items and hedges included are evaluated once at the actual exchange rates and once with the sensitivity rates. The difference between the two values represents the effects on equity and results.

If the euro had been revalued (devalued) by 10% against the US dollar as at 31 December 2010, the reserves for derivatives in equity and the fair value of the forward exchange contracts would have been € 2,138 κ lower (higher) (31 Dec. 2009: € 2,832 κ higher (lower)). If the euro had been revalued (devalued) by 10% against all currencies as at 31 December 2010, the results and the fair value of forward exchange contracts would have been € 13,371 κ lower (higher) (31 Dec. 2009: € 2,788 κ lower (higher)). A hypothetical impact on profit or loss ensues in the individual case from the currency sensitivities EUR / USD: € 7,250 κ; EUR / CHF € 3,107 κ; EUR / JPY: € 2,852 κ; EUR / CAD: € 162 κ.

The following tables show the transaction-related net currency risk in € κ for the most important currencies as at 31 December 2010 and 2009:

Currency	31 Dec. 2010			31 Dec. 2009		
	USD	JPY	CAD	USD	JPY	CAD
	€ κ	€ κ	€ κ	€ κ	€ κ	€ κ
Currency risk from balance sheet items	48,366	2,156	1,589	17,749	2,226	1,812
Currency risk from pending transactions	-3,763	-1,468	3,195	17,725	513	1,335
Transaction-related currency items	44,603	688	4,784	35,474	2,739	3,147
Financially hedged item through derivatives	-11,123	5,356	-4,630	-21,688	-2,430	-3,280
Open foreign currency item	33,480	-4,668	154	13,786	309	-133
Change in foreign currency item through a 10% revaluation of the euro	-3,348	467	-15	-1,379	-31	13

Interest rate risks

Interest rate risks include any potential positive or negative impact of interest rate changes on the results, equity or cash flow during the current or future reporting periods. At GILDEMEISTER interest rate risks are essentially in connection with financial liabilities. GILDEMEISTER hedges this risk through concluding interest rate swaps.

Interest hedging instruments in the form of swaps are used to eliminate the effects of future changes in interest rate on the cost of financing loans that are subject to a variable interest rate.

To hedge against future interest rate changes from the borrowers' notes, GILDEMEISTER has concluded interest rate swaps, which serve to secure a fixed interest rate until the end of the term. Interest rate swaps for a nominal total volume of € 140,000 K were concluded for a hedged interest rate of 4.98% to 5.02% with a term up to 29 May 2013. The interest rate swaps bind GILDEMEISTER to pay a fixed rate interest over the term and for the volume concluded. To offset this, GILDEMEISTER receives a EURIBOR 6-month rate payment from the contractual partner to the interest rate swap.

Furthermore, GILDEMEISTER has concluded a further interest rate swap for a nominal amount of € 60,000 K and a hedged interest rate of 4.79% with a term up to 29 May 2015. The interest rate swaps bind GILDEMEISTER to pay a fixed rate of interest over the term and for the volume concluded. To offset this, GILDEMEISTER receives a 6-month EURIBOR rate payment from the contractual partner to the interest rate swap.

Thus the company is protected against rising short-term interest rates yet, in return, does not benefit from falling short-term interest rates.

If the interest rate at 31 December 2010 had been 1% lower (higher), the reserves for derivatives in equity and the fair value of the interest rate swap would have been € 5,161 K (previous year: € 7.038 K) lower (€ 6,947 K higher (previous year: € 8,807 K)).

For financial instruments with a variable rate of interest – mainly this refers to the syndicated loans of € 232.0 million – the interest rate risk will be measured with the aid of cash flow sensitivity. Based on the financial instruments with a variable interest rate, existing interest hedges have been deducted. A 1% increase in interest rates pertaining to the non-hedged portfolio at the end of the reporting period would result in an increase in interest expense of € 1.0 million (previous year: € 1.0 million).

Within the scope of adapting the existing financing agreement, interest margins have risen markedly and allow for the changed credit risk (see page 195). The new borrowers' notes bear interest at 6-month EURIBOR plus margin. The interest rate swaps concluded serve to hedge against future changes in interest rates of the borrowers' notes.

Fixed interest rates have been predominantly agreed for other financial liabilities bearing interest. Changes in the interest rate would only have an effect if these financial instruments were recognised in the financial position at fair value. As this is not the case, financial instruments with a fixed interest rate are not subject to any risks arising out of interest rate changes within the meaning of IFRS 7.

Liquidity risks

The liquidity risk is the risk that GILDEMEISTER may not be able to meet its financial obligations. Cash outflows result primarily from financing working capital, capital investments and covering the financial requirements of sales financing. The management is informed regularly of the cash inflows and outflows as well as of financing sources. The liquidity risk is limited by creating the necessary financial flexibility within the scope of the existing financing and through effective cash management. Liquidity risk at GILDEMEISTER is governed by financial planning over 12 months. This makes it possible to finance predictable deficits under normal market conditions at standard market terms. On the basis of the current liquidity planning, no liquidity risks are identifiable at present. As a liquidity precaution, there is a syndicated loan facility of € 232.0 million with various banks as well as bilateral stand-by credits of € 21.7 million (previous year: € 22.5 million). Loan facilities have not been cancelled either in the financial year 2010 or in the previous year. Moreover, GILDEMEISTER has borrowers' notes of a total of € 201.5 million.

The financing agreements so far within the framework of the syndicated loan and the borrowers' notes bind GILDEMEISTER to adhere to covenants.

As the key financial figures had changed as a consequence of the growth in orders in the machine tools segment and through delays in the project business, and as it was possible that the key financial figures could be breached as at 31 December 2010, GILDEMEISTER held negotiations timely with the lenders in order to make a one-off adjustment of the leverage threshold value. All the lenders agreed to this change.

As at 31 December 2010, GILDEMEISTER had cash and cash equivalents totalling € 111.8 million (previous year: € 84.4 million), open cash lines in an amount of € 156.4 million (previous year: € 89.9 million) and further open lines (guaranteed bills outstanding, bills of exchange, ABS and factoring) totalling € 131.3 million (previous year: € 130.7 million) available to it.

The following table shows that contractually agreed (non-discounted) interest and repayments of original financial liabilities as well as of the derivative financial instruments with positive and negative fair values:

	Book value 31 Dec. 2010 € K	Cash flows 2011		Cash flows 2012 – 2014		Cash flows 2015 et seq.	
		Interest	Repay- ment	Interest	Repay- ment	Interest	Repay- ment
		€ K	€ K	€ K	€ K	€ K	€ K
Borrowers' notes	200,705	18,210	0	25,691	200,705	0	0
Liabilities to banks	107,129	5,281	93,421	444	3,421	582	10,287
Liabilities arising from leases	4,263	218	1,601	276	2,517	34	145
Discounted customers' bills	12,403	0	6,636	0	5,533	0	234
Liabilities from derivatives	19,309	0	1,798	0	11,123	0	6,388
Other financial liabilities	288,173	79	286,962	60	1,014	101	197
	631,982	23,788	390,418	26,471	244,313	717	17,251

	Book value 31 Dec. 2009 € K	Cash flows 2010		Cash flows 2011 – 2013		Cash flows 2014 et seq.	
		Interest	Repay- ment	Interest	Repay- ment	Interest	Repay- ment
		€ K	€ K	€ K	€ K	€ K	€ K
Borrowers' notes	198,919	13,785	0	36,590	139,243	6,381	59,676
Liabilities to banks	111,739	9,564	85,939	547	15,487	252	10,313
Liabilities arising from leases	3,159	168	1,614	72	1,251	30	294
Discounted customers' bills	18,636	0	6,095	0	12,420	0	121
Liabilities from derivatives	19,536	0	1,006	0	18,530	0	0
Other financial liabilities	159,600	34	158,229	37	1,204	111	167
	511,589	23,551	252,883	37,246	188,135	6,774	70,571

This includes all instruments that were held as at 31 December 2010 and 31 December 2009, respectively, and for which payments have been contractually agreed. Forecast figures for future new liabilities have not been included. Amounts in foreign currencies were translated at the exchange rate at the end of the reporting period. The variable interest payments for financial instruments were determined on the basis of the last fixed interest rate before 31 December 2010 and 31 December 2009, respectively. Financial liabilities that can be repaid at any time are always allocated to the earliest possible date.

Credit risks

A credit risk is the unexpected loss of payment funds or income. This occurs if the customer is not able to meet his obligations within the due time. A receivables management with regulations applicable worldwide ensures the continuous monitoring of risks and minimises losses of receivables. A receivables management with worldwide applicable guidelines and regular analysis of the age structure of trade receivables ensures the continuous monitoring and limiting of risks and, in this way, minimises losses from receivables. Due to the diversified business structure within the GILDEMEISTER group, there are no special concentrations of credit risks, neither with respect to customers nor for individual countries.

Within the scope of cash deposits, financial contracts are only concluded with the federal bank and banks that we have carefully chosen and continuously monitor. With respect to derivative financial instruments, the GILDEMEISTER group is exposed to a credit risk that arises from the non-performance of contractual agreements by the other party to the agreement. This credit risk is minimised by only entering into transactions with parties of first-class financial credit-worthiness. Pursuant to IFRS 7.36 the carrying amount of the financial assets represents the maximum credit risk. From the following table, a maximum credit risk arises of € 563,576 K as at the end of the reporting period (previous year: € 403,470 K):

	31 Dec. 2010 € K	31 Dec. 2009 € K
Financial assets held for sale	50,775	28,521
Loans and receivables	398,884	288,927
Financial assets held to maturity	0	0
Cash and cash equivalents	111,769	84,440
Derivative financial assets		
Derivatives without a hedging relation	1,364	1,209
Derivatives with a hedging relation	784	373
	563,576	403,470

There were no securities received or other credit enhancements neither in the financial year nor in the previous year.

