



ANNUAL REPORT AND FINANCIAL STATEMENTS 2009

GILDEMEISTER AKTIENGESELLSCHAFT

Mastering challenges.  
Securing the future!



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### **Preliminary Notes**

GILDEMEISTER Aktiengesellschaft has no operative business but functions as the management holding company for the GILDEMEISTER group. The sales revenues shown for the parent company result almost exclusively from income from the exercise of the holding and service functions for the group as well as from rental income. The income situation of GILDEMEISTER Aktiengesellschaft differs from that of the group in terms of level and structure. It is essentially dominated by the control and profit and loss transfer agreements concluded with two domestic subsidiaries and the income and expenses resulting from the holding functions. The present management report refers exclusively to GILDEMEISTER Aktiengesellschaft as the parent company. The GILDEMEISTER group is represented in detail in our Annual Report 2009 and the Consolidated Financial Statements and Group Management Report contained therein, which were prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU.

## **Economic Situation and Course of Business 2009**

### **Overall Economic Development**

The **global economy** continued its downturn phase at the start of the year but then reached a turning point. The strongest stimulus came from China; in Japan the economy stagnated. The USA only rose painstakingly from its economic slump. This also applied to Europe. Even Germany only recovered slowly from its heavy losses. According to provisional calculations by the Institute for World Economics (IfW) at the University of Kiel, aggregate output fell globally by 1.0% (previous year: +3.1%).

### **Development of the machine tool building industry**

#### **International development**

The world market for machine tools developed noticeably weaker than in the previous year as a result of the international financial and economic crisis. The German Machine Tool Builders Association (VDW) calculates a decline in global production of 31% or € 16.4 billion to € 36.1 billion (previous year: € 52.5 billion). At € 7.5 billion (–30%) Germany still tops the world list, although its share of global production lay at 21% (previous year: 20%). For the first time, China became the second largest producer of machine tools worldwide. Its production volume amounted to € 7.0 billion, this represents 19% of all machine tools produced worldwide (change compared to the previous year: +20%). Japan followed with production of € 5.1 billion (–52%) or 14% of global output. Places four to ten are taken by Italy (€ 3.8 billion; –30%; 10%), South Korea (€ 1.9 billion; –36%; 5%), Taiwan (€ 1.7 billion; –47%; 5%), the USA (€ 1.7 billion; –38%; 5%), Switzerland (€ 1.5 billion; –44%; 4%), Spain (€ 0.8 billion; –28%; 2%) and Brazil (€ 0.7 billion; –25%; 2%). The ten best countries together produced 87% of all machine tools (previous year: 87%).

### German Machine Tool Industry

The German machine tool industry reached a historically low level in 2009; overall it recorded a strong decline in order intake, lower production and a fall in exports. Order intake slumped to € 6.2 billion or by 55% (previous year: € 13.7 billion). Domestic demand fell by 61% (previous year: -17%). International demand shrank by 50% (previous year: -12%). The ifo business climate index for the manufacturing industry also fluctuated negatively. The main consumer industries (engineering, road vehicle construction and electrical engineering) recorded significantly lower figures than in the previous year.

### Income, Financial and Net Worth Position

The GILDEMEISTER Aktiengesellschaft result was determined primarily by income from financial assets (€ 16.9 million), comprising transfers from profit / loss agreements with domestic subsidiaries balanced against loss assumptions (€ 16.4 million) and investment income from Mori Seiki (€ 0.5 million) (previous year: € 117.2 million). GILDEMEISTER Aktiengesellschaft closes the financial year 2009 with net income of € -1.7 million (previous year: net income of € 44.0 million). Under consideration of the profit carried forward of € 8.2 million, GILDEMEISTER Aktiengesellschaft recorded net retained profits on 31 December 2009 of € 6.5 million (previous year: € 25.5 million).

In the reporting year, sales revenues (group cost allocations and rents) amounted to € 11.4 million (previous year: € 15.0 million). Other operating income increased from € 4.6 million to € 8.1 million in the same period. This difference is essentially due to profits arising from the liquidation of provisions as well as currency and capital gains recognised in the reporting year.

Expenses incurred for purchased services mainly cover maintenance of the production halls at the Bielefeld site. At € 2.6 million, this is about € 1.8 million lower than the previous year (€ 4.4 million).