The valuations rates of the financial instruments according to valuation categories are shown as follows:

Valuation in accordance with IAS 39							
	Book value 31 Dec. 2010	Amortised cost	Cost	Fair value recognised in equity	Fair value through profit or loss	Valuation in accor- dance with IAS 17	Fair value 31 Dec. 2010
	€ K	€ K	€ K	€ K	€ K	€ K	€ K
Assets							
Financial assets	50,775	10,929		39,846		–	39,846
Cash and cash equivalents	111,769	111,769				–	111,769
Trade debtors	306,052	306,052				–	306,052
Other receivables	92,832	92,832				–	92,832
Other original financial assets in the category							
Held to maturity	0						0
Derivative financial assets							
Derivatives without hedge relation	1,364				1,364	–	1,364
Derivatives with hedge relation	784			784		–	784
Liabilities							
Borrowers' notes	200,705	200,705				–	200,705
Liabilities to banks	107,129	107,129				–	107,129
Discounted customers' bills	12,403	12,403				–	12,403
Trade creditors	264,572	264,572				–	264,572
Liabilities from finance lease arrangements	4,263	4,263				4,263	4,263
Other liabilities	23,324	23,324				–	23,324
Derivative financial liabilities							
Derivatives without hedge relation	1,752				1,752	–	1,752
Derivatives with hedge relation	17,558			17,558		–	17,558
Of which aggregated in measurement categories acc. to IAS 39:							
Loans and receivables	510,653	510,653					510,653
Assets in the category							
held to maturity							
available for sale	50,775	10,929		39,846			39,846
held for trading	2,148			784	1,364		2,148
Liabilities in the category							
Measured at amortised cost	612,672	612,672					612,672
held for trading	19,310			17,558	1,752		19,310

Valuation in accordance with IAS 39						
Book value 31 Dec. 2009	Amortised cost	Cost	Fair value recognised in equity	Fair value through profit or loss	Valuation in accordance with IAS 17	Fair value 31 Dec. 2009
€ K	€ K	€ K	€ K	€ K	€ K	€ K
28,521	356		28,165		–	28,521
84,440	84,440				–	84,440
239,517	239,517				–	239,517
49,410	49,410				–	49,410
1,209				1,209	–	1,209
373			373		–	373
198,919	198,919				–	198,919
111,739	111,739				–	111,739
18,636	18,636				–	18,636
141,286	141,286				–	141,286
3,159	3,159				3,159	3,159
18,314	18,314				–	18,314
1,006				1,006	–	1,006
18,530			18,530		–	18,530
373,367	373,367					373,367
28,521	356		28,165			28,521
1,209				1,209		1,209
492,053	492,053					492,053
1,006				1,006		1,006

For financial instruments accounted at fair value, the fair value is determined, in principle, by way of stock market prices. Insofar as stock market prices are not available, measurement is carried out applying standard economic methods (measurement methods), taking instrument-specific market parameters as a basis.

Fair value assessment is carried out by means of the discounted cash flow method, where the individual credit-standings and other market circumstances in the form of standard market credit-standings or liquidity spreads are taken into account in the cash value assessment.

Financial assets are measured at fair value or acquisition cost (if necessary taking impairments into account). A reliable determination of the fair value when measuring acquisition costs would only be possible within the scope of specific sales negotiations.

For loans and receivables, which are measured at amortised acquisition costs, there is no liquid market. For short-term loans and receivables it is assumed that the fair value corresponds to the carrying amount. All other loans and receivables are assessed at fair value through the deduction of accrued interest on future expected cash flows. In this, interest rates are used for credits, for which credits with a corresponding risk structure, original currency and term have been re-concluded.

Trade payables and other current financial liabilities in general have a term of less than one year, so that the carrying amount corresponds approximately to the fair value.

For the non-stock market listed borrowers' notes, liabilities to banks and other non-current liabilities, the fair values are cash values of the payments related to the liabilities taking market standard interest rates as the basis.

Fair Value Hierarchy

As at 31 December 2010, the financial assets and liabilities presented in the following table and measured at fair value were held.

Determining and the classification of fair value of financial instruments is based on a fair value hierarchy, which takes into account the significance of the input data used in the measurement and follows the following stages:

Stage 1: Prices listed on active markets (taken over unchanged) for identical financial assets and liabilities

Stage 2: for assets or liabilities which are not represented by any listed price in accordance with Stage 1, either direct (as the price) or indirect (derived from price) observable input data,

Stage 3: input data applied that is not based on observable market data for the measurement of assets and liabilities (non-observable input data).

	€ K Stage 1	€ K Stage 2	€ K Stage 3	€ K 31 Dec. 2009
Financial assets				
Measured at fair value through profit or loss				
Other financial assets		0		0
Derivative financial instruments with hedge relation		925		706
Derivative financial instruments without hedge relation		1,222		876
Financial liabilities				
Measured at fair value through profit or loss				
Other financial liabilities		0		0
Derivative financial instruments with hedge relation		18,970		19,172
Derivative financial instruments without hedge relation		340		364

In the financial year there was no reclassification between Stages 1 and 2 in the measurement of fair value and there was no reclassification in or out of Stage 3 with respect to the measurement of fair value.

The net results of the financial instruments according to valuation category are shown as follows:

	From interest € K	Subsequent measuring			Disposal € K	2010 € K	2009 € K
		At fair value € K	Foreign currency translation € K	Value adjust- ment € K			
Loans and receivables	- 154	- 2	- 512	- 2,471	- 188	- 3,327	- 1,734
Assets in the category							
held to maturity							
available for sale	0	0					
held for trading	0	3,223				3,223	2,443
Liabilities in the category							
measured at							
amortised cost	- 32,925	- 2,280	2,150		19	- 33,036	- 24,714
held for trading	0	- 3,273	0			- 3,273	- 343
Total	- 33,079	- 2,332	1,638	- 2,471	- 169	36,413	- 24,348

Interest from financial instruments is recognised in interest results. Value adjustments on trade receivables are recognised in other operating expenses. Interest results from financial liabilities in the valuation category “liabilities at amortised initial cost” result essentially from interest expenses for the bond and for liabilities to banks.

Notes to the Cash Flow Statement

37 CASH FLOW STATEMENT

The statement of cash flows pursuant to IAS 7 “Statement of Cash Flows” records the payment flow in a financial year and represents the inflow and outflow of the company’s liquid funds. The payment flow is distinguished between cash flow from current operations and cash flow from investment and financing activity.

Cash and cash equivalents include, in addition to liquid funds in the narrowest sense, cheques, cash in hand and money on account at banks, as well as current financial investments that can be converted to cash amounts at any time and are only subject to immaterial fluctuations in value. Cash and cash equivalents are measured at amortised cost.

The cash flow from current operations was calculated by the indirect method through adjusting the earnings before tax by changes in inventories, trade receivables and payables, non-cash items and all other items showing cash flows in the investment or financing areas.

The cash flows from investment and financing activities were each calculated in terms of actual sums paid. Effects from foreign currency translation and changes in the consolidated group are adjusted accordingly. Investment transactions for finance lease agreements that did not lead to a change in the means of payment did not occur in the financial year 2010 (previous year: € 0 κ).

Within the framework of a cash capital increase in an amount of € 9,000 κ, 50.001% of the equity interest in Cellstrom GmbH was acquired. No payment was made to any third party in this connection. Cash funds of € 203 κ (not including the amounts paid in within the framework of the cash capital increase) were acquired in the purchase of the equity interest. Detailed notes on the **assets and liabilities** taken over are presented on **page 137**. The amount of € 4,338 κ is the payment for the purchase of the equity investment in Younicos AG and an amount of € 5,049 κ in MG Finance GmbH as well as an amount of € 1,067 κ for DMG / Mori Seiki Australia Pty Ltd. An amount of € 500 κ relates to SUN CARRIER OMEGA Pvt. Ltd.

Notes to Segmental Reporting

38 EXPLANATORY NOTES TO THE SEGMENTS

Within the scope of segment reporting, pursuant to the IFRS 8 regulations, the business activities of the GILDEMEISTER group have been differentiated since financial year 2010 into the business segments of “Machine Tools”, “Services”, “Energy Solutions” and “Corporate Services”. Decisive in differentiating between the business segments is the information that the so-called “chief decision-maker” is regularly provided with for the purposes of decision-making on the allocation of resources and the evaluation of profitability. The segment differentiation follows internal management and reporting on the basis of the different products and services. The key performance indicators for evaluating profitability of each business segment are the sales revenues and the EBT.

Until 31 December 2009, the business activities now included in the “Energy Solutions” segment were recognised in the “Services” segment. Due to the growing importance to the GILDEMEISTER group of the business activities in the area of Energy Solutions, the

operating results of “Energy Solutions” were regularly separately reviewed by the main decision-maker (“Executive Board”) since 1 January 2010 with respect to a decision on the allocation of resources and thus managed as a separate segment. To facilitate comparison, the notes made in the consolidated financial statements 2009 on the “Services” segment report are divided as to previous year comparison information in the consolidated financial statements 2010 into the new “Energy Solutions” segment report and into the former “Service” segment report. The figures for financial year 2009 for the “Services” segment have been correspondingly adjusted pursuant to the requirements of IFRS 8.

GILDEMEISTER Beteiligungen AG as the holding company for the production plants has been managed since 1 January 2010 in the “Machine Tools” segment and the operating results of GILDEMEISTER Beteiligungen AG checked in this segment. The figures for financial year 2009 of the “Corporate Services” and “Machine Tools” segments have been adjusted in accordance with the provisions of IFRS 8. A tabular presentation as part of the notes can be found on page 134 et seq.

The “**Machine Tools**” segment covers the group’s new machines business and consists of the “turning”, “milling” and “ultrasonic / lasertec” technologies and Electronics. This includes the lathes and turning centres of

- _ GILDEMEISTER Drehmaschinen GmbH, Bielefeld,
- _ GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italy,
- _ GRAZIANO Tortona S.r.l., Tortona, Italy,
- _ FAMOT Pleszew Sp. z o.o., Pleszew, Poland,
- _ DMG ECOLINE GmbH, Klaus, Austria,
- _ DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China,

the milling machines and machining centres of

- _ DECKEL MAHO Pfronten GmbH, Pfronten,
- _ DECKEL MAHO Seebach GmbH, Seebach,
- _ DMG ECOLINE GmbH, Klaus, Austria,
- _ DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China,

the ultrasonic and laser machines of

- _ SAUER GmbH, Idar-Oberstein / Kempten

and the products of

- _ DMG Electronics GmbH, Pfronten.

All of our machines are classified as cutting machine tools, and all business segments are concurrent with each other. In addition, since 1 January 2010, GILDEMEISTER Beteiligungen AG, as the parent company of all production plants, also belongs to this segment. Additionally, the group’s uniform IT is concentrated here.

The **“Services”** segment, which covers all areas, is directly related to the machine tools and, with its products and technical services, represents an independent segment. It includes the business activities of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld, and its subsidiaries.

With the aid of the DMG Life Cycle Products we optimise the productivity of our customers' machine tools over the entire life cycle – from their installation until part exchange as a used machine. This range of services, which is perfectly aligned with DMG machine tools, offers our customers unique integrated solutions: With innovative and efficient training, repair and maintenance services, our highly-qualified service employees ensure the long-term availability of machine tools. Besides brokering and advisory activities, these include installation and instruction as well as the used machines business. DMG Spare Parts safeguards the reliable and fast supply of DMG spare parts from its ultra-modern service centre. DMG Service products – such as DMG Power Tools, Tool Management from DMG MICROSET and automation solutions from DMG AUTOMATION – enable the user to set up processes for machining workpieces safely and quickly, and thus cost-effectively. Another area is key accounting to serve major international customers, which is concentrated for all products and areas.

The **“Energy Solutions”** segment includes the business activities of a+f GmbH and the companies responsible for sales, service and production in Italy, Spain, the USA, Austria and India. It includes the business areas of photovoltaic (**“SunCarrier”**), energy storage (**“cellcube”**) and components (**“Components”**). In the **“SunCarrier”** business area, GILDEMEISTER offers a single-axis tracking system with the SunCarrier, which continuously aligns the module surface along the vertical axis with the sun's actual position. The business model is mainly geared towards customers who want to produce electricity on an industrial scale, and the construction of turnkey solar parks as well as providing downstream services. The majority investment in the Austrian company, Cellstrom GmbH, expands the product portfolio to include what GILDEMEISTER considers to be the promising market of energy storage. The long-lasting and low maintenance **“cellcube”** big battery offers a variety of deployment possibilities, for example the storage of electricity from solar power plants and wind farms, or as a solar fuelling station for the expected rise in the number of electrically-operated vehicles. In the **“Components”** area, GILDEMEISTER specialises in the production and marketing of cast iron and steel components, in particular for mechanical engineering and wind power plants.

The **“Corporate Services”** segment also comprises the GILDEMEISTER Aktiengesellschaft with its group wide holding functions. Central functions have been assigned to GILDEMEISTER Aktiengesellschaft such as group strategy, development and purchasing coordination, management of overall projects in the production and logistics areas, funding, corporate controlling and corporate personnel management. The holding functions across the group result in expense and sales revenues.

39 EXPLANATORY NOTES
TO THE SEGMENTAL
INFORMATION

The definition of terms used in individual segmental information is in line with the management principle for the value-oriented corporate management of the GILDEMEISTER group. Segmental information is in principle based on the same accounting and valuation methods as form the basis for the Consolidated Financial Statements.

Segmental assets include all assets tied up in the operative business including shares, goodwill and prepaid expenses; it does not include income tax claims.

To evaluate the profitability of the segments, sales revenues from the “Machine Tools” segment are reclassified to the “Services” segment. Sales between the segments are made at standard market transfer prices.

As part of the exercise of the option right pursuant to IFRS 3 “Business Combinations”, existing goodwill was allocated to the segments as follows: Goodwill is attributed to the “Machine Tools” segment of € 39,072 κ (previous year: € 39,072 κ), to the “Services” segment of € 32,865 κ (previous year: € 32,412 κ), to the “Energy Solutions” segment of € 9,514 κ (previous year: € 4,240 κ) and to the “Corporate Services” segment of € 0 κ (previous year: € 0 κ). No impairment of goodwill was recorded out in the financial year.

Investments include the additions to tangible fixed assets and intangible assets. Intra-segment sales revenues show the sales revenues that have been made between the segments. The settlement prices of intra-group sales revenues are determined in line with the market (arm’s length principle).

Depreciation relates to segmental fixed assets.

The EBT of the “Machine Tools” segment includes income from the dissolution of provisions in the financial year of € 6,209 κ (previous year: € 8,248 κ). The EBT of the “Services” segment includes income from the dissolution of provisions in the financial year of € 6,216 κ (previous year: € 8,311 κ) and in the “Energy Solutions” segment in an amount of € 362 κ (previous year: € 13,489 κ).

In the financial year non-cash expenses were included in the “Corporate Services” segment due to the scheduled amortisation of transaction costs of financial instruments in an amount of € 2,881 κ (previous year: € 1,105 κ). No significant non-cash expenses were incurred in the three other segments.

In financial year 2010 and in the previous year, no transactions were carried out with any one customer that were more than 10% of the sales revenues of the GILDEMEISTER group.

The “Transition” column represents the elimination of intra-group receivables and liabilities, income and expenses, as well as the elimination of intermediate results between the segments.

The information on geographical areas is based on the registered office of the group companies and is broken down into regions comprising Germany, the rest of Europe, North America, Asia and the rest of the world, which includes Mexico and Brazil. The data is determined on the basis of geographical sub-groups. Non-current assets arise mainly out of tangible assets; they do not include financial instruments or deferred tax claims.

Other explanatory notes**40 AUDITOR'S FEES
AND SERVICES**

The fees and charges recognised as expense in financial year 2010 for the auditors of the consolidated financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft and its affiliated companies within the meaning of Section 271 (2) HGB, amount to € 1,120 K (previous year: € 1,086 K) and relate to fees and charges for the annual audit, as to € 6 K (previous year: € 4 K) to other certification services and as to € 349 K (previous year: € 447 K) to other services.

**41 EVENTS OCCURRING
AFTER THE BALANCE SHEET
DATE**

There were no significant events after the close of the reporting period. No other material events occurred before the date of submission to the Supervisory Board on 4 March 2011.

**42 INFORMATION ON
RELATIONS WITH
AFFILIATED COMPANIES
AND PERSONS**

Related persons and companies within the meaning of IAS 24 "Related Party Disclosures" are, in principle, members of the Executive Board and of the Supervisory Board, close members of their families and subsidiaries that are not fully consolidated. Related parties were not party to any significant transaction or any transaction of unusual nature or structure with companies of the GILDEMEISTER group.

Related parties to the GILDEMEISTER group are DMG / Mori Seiki Australia Pty. Ltd., MG Finance GmbH and SUN CARRIER OMEGA Pvt. Ltd.

The following transactions were carried out with related party companies:

SALE OF GOODS	2010	2009
	€ K	€ K
Associates	5,780	0
Joint ventures	3,826	0

PURCHASE OF GOODS	2010	2009
	€ K	€ K
Associates	0	0
Joint ventures	6	0

43 DUTY OF NOTIFICATION PURSUANT TO SECTION 26 WPHG Mori Seiki International S.A., Le Locle, Switzerland, has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) by letter of 20 July 2010 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, exceeded the thresholds of 3% and 5% on 29 March 2010 and as of that date now amount to 5.000877% (2,279,500 voting rights).

Note: The acquisition of voting rights arises solely from an internal shift in share portfolios from Mori Seiki Co. Ltd., Nagoya, Japan, to Mori Seiki International S.A., Le Locle, Switzerland.

The Governance for Owners Group LLP, London, United Kingdom, has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) by letter of 31 August 2010 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, exceeded the threshold of 3% on 28 February 2007 and as of that date now amounts to 3.02% (1,308,873 voting rights). These 3.02% (1,308,873 voting rights) are allocated to the Governance for Owners Group LLP pursuant to Section 22 paragraph 1 sentence 1 (1) WpHG by the Governance for Owners LLP.