In the reporting period, employee expenses reduced by € 5.8 million to € 13.0 million (previous year: € 18.8 million). The reduction results primarily from the reduced share of the variable salary components. Depreciation of € 1.5 million (previous year: € 1.5 million) did not change in amount from the previous year.

Other operating expenses amounted to € 18.7 million and were thereby € 16.8 million below the previous year's level (€ 35.5 million). The substantial changes involve expenses for consultancy services (€ -6.3 million), foreign currency and exchange losses (€ -4.7 million), other third party services (€ -1.5 million) and other costs of financial transactions and raising capital (€ -1.2 million).

Income from investments decreased from € 117.2 million in the previous year to € 16.9 million in the reporting period. Of this, € 16.4 million resulted from profit and loss transfer agreements, as well as € 0.5 million from the distribution of profits from the Mori Seiki investment.

The net financing costs were € -0.1 million (previous year: € -5.6 million). The improvement in net financing costs results from the refinancing that was carried out in 2008. This allowed an interest advantage of approximately € 5.0 billion to be achieved in 2009. Tax expense fell in comparison with the previous year by € 23.6 million to € 2.3 million (previous year: € 25.9 million).



The increase in tangible fixed assets is primarily due to additions for land and buildings at the Bielefeld site.

The increase in financial assets results primarily from the shares in Mori Seiki purchased through the stock exchange in an amount of € 31.3 million. Within the framework of a strategic partnership, GILDEMEISTER has a 5.0% shareholding in the Japanese machine tool builder, Mori Seiki Co. Ltd. (Nagoya) during the year under report. Over several tranches a total of 4,427,400 shares were purchased.

The Executive Board availed itself in the reporting year of the authorisation to increase the share capital through the issue of 2,279,500 new bearer shares at a calculated par value of € 2.60 contributions in cash or in kind by € 5,926,700 (authorised capital). The shares were taken over in the course of a strategic partnership by the Japanese machine tool builder, Mori Seiki, at a price of € 7.93 per share. The resulting premium amounts to € 12,149,735 and was transferred to capital reserves.

Current assets reduced compared to the previous year by a total of € 112.2 million to € 363.1 million. The high balance of liquid funds in the previous year arose from drawing nearly completely on the syndicated loan in the fourth quarter 2008.

Other provisions decreased compared to the previous year by € 8.4 million to € 11.4 million. Significant provisions involved the variable salary components, legal and consultancy expenses, employee provisions and maintenance and repair provisions.

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 and borrowers' notes, as well as the sale of receivables within the scope of factoring agreements.

As the key figures had changed considerably as a consequence of the economic crisis, we held negotiations timely with our banks in order to adjust the existing financing agreements. Furthermore, we have extended our credit margins in order to be able to make use of opportunities in project business and to ensure the financing of the group for the period of the economic crisis. As a consequence, we had to accept significantly higher interest rate margins. Our borrowers' notes amount to a total of € 201.5 million and are due in May 2013. The KfW (Kreditanstalt für Wiederaufbau) is participating with a tranche of € 40.5 million in the existing syndicated loan of € 175.0 million. Moreover, we have taken up a further syndicated loan for a total value of € 211.9 million with two tranches: one tranche of € 57.0 million and a further tranche of € 154.9 million, each with a term until the end of 2012. The second tranche can first be drawn upon in June 2011 and serves to refinance the syndicated loan that expires in June 2011. The financing for GILDEMEISTER has been secured until the end of 2012 and the financing leeway extended by up to € 57.0 million to € 433.5 million. The corresponding agreements were signed at the beginning of 2010.

Our financing includes customary agreements on compliance with certain key indicators (covenants). The financing is supplemented by off balance sheet operating lease agreements. The main financing instruments and future financial obligations are detailed in the notes to the consolidated financial statement on page 28 et seq.

In addition to loans, GILDEMEISTER requires lines of guarantee to issue payment guarantees and warranties. Following the contractual amendments to the financing agreements, guarantees can be drawn on bilateral lines of guarantee. The main goal of our financing mix is to secure sufficient credit lines, which we wish to have available for the necessary liquidity for seasonal fluctuations within the industry, for the project business requirements of a+f GmbH and for further corporate growth.

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 group subsidiaries cost-effectively.

Net financial liabilities (debt) increased compared to the previous year by € 114.5 million to € 233.6 million (previous year: € 119.1 million). The high balance of liquid funds in the previous year arose from drawing nearly completely on the syndicated loan in the fourth quarter 2008.