The Governance for Owners Group LLP, London, United Kingdom, has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) by letter of 31 August 2010 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, fell below the threshold of 3% on 27 September 2007 and as of that date now amounts to 2.94% (1,274,761 voting rights). These 2.94% (1,274,761 voting rights) are allocated to the Governance for Owners Group LLP pursuant to Section 22 paragraph 1 sentence 1 (1) WpHG by the Governance for Owners LLP.

Note: The duty of notification relates to a late notification from the Governance for Owners Group LLP, London, which we received on 31 August 2010. The Governance for Owners Group LLP, London, is the parent company of the Governance for Owners LLP, London, which notified us with respect to its direct proportion of voting rights that had already exceeded / fallen below the relevant thresholds in 2007.

44 CORPORATE GOVERNANCE The declaration of compliance in accordance with Section 161 of the German Stock Corporation Act (AktG) was made in December 2010 and has been made permanently accessible on our website at www.gildemeister.com.

GILDEMEISTER Group Companies

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES,
PROCUREMENT / COMPONENTS

	National currency	Equity ¹⁾	€ K	Participation quota in %
Fully consolidated companies (affiliated companies)				
GILDEMEISTER Beteiligungen AG, Bielefeld ^{2/5)}			240,416	100.0
DECKEL MAHO Pfronten GmbH, Pfronten ^{4/6/7)}			47,922	100.0
SAUER GmbH, Stipshausen / Idar-Oberstein ^{4/8/9)}			6,942	100.0
Alpenhotel Krone GmbH & Co. KG, Pfronten ^{4/8)}			198	100.0
Alpenhotel Krone Beteiligungsgesellschaft mbH, Pfronten ^{4/8)}			12	100.0
DECKEL MAHO GILDEMEISTER (Shanghai)				
Machine Tools Co., Ltd., Shanghai, China ⁶⁾	CNY K	178,215	20,201	100.0
FAMOT Pleszew Sp. z o.o., Pleszew, Poland ⁶⁾	PLN K	82,474	20,748	100.0
GILDEMEISTER Drehmaschinen GmbH, Bielefeld ^{4/6/7)}			15,750	100.0
GILDEMEISTER Partecipazioni S.r.l., Tortona, Italy ⁶⁾			90,801	100.0
GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italy ³⁾			50,788	100.0
GRAZIANO Tortona S.r.l., Tortona, Italy ³⁾			11,911	100.0
SACO S.p.A., Castelleone, Italy ³⁾			1,264	100.0
DMG Service Drehen Italia S.r.l., Brembate di Sopra (Bergamo), Italy ³⁾			123	100.0
DMG Italia S.r.l., Brembate di Sopra, Italy ³⁾			5,396	100.0
a+f Italia S.r.l., Milan, Italy ³⁾			- 489	100.0
a+f Italia Holding S.r.l., Milan, Italy ²¹⁾			9	100.0
MASSERIA MARAMONTI S.r.l., Milan, Italy ²¹⁾			- 15	100.0
Lacerta SRL, Milan, Italy ²¹⁾			7	100.0
Il Giardino del Sole S.r.l., Milan, Italy ²¹⁾			7	100.0
SunCarrier Puglia 1 S.r.l., Milan, Italy ²¹⁾			8	100.0
SunCarrier Puglia 2 S.r.l., Milan, Italy ²¹⁾			8	100.0
SunCarrier Puglia 3 S.r.l., Milan, Italy ²¹⁾			8	100.0
SunCarrier Puglia 4 S.r.l., Milan, Italy ²¹⁾			8	100.0
SunCarrier Puglia 5 S.r.l., Milan, Italy ²¹⁾			8	100.0
Carapelle 1 S.r.l., Milan, Italy ²¹⁾			4	100.0
Carapelle 2 S.r.l., Milan, Italy ²¹⁾			5	100.0
Carapelle 3 S.r.l., Milan, Italy ²¹⁾			5	100.0
Carapelle 4 S.r.l., Milan, Italy ²¹⁾			5	100.0
Carapelle 5 S.r.l., Milan, Italy ²¹⁾			5	100.0
Carapelle 6 S.r.l., Milan, Italy ²¹⁾			5	100.0
Carapelle 7 S.r.l., Milan, Italy ²¹⁾			5	100.0
Carapelle 8 S.r.l., Milan, Italy ²¹⁾			5	100.0
Carapelle 9 S.r.l., Milan, Italy ²¹⁾			5	100.0
Carapelle 10 S.r.l., Milan, Italy ²¹⁾			5	100.0
Carapelle 11 S.r.l., Milan, Italy ²¹⁾			5	100.0
Carapelle 12 S.r.l., Milan, Italy ²¹⁾			5	100.0
Agridaunia S.r.l., Milan, Italy ²¹⁾			5	100.0
Agrestis S.r.l., Milan, Italy ²¹⁾			6	100.0
Capitanata Rurale S.r.l., Milan, Italy ²¹⁾			5	100.0
Le Daunia Gialla S.r.l., Milan, Italy ²¹⁾			4	100.0

**PRODUCTION PLANTS, SALES AND SERVICE COMPANIES,
PROCUREMENT / COMPONENTS (CONTINUATION)**

	National currency	Equity ¹⁾	€ K	Participation quota in %
La Terra del Sole S.r.l., Milan, Italy ²¹⁾			4	100.0
Terra Mia S.r.l., Milan, Italy ²¹⁾			109	100.0
Il Sole della Puglia S.r.l., Milan, Italy ²¹⁾			5	100.0
Il Tavoliere S.r.l., Milan, Italy ²¹⁾			5	100.0
L'orto del Sole S.r.l., Milan, Italy ²¹⁾			5	100.0
La Buona Terra S.r.l., Milan, Italy ²¹⁾			5	100.0
Le Fonti del Sole S.r.l., Milan, Italy ²¹⁾			5	100.0
Energia Solare S.r.l., Milan, Italy ²¹⁾			5	100.0
Le Fonti Rinnovabili S.r.l., Milan, Italy ²¹⁾			5	100.0
Solar Energy S.r.l., Milan, Italy ²¹⁾			6	100.0
Bio Energie S.r.l., Milan, Italy ²¹⁾			6	100.0
Daunia Energia S.r.l., Milan, Italy ²¹⁾			5	100.0
Elios Energia S.r.l., Milan, Italy ²¹⁾			6	100.0
Energia e Vita S.r.l., Milan, Italy ²¹⁾			6	100.0
Energia Pulita S.r.l., Milan, Italy ²¹⁾			6	100.0
Helios Technology Puglia S.r.l., Milan, Italy ²¹⁾			6	100.0
Puglia Solare S.r.l., Milan, Italy ²¹⁾			6	100.0
Sun Power Puglia S.r.l., Milan, Italy ²¹⁾			6	100.0
Sunland S.r.l., Milan, Italy ²¹⁾			6	100.0
DECKEL MAHO Seebach GmbH, Seebach ^{4/6/7)}			8,363	100.0
DMG Automation GmbH, Hüfingen ^{4/5/6/7)}			1,486	100.0
DMG Electronics GmbH, Pfronten ^{4/6/7)}			500	100.0
DMG Spare Parts GmbH, Geretsried ^{4/5/6/7)}			12,000	100.0
GILDEMEISTER Finance S.à.r.l., Luxembourg ⁶⁾			1	100.0
MITIS Grundstücks-Vermietungs Gesellschaft mbH & Co.				
Objekt Bielefeld KG, Düsseldorf ⁴⁾			-35	100.0
MITIS Grundstücks-Vermietungs Gesellschaft mbH, Dusseldorf ⁴⁾			54	100.0
DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld ^{2/4/5)}			127,663	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

**PRODUCTION PLANTS, SALES AND SERVICE COMPANIES,
PROCUREMENT / COMPONENTS (CONTINUATION)**

	National currency	Equity ¹⁾	€ K	Participation quota in %
DMG Europe Holding GmbH, Klaus, Austria ¹⁰⁾			74,038	100.0
DMG Mori Seiki South East Asia Pte. Ltd., Singapore ¹⁴⁾	SGD K	9,736	5,682	100.0
DMG Australia Pty. Ltd., Clayton Victoria, Australia ¹⁵⁾	AUD K	5,675	4,320	100.0
DMG (Thailand) Co. Ltd., Bangkok, Thailand ¹⁵⁾	THB K	16,585	413	100.0
DMG Mori Seiki (Malaysia) SDN BHD, Puchong / Kuala Lumpur, Malaysia ¹⁵⁾	MYR K	9,669	2,361	100.0
DMG Austria GmbH, Klaus, Austria ¹⁴⁾			5,874	100.0
DMG ECOLINE GmbH, Klaus, Austria ¹⁴⁾			1,939	100.0
DMG Middle East FZE, Dubai, United Arab Emirates ¹⁴⁾	AED K	188	38	100.0
DMG Benelux B.V., Veenendaal, Netherlands ¹⁴⁾			36,770	100.0
DECKEL MAHO GILDEMEISTER Brasil Ltda., São Paulo, Brazil ¹⁶⁾	BRL K	5,218	2,353	100.0
DECKEL MAHO GILDEMEISTER Iberica S.L., Ripollet, Spain ¹⁶⁾			3,298	100.0
AF Sun Carrier Ibérica S.L., Madrid, Spain ²²⁾			-93	100.0
DMG America Inc., Itasca, USA ¹⁶⁾	USD K	47,869	35,825	100.0
DMG Charlotte LLC, Charlotte, USA ¹⁷⁾	USD K	2,143	1,604	100.0
DMG Chicago Inc., Itasca, USA ¹⁷⁾	USD K	294	220	100.0
DMG Houston Inc., Houston, USA ¹⁷⁾	USD K	61	46	100.0
DMG Los Angeles Inc., Los Angeles, USA ¹⁷⁾	USD K	333	249	100.0
DMG Boston LLC, Burlington, USA ¹⁷⁾	USD K	2,618	1,959	100.0
a+f USA LLC, Wilmington, USA ¹⁷⁾	USD K	220	165	100.0
DMG Asia Pte. Ltd., Singapur ¹⁶⁾			14,629	100.0
DMG Benelux BVBA – SPRL., Zaventem, Belgium ¹⁶⁾			3,572	100.0
DMG France S.a.r.l., Les Ulis, France ¹⁶⁾			5,598	100.0
a+f Sun Carrier France sas, Les Ulis, France ²³⁾			10	100.0
DMG Czech s.r.o., Brno, Czech Republic ¹⁶⁾	CZK K	184,870	7,377	100.0
DMG Polska Sp. z o.o., Pleszew, Poland ¹⁶⁾	PLN K	27,051	6,805	100.0
DMG (Schweiz) AG DECKEL MAHO GILDEMEISTER, Dübendorf, Switzerland ¹⁶⁾	CHF K	19,911	15,923	100.0
DMG Romania Sales & Services S.r.l., Bukarest, Rumania ¹⁶⁾	RON K	1,429	335	100.0
DMG South East Europe E.P.E., Thessaloniki, Greece ¹⁶⁾			8	100.0
DMG (U.K.) Ltd., Luton, Great Britain ¹⁶⁾	GBP K	4,652	5,404	100.0
DMG Russland o.o.o., Moskau, Russia ¹⁴⁾	RUB K	59,875	1,467	100.0
DMG Mori Seiki Istanbul Makine Ticaret ve Servis Limited Sirketi, Istanbul, Turkey ¹⁴⁾	TRY K	5,632	2,721	100.0
DMG Nippon K.K., Yokohama, Japan ¹⁴⁾	JPY K	462,818	4,260	100.0
DMG Scandinavia Sverige AB, Sollentuna, Sweden ¹⁴⁾	SEK K	20,823	2,323	100.0
DMG Hungary Kereskedelmi és Szerviz Korlátolt Felelősségű Tarasag, Budapest, Hungary ¹⁴⁾			1,007	100.0
DMG Scandinavia Norge AS, Langhus, Norway ¹⁴⁾	NOK K	6,209	796	100.0

**PRODUCTION PLANTS, SALES AND SERVICE COMPANIES,
PROCUREMENT / COMPONENTS (CONTINUATION)**

	National currency	Equity ¹⁾	€ K	Participation quota in %
DMG Canada Inc., Toronto, Canada ¹⁰⁾	CAD K	2,335	1,677	100.0
DECKEL MAHO GILDEMEISTER México S.A. de C.V., Queretaro, Mexico ¹⁰⁾	MXN K	1,432	87	100.0
DMG Technology Trading (Shanghai) Co. Ltd., Shanghai, China ¹⁰⁾	CNY K	57,081	6,470	100.0
DMG Mori Seiki INDIA MACHINES AND SERVICES Pvt. Ltd., Bangalore, India ¹⁰⁾	INR K	384,749	6,424	51.0
DMG Mori Seiki (Taiwan) Co. Ltd., Taichung, Taiwan ¹⁰⁾	TWD K	72,277	1,851	100.0
DMG Mori Seiki Korea Co. Ltd., Seoul, Korea ¹⁰⁾	KRW K	5,730,584	3,823	100.0
DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER, Bielefeld ^{4/5/10/11)}			1,508	100.0
DMG Service Fräsen GmbH, Pfronten ^{4/5/10/11)}			2,730	100.0
DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER, Geretsried ^{4/5/10/11)}			17,517	100.0
DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER, Bielefeld ^{4/5/10/11)}			271	100.0
DMG MICROSET GmbH, Bielefeld ^{4/5/10/11)}			1,405	100.0
a+f GmbH, Würzburg ^{4/5/10/11)}			20,100	100.0
Cellstrom GmbH, Vienna, Austria ¹⁸⁾			3,534	50.001
BIL Leasing GmbH & Co 736 KG, Munich ¹⁹⁾			0	
BIL Leasing GmbH & Co 748 KG, Munich ²⁰⁾			0	
Jointly-controlled entities (joint venture)				
DMG / Mori Seiki Australia Pty. Ltd., Clayton Victoria, Australia	AUD K	1,429	1,088	50.0
SUN CARRIER OMEGA Pvt. Ltd., Bhopal, India	INR K	60,000	997	50.0
Associates				
MG Finance GmbH, Wernau			15,742	33.0

- 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) Management and profit and loss transfer agreement with GILDEMEISTER Aktiengesellschaft
- 3) Participating interest of GILDEMEISTER Partecipazioni S.r.l.
- 4) The domestic subsidiary has complied with the conditions required by Section 264 paragraph 3 HGB (German Commercial Code) 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 paragraph 3 HGB (German Commercial Code) regarding the application of the exemption regulations and therefore waives the preparation of a management report.
- 6) Participating interest of GILDEMEISTER Beteiligungen AG
- 7) Management and profit and loss transfer agreement with GILDEMEISTER Beteiligungen AG
- 8) Participating interest of DECKEL MAHO Pfronten GmbH
- 9) Management and profit and loss transfer agreement with DECKEL MAHO Pfronten GmbH
- 10) Participating interest of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
- 11) Management and profit and loss transfer agreement with DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
- 12) Participating interest of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
- 13) Management and profit and loss transfer agreement with DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
- 14) Participating interest of DMG Europe Holding GmbH
- 15) Participating interest of DMG Mori Seiki South East Asia Pte. Ltd.
- 16) Participating interest of DMG Benelux B.V.
- 17) Participating interest of DMG America Inc.
- 18) Participating interest of a+f GmbH
- 19) Special Purpose Entity of DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bad Homburg, excluding capital share
- 20) Special Purpose Entity of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg, excluding capital share
- 21) Participating interest of a+f Italia S.r.l.
- 22) Participating interest of DECKEL MAHO GILDEMEISTER Ibérica S.L.
- 23) Participating interest of DMG France S.a.r.l.

Corporate Directory

Supervisory Board

- Supervisory Board mandate pursuant to Section 100 AktG (German Companies Act)

- * Member of comparable domestic and foreign control bodies of business enterprises

Hans Henning Offen,

Großhansdorf, born 1940, Chairman, Independent Industry Consultant,

- Lindner Hotels AG, Dusseldorf, Member of the Supervisory Board
- * Lindner Unternehmensgruppe GmbH & Co. KG, Düsseldorf, Chairman of the Advisory Board
- * Schwarz Beteiligungs GmbH, Neckarsulm, Member of the Advisory Board
- * Schwarz Unternehmenstreuhand KG, Neckarsulm, Member / Associate Member of the Supervisory Board

Gerhard Dirr,

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

Wulf Bantelmann,

Bielefeld, born 1947, Chairman of the Works Council at GILDEMEISTER Drehmaschinen GmbH, Bielefeld until 31 May 2010

Günther Berger,

Munich, born 1948, Independent Industry Consultant, until 17 March 2010

- Rathgeber AG, Munich, member of the Supervisory Board

Harry Domnik,

Bielefeld, born 1953, 1st secretary of the IG Metall Headquarter, Bielefeld,

- * ThyssenKrupp Umformtechnik GmbH, Ludwigsfelde, Deputy Chairman of the Supervisory Board, until 26 Nov 2010

Prof. Dr. Edgar Ernst,

Bonn, born 1952, Management Consultant since 11 May 2010

- Deutsche Postbank AG, Bonn, Member of the Supervisory Board
- Österreichische Postbank AG, Vienna, Member of the Supervisory Board
- TUI AG, Hannover, Member of the Supervisory Board, as of 09 Feb. 2011

Oliver Grabe,

Bielefeld, born 1964, Member of the Works Council of GILDEMEISTER Drehmaschinen GmbH, Bielefeld, as of 01 June 2010

Dr.-Ing. Jürgen Harnisch,

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

- * Kongsberg Automotive Holding ASA, Kongsberg, Norway, Member of the Supervisory Board
- * MacLean-Fogg Company, Mundelein, Illinois, USA, Member of the Supervisory Board
- * Presswerk Krefeld GmbH & Co. KG, Krefeld, Member of the Supervisory Board
- Schenck Process Holding GmbH, Darmstadt, Member of the Supervisory Board

Ulrich Hocker,

Düsseldorf, born 1950, General Manager of Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW), since 11 May 2010,

- Deutsche Telekom AG, Bonn, member of the Supervisory Board
- E.ON AG, Düsseldorf, member of the Supervisory Board
- FERI Finance AG, Bad Homburg, deputy chairman of the Supervisory Board
- * Phoenix Mecano AG, Kloten, Switzerland, President of the Administrative Board
- * GARTMORE SICAV, Luxembourg, Member of the Board

Prof. Dr.-Ing. Walter Kunerth,

Zeitlarn, born 1940, Independent Industry Consultant,

- Götz AG, Regensburg, Chairman of the Supervisory Board, until 21 Dec. 2010
- paragon AG, Delbrück, Chairman of the Supervisory Board, until 30 Sep. 2010
- * Autoliv Inc., Stockholm, Sweden, member of the Board of Directors

Prof. Dr.-Ing. Uwe Loos,

Stuttgart, born 1946, Independent Industry Consultant, until 31 March 2010

- Dorma Holding GmbH + Co. KGaA, Ennepetal, member of the Supervisory Board
- Adam Opel GmbH, Rüsselsheim, Member of the Supervisory Board until 31 January 2010
- KUKA AG, Augsburg, member of the Supervisory Board
- * Claas KTA mbH, Harsewinkel, Member of the Shareholder Committee until 31 January 2010
- * Bharat Forge LTD, Pune, India, Non Executive Independent Director
- * CDP Bharat Forge GmbH, Ennepetal, member of the Advisory Board
- * HP Pelzer GmbH, Witten, Member of the Supervisory Board
- * Rodenstock GmbH, Munich, member of the Supervisory Board, member of the Advisory Board

Executive Board

Dr.-Ing. Masahiko Mori,
Nagoya, geboren 1961,
Präsident der Mori Seiki Co. Ltd.