Total assets as of 31 December 2009 fell by 9.1% to € 804.7 million (previous year: € 885.5 million). The equity ratio amounts to 45.3% (previous year: 41.3%).

### Dividend

The Executive Board and the Supervisory Board will propose to the Annual General Meeting of Shareholders, to be held on 14 May 2010, to distribute a dividend of € 0.10 per share for the financial year 2009.

### Employees

As of 31 December 2009, GILDEMEISTER Aktiengesellschaft was divided into four executive units; which are organised as follows:

- \_ Key-Accounting / Personnel / Purchasing / Auditing / Compliance / Public and Investor Relations,
- \_ Controlling / Finances / Tax / Financial statements / Information technology (IT),
- \_ Technology and Production and
- \_ Sales and Services.

On 31 December 2009, GILDEMEISTER Aktiengesellschaft had 64 employees, seven employees less than on 31 December 2008.

### Research and Development

Die GILDEMEISTER Aktiengesellschaft is responsible for the research and development strategy. The research and development activities are conducted at the level of the group companies.

## Corporate Governance Statement pursuant to Section 289a HGB (German Commercial Code)

### Corporate Governance

Corporate governance at GILDEMEISTER has long meant managing and controlling the enterprise responsibly and transparently. It is a core component of our corporate management and all corporate areas. For years GILDEMEISTER has been complying with the recommendations of the German Corporate Governance Code and, until the entering into force of the new version on 5 August 2009, complied with all the recommendations. GILDEMEISTER conforms to the Code with one exception. The Executive Board and Supervisory Board issued the following **declaration of compliance** in December 2009. Our shareholders can view it on our website at any time:

- “1. Since the last declaration of conformity of December 2008, GILDEMEISTER Aktiengesellschaft complied with the recommendations of the government commission’s German Corporate Governance Code in the version of 6 June 2008, published in the electronic German Federal Gazette on 8 August 2008, until the entering into force of the latest version on 5 August 2009.
2. GILDEMEISTER Aktiengesellschaft complied with the recommendations of the government commission’s German Corporate Governance Code in the version of 18 June 2009 since its publication in the electronic German Federal Gazette on 5 August 2009 and will continue to comply with it in the future with the following exception:  
 \_ Since November 2009 an acting member of the Supervisory Board due to judicial appointment is the president of a foreign manufacturer of machines for metalcutting. The special expertise of this Supervisory Board member is of particular value for the enterprise and, in particular, for the work of the Supervisory Board. In addition, this Supervisory Board member represents the largest single shareholder in the enterprise known to us. Appropriate measures are taken by the enterprise to counter any conflicts of interest.  
 \_ Possible interest conflicts are counteracted by the company through appropriate measures.”

The Executive Board and the Supervisory Board acknowledge excellent corporate governance as an integral component of corporate management, which, in keeping with the interests of the shareholders, concentrates on a sustainable increase in the value of the enterprise. Our internal guidelines are aligned with the rules and principles of responsible corporate management and control.

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



## **Description of the operating principles of the Executive Board and Supervisory Board and their committees.**

### **Responsible management of opportunities and risks**

The Executive Board is regularly informed of risks and their development with the aid of the opportunities and risk management system. For GILDEMEISTER, the responsible handling of risks by the company is part of good corporate governance. GILDEMEISTER identifies and monitors significant opportunities and risks regularly with the aid of the systematic opportunity and risk management system. The early-warning system for risks, which was set up by the Executive Board pursuant to Section 91 para. 2 AktG (German Stock Corporation Act), was examined by the annual auditors; it is continuously enhanced by GILDEMEISTER and adapted to changing conditions. More information on the opportunities and risk management system can be found in the chapter “Opportunities and risk report” on page 15 et seq.

### **Cooperation between the Executive Board and Supervisory Board**

To achieve the joint goal of increasing enterprise value sustainably, the Executive Board and the Supervisory Board work closely together. The Executive Board informs the Supervisory Board regularly, timely and comprehensively on current development, business strategy, corporate planning, 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. 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**

The Executive Board and Supervisory Board are bound by the enterprise’s best interests. Potential conflicts of interest of members of the Executive or Supervisory Board are disclosed to the Supervisory Board immediately and have to be approved by the latter. 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. 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**

Corporate communication from GILDEMEISTER has the aim of ensuring both the best possible transparency and timely communication to 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](http://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 our shareholders and investors, business partners and employees, as well as of the general public, in our company. Shareholders may either exercise their voting rights themselves at the Annual General Meeting, through an authorised person of their choice or through a proxy bound by their directives. For shareholders who

are not able to attend the Annual General Meeting of Shareholders personally, we offer them the possibility of following the events of the Annual General Meeting in real time via Internet.

#### **Reporting and auditing of annual accounts**

Pursuant to the regulations of the Corporate Governance Code, we have agreed with the annual auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, for the year under report that they shall inform the chairman of the Supervisory Board promptly of any grounds of exclusion or bias that may arise during the audit. It has been further agreed that the auditor shall report promptly on all findings and events arising during the audit that are of significance for the duties of the Supervisory Board. Moreover, the auditor will inform the Supervisory Board of, or include in the auditing report, any facts found during the audit process that are inconsistent with the Declaration of Compliance with the German Corporate Governance Code given by the Executive Board and Supervisory Board.

#### **Supervisory Board and Committees**

Pursuant to the Articles of Association, the Supervisory Board comprises 12 members. In accordance with the German Co-Determination act, in addition to the six owners' representatives, six employee representatives, one of whom represents the senior management, are appointed to the Supervisory Board. The term of office of the present Supervisory Board expires at the end of the annual general meeting of shareholders in 2013.

The members of the Supervisory Board are named in the details in the notes.

The Supervisory Board convened five times in the financial year. The Supervisory Board also reports on the scope of its work in the Supervisory Board report in the group management report on page 6 et seq.

In the financial year 2009, the Supervisory Board of GILDEMEISTER Aktiengesellschaft had five committees. The Finance and Audit Committee, the Personnel, Nominations and Remuneration Committee, the Nominations Committee, the Technology and Development Committee and the Conciliation Committee. The Supervisory Board also reports on the scope of the work of its committees in the Supervisory Board report in the group management report on page 6 et seq.

The group management report is published on the internet under [www.gildemeister.com](http://www.gildemeister.com)

#### **Remuneration of the Executive Board and Supervisory Board**

Pursuant to Section 285 (9a) of the HGB (German Commercial Code) and Clause 5.4.7 of the German Corporate Governance Code, we report on the remuneration of the Supervisory Board individually and broken down into components.

### Remuneration of the Supervisory Board of GILDEMEISTER Aktiengesellschaft

The remuneration of the Supervisory Board is determined by the Annual General Meeting of shareholders and is regulated under Section 12 of the Articles of Association of GILDEMEISTER Aktiengesellschaft. The remuneration includes performance-related and one non-performance related 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 incentive (LTI), which supports sustainable value-based management. Following a resolution passed at the 107<sup>th</sup> Annual General Meeting of 2009, the short-term performance-related remuneration component (STI) has been cancelled.

In the financial year 2009, 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 € 335,605 (previous year: € 168,000).

Remuneration for committee work amounted to a total of € 221,211 (previous year: € 109,877) and took into account the work carried out by the Finance and Auditing Committee, the Personnel, Nominations and Remuneration Committee, and the Technology and Development Committee. There was no remuneration for work carried out by the Conciliation and Nominations Committee, which is a sub-committee 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 € 6,000.

The performance-related remuneration component LTI is based on index-based target values. Earnings per share (EPS) are used for the performance-related key figure. The EPS is an established key performance indicator, which gives rise to a performance reference taking into account the respective share capital. It is calculated by dividing the annual profit, less the profit share of minority interests, by the weighted average number of shares. The LTI is variable, which means it is not secured remuneration. Again, the Supervisory Board chairman receives 2.5-times, and the deputy chairman 1.5-times, the remuneration of the other members of the Supervisory Board. 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 performance indicator is the mean average of the EPS values in the corresponding financial years. The LTI is only paid if the average EPS for the relevant three years amounts to at least € 0.15. The LTI calculated performance-based remuneration for the Supervisory Board totalled € 335,605 (previous year: € 168,000).