Matthias Pfuhl,
Schmerbach, born 1960,
Chairman of the Works Council at
DECKEL MAHO Seebach GmbH

Günther-Johann Schachner,
Peiting, born 1952,
1st secretary of the IG Metall Headquarters,
Weilheim

Norbert Zweng,
Eisenberg, born 1957,
Head of Logistics at DECKEL MAHO
Pfronten GmbH,
Senior Executives' representative

Dipl.-Kfm. Dr. Rüdiger Kapitza,
Bielefeld,
Chairman

Dipl.-Ing. Günter Bachmann,
Wutha-Farnroda

Dipl.-Kffr. Kathrin Dahnke,
Bielefeld,
from 20 May 2010

Dipl.-Kfm. Dr. Thorsten Schmidt,
Bielefeld

Dipl.-Kfm. Michael Welt,
Pfronten,
until 19 May 2010

Responsibility Statement

“To the best of our knowledge, and in accordance with the applicable accounting and reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.”

Bielefeld, March 15, 2011
GILDEMEISTER Aktiengesellschaft
The Executive Board



Dipl.-Kfm. Dr. Rüdiger Kapitza



Dipl.-Ing. Günter Bachmann



Dipl.-Kfm. Dr. Thorsten Schmidt



Dipl.-Kffr. Kathrin Dahnke

Auditor's Report

We have audited the consolidated financial statements prepared by the GILDEMEISTER Aktiengesellschaft, Bielefeld, comprising the income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and the notes, together with the group management report for the business year from January 1, to December 31, 2010. The audit does not comprise the audit of the contents of the declaration of compliance according to § 161 AktG (German Limited Companies Act) included in the business report. The preparation of the consolidated financial statements and the group management report in accordance with IFRSS, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB [Handelsgesetzbuch "German Commercial Code"] 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 § 317 HGB [Handelsgesetzbuch "German Commercial Code"] and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such 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 audit procedures. 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 IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (and supplementary provisions of the shareholder agreement / articles of incorporation) and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. 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, March 15, 2011

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Tonne
Wirtschaftsprüfer

Dübeler
Wirtschaftsprüfer

GILDEMEISTER GROUP		IFRS							Changes against previous year in %
		2004	2005	2006	2007	2008	2009	2010	
Sales revenues	€ K	1,051,500	1,125,897	1,328,971	1,562,037	1,903,964	1,181,222	1,376,825	17
Domestic	€ K	502,892	501,946	612,758	730,372	829,874	496,475	499,124	1
International	€ K	548,608	623,953	716,213	831,665	1,074,090	684,747	877,701	28
% International	%	52	55	54	53	56	58	64	10
Total work done	€ K	1,053,143	1,146,233	1,330,116	1,599,601	1,954,856	1,143,645	1,373,542	20
Cost of materials	€ K	553,715	608,541	698,153	833,948	1,066,296	559,783	768,148	37
Personnel costs	€ K	282,524	295,926	320,201	366,411	405,497	346,025	333,150	-4
Depreciation	€ K	29,339	31,369	32,600	32,311	30,663	29,119	29,456	1
Financial result	€ K	-29,833	-33,467	-35,053	-42,458	-31,444	-24,733	-38,045	54
Earnings before taxes	€ K	12,021	25,365	47,418	83,449	126,745	7,109	6,532	-8
Annual profit / loss	€ K	5,577	13,530	27,100	50,137	81,119	4,706	4,300	-9
Adjusted results									
EBITDA	€ K	71,193	90,201	115,071	158,218	188,852	60,961	74,436	22
EBIT	€ K	41,854	58,832	82,471	125,907	158,189	31,842	44,980	41
EBT	€ K	12,021	25,365	47,418	83,449	126,745	7,109	6,532	-8
Profit share of shareholders									
in GILDEMEISTER AG	€ K	5,534	13,719	27,243	50,087	81,052	4,658	4,205	-10
Fixed assets	€ K	262,500	262,353	265,420	285,262	301,330	326,024	365,339	12
Intangible assets	€ K	98,912	100,928	97,387	100,057	99,368	100,149	112,757	
Tangible assets	€ K	163,348	161,191	167,850	184,848	201,606	197,354	201,807	
Financial assets	€ K	239	234	183	357	356	28,521	50,775	
Current assets incl. deferred tax and deferred income									
tax and deferred income	€ K	708,148	699,063	689,437	864,863	1,089,028	826,630	992,188	20
Inventories	€ K	276,565	288,777	292,964	361,044	425,858	391,235	410,289	
Receivables incl. deferred tax									
assets + prepaid expenses	€ K	371,285	388,366	354,292	408,267	405,248	350,955	470,130	
Cash and cash equivalents	€ K	60,297	21,920	42,181	95,552	257,922	84,440	111,769	
Equity¹⁾	€ K	250,540	265,782	288,574	329,513	379,690	380,815	412,893	8
Subscribed capital	€ K	112,587	112,587	112,587	112,587	112,587	118,513	118,513	
Capital provisions	€ K	68,319	68,319	68,319	68,319	68,319	80,113	80,113	
Revenue provisions	€ K	68,597	85,014	108,070	148,958	199,067	182,427	207,704	
Net retained profits / loss	€ K	0	0	0	0	0	0	0	
Minority interests'									
share of equity	€ K	1,037	-138	-402	-351	-283	-238	6,563	2,858
Outside capital	€ K	720,108	695,634	666,283	820,612	1,010,668	771,839	944,634	22
Provisions	€ K	123,456	125,407	166,206	214,041	252,676	188,051	179,289	
Liabilities incl. deferred tax									
liabilities + deferred income	€ K	596,652	570,227	500,077	606,571	757,992	583,788	765,345	
Balance Sheet total	€ K	970,647	961,416	954,857	1,150,125	1,390,358	1,152,654	1,357,527	18
Employees (annual average)		4,932	5,090	5,202	5,588	6,051	5,763	5,187	-10
Employees (31 Dec.)		4,984	5,083	5,367	5,772	6,191	5,197	5,232	1
Trainees		190	189	191	226	260	253	213	-16
Total employees		5,174	5,272	5,558	5,998	6,451	5,450	5,445	-16

GILDEMEISTER GROUP		IFRS							Changes against previous year in %
		2004	2005	2006	2007	2008	2009	2010	
Efficiency ratios									
Profit on sales (EBIT)	%	4.0	5.2	6.2	8.1	8.3	2.7	3.3	21
= EBIT / Sales revenues									
Profit on sales (EBT)	%	1.1	2.3	3.6	5.3	6.7	0.6	0.5	21
= EBT / Sales revenues									
Profit on sales (annual result)	%	0.5	1.2	2.0	3.2	4.3	0.4	0.3	-22
= annual result / sales revenues									
Equity return ¹⁾	%	3.0	5.4	10.2	17.4	24.6	1.2	1.1	-9
= annual result / equity (as of 01 Jan.) ³⁾									
Return on total assets	%	4.8	6.3	8.7	12.2	12.7	2.8	3.7	34
= EBT + interest on borrowed capital / average total assets									
ROI – Return on Investment	%	1.3	2.6	4.9	7.9	10.0	0.6	0.5	-7
= EBT / average total capital									
Sales per employee	€ K	213.2	221.2	255.5	279.5	314.7	205.0	265.4	30
= sales revenue / average number of employees (exc. trainees)									
EBIT per employee	€ K	8.5	11.6	15.9	22.5	26.1	5.5	8.7	57
= EBIT / average number of employees (exc. trainees)									
ROCE – Return on capital employed ¹⁾	%	6.1	8.4	12.3	17.8	21.0	3.9	5.6	44
= EBIT / Capital Employed									
Value added	€ million	324.5	354.9	403.1	492.9	564.3	378.8	378.9	0
Value added per employee	€ K	65.8	69.7	77.5	88.2	93.3	65.7	73.0	11
Balance Sheet ratios									
Capitalisation ratio of fixed assets	%	27.0	27.3	27.8	24.8	21.7	28.3	26.9	-5
= fixed assets / total assets									
Working intensity of current assets	%	69.9	69.3	68.5	72.4	75.8	68.2	69.5	2
= current assets / total assets									
Equity ratio	%	25.8	27.6	30.2	28.7	27.3	33.0	30.4	-8
= equity / total capital									
Borrowed capital ratio	%	74.2	72.4	69.8	71.3	72.7	67.0	69.6	4
= borrowed capital / total assets									
Assets and liabilities structure	%	38.7	39.4	40.6	34.3	28.6	41.5	38.7	-7
= fixed assets / current assets									
Capital structure	%	34.8	38.2	43.3	40.2	37.6	49.3	43.7	-11
= equity / outside capital									