In 2009 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, Personnel, Nomination Remuneration (PNR) in €	Committee Remuneration Technology & Development (T&D) in €	LTI in €	Total in €
Hans Henning Offen						
Chairman SB, Chairman PNR	60,000	12,000	24,000	0	60,000	156,000
Prof. Dr.-Ing. Uwe Loos, Chairman F&A	24,000	0	0	24,000	24,000	72,000
Günther Berger, Chairman F&A	24,000	24,000	0	0	24,000	72,000
Dr.-Ing. Jürgen Harnisch						
Deputy Chairman T&D	24,000	0	0	18,000	24,000	66,000
Dr. jur. Klaus Kessler						
Member SB until 31 October 2009						
Member F&A until 31 October 2009	19,989	9,995	0	0	19,989	49,973
Dr.-Ing. Masahiko Mori						
Member SB as of 06 November 2009						
Mitglied F&A as of 24 November 2009	3,616	1,216	0	0	3,616	8,448
Prof. Dr.-Ing. Walter Kunerth	24,000	0	12,000	0	24,000	60,000
Norbert Zweng	24,000	12,000	0	0	24,000	60,000
Gerhard Dirr						
Deputy Chairman SB, Deputy Chairman PNR	36,000	12,000	18,000	0	36,000	102,000
Wulf Bantelmann	24,000	0	0	12,000	24,000	60,000
Matthias Pfuhl	24,000	0	0	12,000	24,000	60,000
Harry Domnik, Deputy Chairman F&A	24,000	18,000	12,000	0	24,000	78,000
Günther Johann Schachner	24,000	0	0	0	24,000	48,000
<b>Total</b>	<b>335,605</b>	<b>89,211</b>	<b>66,000</b>	<b>66,000</b>	<b>335,605</b>	<b>892,421</b>

In the financial year 2009 the total remuneration of the Supervisory Board amounted to € 892,421 (previous year: € 613,877).

Pursuant to Section 15a of the German Securities Act (wPHG), the members of the Supervisory Board, or other persons subject to reporting requirements, must disclose any acquisition or disposal of shares or related rights of purchase or disposal, such as options or rights that are directly dependent on the company's stock exchange price. We did not receive any **director's dealings notifications** in the year under report.

A company, which is monitored by a member of the Supervisory Board, holds a shareholding of 5% of total shares. The remaining members of the Supervisory Board together hold less than 1% of the total number of shares; no member of the Executive Board owns any GILDEMEISTER shares.

### Remuneration of the Executive Board of GILDEMEISTER Aktiengesellschaft

Through the changes in legislation (Vorstag), and thus the associated amendment of the rules of procedure of the Supervisory Board, as of September 2009, the full Supervisory Board is advised on and decides the remuneration of the Executive Board. Even before this amendment entered into force, the chairman of the Supervisory Board had informed the Supervisory Board in detail of consultations held with the Personnel, Nominations and Remuneration Committee; he will also report on this to the Annual General Meeting.

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 a 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 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 € 2,988 K (previous year: € 7,441 K). Of this amount, € 1,673 K were attributed to fixed remuneration (previous year: € 1,328 K), € 400 K to the STI (previous year: € 6,000 K), € 0 K to the LTI, as the EBIT margin fixed for the tranche was not reached in allocation year 2009. € 800 K was acknowledged as a performance remuneration for 2009. Payments in kind accounted for € 115 K (previous year: € 113 K). In 2009 the direct remuneration of the Executive Board breaks down as follows:

EXECUTIVE BOARD DIRECT REMUNERATION						
	Fixed	STI	LTI	Performance remuneration	Remuneration in kind	Total
	€ K	€ K	€ K	€ K	€ K	€ K
Dr. Rüdiger Kapitzka, Chairman	800	400	0	200	37	1,437
Michael Welt	345	0	0	200	23	568
Günter Bachmann	252	0	0	200	30	482
Dr. Thorsten Schmidt	276	0	0	200	25	501
<b>Total</b>	<b>1,673</b>	<b>400</b>	<b>0</b>	<b>800</b>	<b>115</b>	<b>2,988</b>

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 taxes (EAT) provided the reference value used. The scale of the target values is redefined annually. In addition, this is capped at € 1,000 K, respectively, for 2009. The cap is also fixed anew each year.

Remuneration component dependent of share price, 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. The first performance units awarded following this model for the year 2007 will thus be allocated on 31 December 2009. No payment was made from the allocation, as the fixed EBIT margins were not reached. The performance units awarded for the financial year 2008 will be allocated on 31 December 2010 and, following the Annual General Meeting of Shareholders in 2011, will be paid out taking into account the EBIT target achieved in 2010 and the respective share price. 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. The following table shows the number of performance units awarded in 2007, 2008 and 2009, and the fair value of the LTI at the time it was granted to each member of the Executive Board.