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to be continued

GILDEMEISTER GROUP		IFRS							Changes against previous year in %
		2004	2005	2006	2007	2008	2009	2010	
Ratios pertaining to financial position									
1 st class liquidity	%	19.0	6.3	12.5	15.3	40.8	19.3	19.6	1
= liquid funds (from balance sheet) / short-term liabilities (up to 1 year)									
2 nd class liquidity	%	117.1	107.5	106.6	75.5	99.4	90.3	93.4	3
= (liquid funds + short-term receivables) / short-term liabilities (up to 1 year)									
3 rd class liquidity	%	195.6	180.5	177.1	115.4	151.5	179.9	148.3	-13
= (liquid funds + short-term receivables + inventories) / short-term liabilities (up to 1 year)									
Net financial liabilities	€ million	314.0	305.1	216.7	165.0	120.4	244.9	208.4	-15
= bank liabilities + bond / borrower's note – liquid funds									
Gearing ¹⁾	%	125.9	114.7	75.0	50.0	31.7	64.3	50.5	-22
= net financial liabilities – equity before shares held by other shareholders									
Working Capital	€ million	340.5	305.0	284.8	127.4	385.9	339.0	295.7	-13
= current assets – short-term borrowed capital									
Net Working Capital	€ million	390.2	399.5	360.5	398.2	416.4	445.7	354.4	-20
= inventories + payments on account – customer prepayments + trade debtors – trade creditors									
Capital Employed	€ million	688.0	696.3	671.5	708.6	752.7	813.7	800.6	-2
= equity + provisions + net financial liabilities									
Structural analysis ratios									
Turnover rate of raw materials and consumables		5.0	5.5	5.9	5.3	6.0	3.0	3.9	32
= cost for raw materials and consumables / inventories of raw materials and consumables									
Turnover rate of inventories		3.8	3.9	4.5	4.3	4.5	3.0	3.4	11
= sales revenues / inventories									
Turnover rate of receivables		4.2	4.2	5.3	6.2	7.1	4.9	5.4	11
= sales revenues (incl. 16% or 19% VAT on domestic revenues) / average trade debtors									
Total capital-sales ratio		1.1	1.2	1.4	1.4	1.4	1.0	1.0	0
= sales revenues / total capital (incl. deferred tax and deferred income)									
DSO (Days sales outstanding)		87.3	86.2	68.4	58.6	51.2	75.2	67.7	-10
= average trade debtors / (sales revenues (incl. 16% or 19% VAT on domestic revenues)) x 365									

GILDEMEISTER GROUP		IFRS							Changes against previous year in %
		2004	2005	2006	2007	2008	2009	2010	
Productivity ratios									
Intensity of materials	%	52.6	53.1	52.5	52.1	54.5	48.9	55.9	14
= cost of materials / gross performance									
Intensity of staff	%	26.8	25.8	24.1	22.9	20.7	30.3	24.3	-20
= staff costs / gross performance									
Cash flow & Investments									
Cash flow from									
current operations	€ million	12.8	27.2	108.1	128.2	108.6	-75.2	74,6	199
Cash flow from									
investment activity	€ million	-20.1	-24.4	-35.1	-46.7	-49.4	-56.5	-40,3	29
Cash flow from									
financing activity	€ million	57.0	-41.7	-52.5	-27.7	104.0	-42.3	-8,3	80
Free Cashflow	€ million	-6.4	3.2	74.8	84.8	60.1	-100.5	45,3	145
= cash flow from current operations									
+ cash flow from investment activity									
(exc. cash flow from financial investments)									
Investments	€ million	21.8	26.8	37.2	53.1	50.2	57.8	50.0	-13
Share & valuation									
Market capitalisation	€ million	225.2	253.8	414.0	801.1	339.9	516.4	761.2	47
Company value	€ million	609.8	636.0	698.3	1,071.4	552.6	846.3	1,066.0	26
= Market capitalisation									
+ bank liabilities									
+ bond liabilities / borrowers' note									
+ bills of exchange + other liabilities									
+ pension provisions - liquid funds									
Earnings per share ²⁾	€	0.15	0.32	0.63	1.16	1.87	0.10	0.09	-10
= result after minority interests /									
number of shares									
Price-to-earnings ratio (P / E)		18.7	10.0	8.7	9.6	2.7	72.6	116.5	60
= market capitalisation / EBT									
Company value-EBITDA-ratio		8.6	7.1	6.1	6.8	2.9	13.9	14.3	3
= company value / EBITDA									
Company value-EBIT-ratio		14.6	10.8	8.5	8.5	3.5	26.6	23.7	-11
= company value / EBIT									
Company value sales ratio		0.6	0.6	0.5	0.7	0.3	0.7	0.8	8
= company value / sales									

1) Under HGB incl. minority interests; under IFRS excl. minority interests, from 2004 incl. minority interests.

2) Under HGB in acc. with DVFA / SG; the share capital was split 1:10 in 1999; the figures for the previous years were adjusted accordingly.

3) Without consideration of the capital increased accomplished at 16 June 2004

Commercial Glossary**ABS transaction**

The asset backed securities (ABS) convert previously non-liquid assets into negotiable securities. Specific financial assets of the company are bought, usually by a special-entity company, and placed in a 'pool of receivables'. The special-entity company refinances the sales price via the capital market by issuing securities.

Acquisition (engl.)

The acquisition of companies or operations either through the transfer of shares or the transfer of all or certain assets and liabilities of a company or through a combination of both. The legal independence of the partners may be preserved.

at equity

Accounting method for interests in associates, by which it is not the asset value and debts of the subsidiary that are presented in the consolidated financial statements but only the share of equity of the subsidiary.

Aval

An "Aval" or credit by way of bank guarantee refers to the securing of payment default risks by a bank, which assumes the payment obligations.

Cash flow

Changes in liquid funds in a reporting period.

Cash Flow Statement

Wive of liquidity development/payment flows taking into account the sources and application of funds effects.

Corporate Governance

The responsible management and control of companies geared towards the creation of long-term value.

Covenants

Additional or supplementary stipulations in credit agreements. The borrower agrees to observe specific indices. If these are breached the agreement may be terminated.

Deferred taxes

Inter-period differences between calculated taxes on profit or loss from a commercial and tax balance sheet, with the object of showing tax expenditure in accordance with the correct commercial result.

Derivative financial instruments

Contractual obligations whose value depends on the exchange rates or prices of a base object. These may be options, swaps or forward contracts.

D&O insurance

The Directors' and Officers' insurance insures the risk arising from liability of executive board members, supervisory board members and managers.

EBITDA

Earnings before interest, taxes, depreciation and amortisation.

EBIT

Earnings before interest and taxes.

EBT

Earnings before taxes

Free Cash flow

Free funds that are available to the company, arising from the cash flow balance from current operations and investment activity. Investments in the financial assets are not taken into account in this respect.

Free Float

Part of the share capital in portfolio investments.

Goodwill

Percentage of the purchase price of a company which exceeds the value of the assets calculated as fractional values.

Hedging Transactions

Safeguarding or hedging interest or currency risks of one or more underlying transactions; derivative financial instruments may be used.

IFRS / IAS

International Financial Reporting Standards. Internationally applicable accounting standards to ensure international comparability of group accounts and to meet the information requirements of investors and other readers of annual accounts by providing a high degree of transparency. The individual sections of the IFRS are called IAS (International Accounting Standards).

Interest Rate Derivatives

Derivatives are contractual agreements that contain rights to currency payments and equivalents and that are based on an underlying asset. For financial derivatives the price of the derivative is determined to a great extent by the price of the underlying asset. These include, for example, options, swaps and futures. Interest derivatives include interest rate swaps, floors, collars or caps.

Local Content

Percentage of goods purchased in the country of the production plant (in contrast to imported components) in the value of a product

LTI

Long-term, variable remuneration component for members of the Execution Board and Supervisory Board. It is performance-related and based on different parameters for the Execution Board and the Supervisory Board (Long Term Incentive).

Market capitalisation

This is the current price of a listed company. It is determined by the share's market value multiplied by the total number of shares.

Merger

The joining together of two or more entities, which, until that time, had been legally and economically independent entities, into a single entity, whereby at least one of the entities loses its legal independence.

Rating

A periodic standardised assessment of risk and credit standing of issuers and the securities issued by them. Ratings are performed by specialised, generally approved agencies.

Relative Economic Value Added

Difference between ROCE and cost of capital.

ROCE

Return on capital employed: EBIT to equity, provisions and net indebtedness.

SD-KPIS

Sustainable Development Key Performance Indicators).

STI

Short-term, variable remuneration component for members of the Execution Board and Supervisory Board. It is performance-related and based on different parameters for the Execution Board and the Supervisory Board (Short Term Incentive).

Syndicated loan

A loan granted by several banks (syndicate), where the total risk (e.g. from credit standing, capital tie-up) is distributed among the banks and the credit limit applicable to each bank is not exceeded.

Value added statement

The value added statement presents the difference between the company's output and the consumption of products and services in terms of value. The contribution statement shows the contribution of those participating in the value-added processes – employees, companies, lenders, shareholders / minority interests and government.

wacc / Cost of capital

The wacc (weighted average cost of capital) is calculated as a weighted average of the cost of equity and of borrowing. The cost of equity is initially calculated after taxes. In doing so, for 2009 we used a risk-free interest rate of 3.9%, a market risk premium of 5.0% and a beta-factor of 1.0. The cost of borrowing rate amounted to 4.1% after taxes. The tax rate in the pre-tax view used was applied at a lump sum rate of 28.8%. The equity / borrowing ratio (at the carrying amount) lies at 33:67.

Waiver

A waiver is when the banks refrain from exercising their right to termination upon a breach of covenants. A waiver is usually issued mainly for insignificant breaches of covenants without further action.

Technical Glossary

Advanced Materials (engl.)

Materials with special characteristics, such as abrasion resistance, resistance to heat or chemicals etc., which makes them suitable for the use in a wide variety of applications.

Advanced materials include technical ceramics (zirconium oxide, silicon carbide, aluminium oxide), glass (quartz glass, Zerodur, Macor), composites (carbon or mineral fibre), metal carbide, hardened steel (hardness > 53 / 54 HRC) or precious stones such as ruby or sapphire. However, the economic machining of these materials usually requires the use of special technologies, e.g. ultrasonic or laser technology.

App

An "App" (English abbreviation for application) is a user program for smart phones.

Cavity

A cavity is a small hollow mould.

coSupply®

coSupply® represents the comprehensive partnership approach for powerful supply partnerships at GILDE-MEISTER, characterised by the three functions: "communication", "cooperation" and "competence" and a striving for enhanced competitiveness.

CTV

The CTV product line includes universally arranged lathes with a vertically placed head spindle and highly dynamic linear drive technology, providing integrated handling of components and the option of automated integrated machining in serial production.

CTX

The CTX product line provides a differentiated programme of CNC universal lathes with a variety of innovative options for numerous machining tasks.

DMC H

The DMC H product line provides horizontal machining centres with high dynamics and precision for a wide range of uses, from fast serial production to heavy cutting with highest precision.

DMC U

The DMC UD product line provides universal CNC machining centres equipped with a pallet switching system for 5-sided / 5-axis machining in fully auto-mated serial production of complex parts.

DMC V

The DMC V product line has vertical machining centres with high dynamics and precision for high demands in both the tools manufacture and mould making industries and for small-lot and medium-sized serial production.

DMF

The DMF product range offers travelling column milling machines with high power and precision for demanding production. The thermo symmetrical travelling column construction allows precise machining with large travels.

DMU

The DMU product range with its well developed programme of CNC universal milling machines for 5-sided machining offers a good starting point for modern milling.

DMU eVolution / DMU P

This product line includes CNC universal milling machines for integrated 5-sided / 5-axis machining in one setting. The machines combine precision with high productivity and offer a wide range of installation sizes and innovative options including combined milling and turning machining.

duoBLOCK®

The patented duoBLOCK® construction combined the advantages of a travelling column construction with those of a gantry construction and through its construction that is stable against thermal deformation, guarantees maximum precision, stiffness and dynamics.

ECOLINE series

ECOLINE machines offer reasonably priced net technologically first-rate entry to CNC turning or milling. The universal lathing and milling machines are characterised by their low acquisition cost, their cost-effectiveness and their flexibility and are primarily intended for the Asian, American and eastern European markets.

ERP-System BaaN

Standard application software for Enterprise Resource Planning (for example SAP / R3, BaaN). It is intended to be used in, and adapted to, a variety of organisational conditions and business processes in various industries and companies. It continuously supports processes, for example in materials and merchandise management or finances.

GMC / GM

The GMC / GM product line includes CNC multi-spindle turning centres and multi-spindle automatic lathes. GMC machines offer the latest control technology with 3D programming and integrated spindle motors, and can be fitted as required with linear drives in the X-axis for the highest dynamics and accuracy.

HSC

The HSC (high speed cutting) product line includes machining centres for 5-axis precision machining. HSC technology is primarily used where high demands are made of cutting performance and surface quality.

Lasertec

Machines in the Lasertec series permit the fast and economic machining of filigree workpieces and the finest cavities even in workpieces that are difficult to chip. The modular design of this line allows for a wide variety of applications for 3D laser erosion, laser fine cutting and laser drilling and for a combined production with high-speed milling machining.

Laser technology

Laser technology or laser beam machining is an eroding process for machining metallic materials and materials that are not easily machinable, such as high-tech ceramics, silicon or metal carbide. It uses a spot-beam with a high energy level. With this process it is possible to create filigree contours and the finest cavities, and to perform laser fine cutting or drilling tasks in the 2D and 3D areas.

Milling

Milling refers to a metal-cutting process in which the cutting tool rotates and not the workpiece. Through rapid machine tool feed movements and of the workpiece itself as necessary in several axes, any number of machine tool surfaces can be produced.

MONOBLOCK®

Especially compact and thus space-saving base body of a machine tool, which additionally has great stiffness and permits a high degree of precision.

MSL

In the area of single spindle automatic lathes with six or seven axes, the MSL series offers high productivity in bar machining at lower investment costs.

NEF

The NEF product line offers an operator-friendly entry-level CNC universal lathe to be used in using modern turning technology at an affordable price. Thanks to their universal design, the machines are suitable for piece part manufacture and small-lot production.

PULL

PULL stands for Produktions- und Logistik-Leistung (performance of production and logistics) and has represented GILDEMEISTER production system since June 1998. In line with examples from the motor industry (Toyota production system, TPS) it combines different components and individual measures with the aim of increasing efficiency in production and in the production-related areas, such as materials planning, receipt of goods and stock of goods, in one continual improvement process.

PULLplus

The GILDEMEISTER value-added system PULLplus is the improvement of the production system PULL. It combines the idea of waste minimisation with a value-added based approach to all areas of the company. The adaptation to best-practice methods is carried out in a continuous improvement process.

SPRINT

This product line provides single-spindle machines for CNC automatic turning for the flexible economic and integrated machining of short lathe work of up to 65 mm in diameter.

Turning

Turning is a metal-cutting machining process, which is used to produce mostly rotationally symmetrical machine tools. When doing so, the piece to be machined is held by a fast-rotating work-holding fixture, whilst a cutting tool moves parallel to and across the axis of rotation.

TWIN

The TWIN product line provides two-spindle turning centres with independent turning spindles for demanding integrated machining of chuck, shaft and rod parts.

Ultrasonic

The Ultrasonic product line offers machines for ultrasound-supported, economic machining of 'advanced materials'. The ultrasonic assisted main spindles interfere with the traditional machining process (for example milling) through a high-frequency oscillating motion. Compared with traditional machining processes, this machine design results in a productivity that is up to five times higher, longer tool life and, at the same time, better surface quality and, with regard to the processed workpiece geometries, substantially higher flexibility.

Workflow

Work flows are organisation-wide processes based on a division of labour, where the required tasks are coordinated by either people or software systems.

17 March 2011	Press Conference on the balance sheet, Bielefeld
17 March 2011	Publication of Annual Report 2010
25 March 2011	Society of Investment Professionals in Germany (DVFA) Analysts' Conference, Frankfurt
05 May 2011	First Quarterly Report 2011 (1 January to 31 March)
13 May 2011	Annual General Meeting of Shareholders at 10 a.m. in the Town Hall Bielefeld
02 August 2011	Second Quarterly Report 2011 (1 April to 30 June)
27 October 2011	Third Quarterly Report 2011 (1 July to 30 September)
18 May 2012	Annual General Meeting of Shareholders at 10 a.m. in the Town Hall Bielefeld

Subject to alteration

Statements relating to the future

This report contains statements relating to the future, which are based on current evaluations of the management regarding future developments. Such statements are subject to risks and uncertainties relating to factors that are beyond GILDEMEISTER's ability to control or estimate precisely, such as the future market environment and economic conditions. Such uncertainties may arise for GILDEMEISTER in particular as a result of the following factors:

Changes in general economic and business conditions (including margin developments in the major business areas as well as the consequences of recession); the risk that customers may delay or cancel orders or become insolvent or that prices will be further depressed due to a constantly unfavourable market environment than we currently expect; developments in the financial markets including fluctuations in interest rates and exchange rates, in the price of raw materials, in borrowing and equity margins as well as the general financial situation; increasing volatility and further decline in the capital markets; a worsening of conditions for borrowing and, in particular, increasing uncertainty arising out of the mortgage, financial and liquidity crisis, as well as the future economic success of the core business areas in which we operate; challenges arising of the integration of major acquisitions and the implementation of joint ventures and the realisation of anticipated synergy effects and other significant portfolio measures; the introduction of competitive products or technologies by other companies; a lack of acceptance of new products and services in customer target groups of the GILDEMEISTER group; changes in corporate strategy; the outcome of public investigations and associated legal disputes as well as other official measures.

Should one of these uncertainty factors or other unforeseeable event occur, or should the assumptions on which these statements are based prove incorrect, the actual results may differ materially from the results expressed in, or implied by, these statements. GILDEMEISTER disclaims any intention or special obligation to update any forward-looking statements to reflect any change in events or developments occurring after the reporting period. Forward-looking statements must not be understood as a guarantee or assurance of future developments or events contained therein.

This report is available in German and English; both versions are available on the Internet for download at www.gildemeister.com. Further copies and additional information on GILDEMEISTER are available free of charge upon request.

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