TRANCHES OF THE LONG-TERM INCENTIVE										
	2007 tranche 3-year term			2008 tranche 3-year term			2009 tranche 3-year term		2009 tranche 4-year term	
	Number of performance units awarded units	fair value when awarded € K	Amount of allocation for 2009 € K	Number of performance units awarded units	fair value when awarded € K	Number of performance units awarded units	fair value when awarded € K	Number of performance units awarded units	fair value when awarded € K	
Dr. Rüdiger Kapitza, Chairman	14,401	175	0	10,422	159	28,209	207	20,790	141	
Michael Welt	11,521	140	0	7,817	119	21,157	155	13,860	94	
Günter Bachmann	11,521	140	0	7,817	119	21,157	155	13,860	94	
Dr. Thorsten Schmidt	11,521	140	0	7,817	119	21,157	155	13,860	94	
Total	48,964	595	0	33,873	516	91,680	672	62,370	423	

On the basis of the new legal provisions Act on the Appropriateness of Management Board Remuneration, the Supervisory Board passed a resolution to prolong the term of the tranches from three to four years. In order not to stop the incentive effect of the LTI, an additional tranche was awarded in 2009 to each Executive Board member. As a result of the new four-year term, the payment of this tranche will take place in 2013, and thus will facilitate a seamless continuation from the tranches previously awarded.

Both the STI and the LTI are variable, which means neither is a secure remuneration. The performance remuneration arises from projects that were concluded particularly successfully, and which is not covered by the other remuneration components.

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	72
Michael Welt	143
Günter Bachmann	60
Dr. Thorsten Schmidt	50
<b>Total</b>	<b>325</b>

In accordance with the International Accounting Standards (IAS), provision expenses of € 72 K arose for the defined-benefit contribution commitment in 2009 (previous year: € 72 K).

The payments restricted to the defined contribution pension plan amount in total to € 253 K (previous year: € 253 K). Due to an improvement in the chairman of the Executive Board's repo rate, a one-off payment of € 187 K was made. Advances to Executive Board members or Supervisory Board members were not granted. There was no share option programme or similar securities-based incentive system.

The companies of the GILDEMEISTER group did not pay any remuneration to officers for services personally rendered, in particular consulting and introduction services. Former members of the Executive Board and their surviving dependants received € 604 K (previous year: € 597 K). The amount of the pension commitments for former members of the Executive Board and their surviving dependants amounted to € 5,863 K (previous year: € 5,963 K).

### Opportunities and Risk Reporting

Using a systematic process of opportunities and risk management, GILDEMEISTER records and assesses opportunities and risks timely in its corporate activities. This allows us to respond in an optimum manner and to initiate any measures necessary. GILDEMEISTER is exposed to various opportunities and risks in its global corporate dealings. Our opportunities and risk management assists in recognising and evaluating these in good time. The Executive Board and the Supervisory Board are informed regularly about the current risk position of the group and of the individual corporate areas. The 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, which is carried out by 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.

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 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 sales region.

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 division 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 double counting of risks, which correspondingly are then adjusted.

The accounting-related internal control system is part of the overall internal control system (IKS) of GILDEMEISTER Aktiengesellschaft and is embedded in the risk management system throughout the enterprise. It includes not only the organisation, but also the control and monitoring structures to ensure the recording, preparation and evaluation of business accounting and its ultimate inclusion in the 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 regulations exist, which also have to be harmonised with the group accounting. This also includes complying with the accounting requirements of the German Commercial Code.

The internal audit department checks the effectiveness of the accounting-related internal controls. 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. In addition, 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. Assessments of effectiveness take place on the basis of self-assessments; the effectiveness is checked on a random sample basis by the internal audit department and by the annual auditor and evaluated. The results of the effectiveness checks are reported regularly to the Executive Board and Supervisory Board.

Currency-related risks arise out of our international activities, which we hedge through our currency strategy. At the same time a currency guideline specifies the hedging instruments permitted. These are used exclusively to hedge underlying transactions but not for trading or speculative purposes. More detailed information in this respect is given in the notes on page 15 et seq. We consider the likelihood of currency-related risks to be low. The essential components of GILDEMEISTER's financing are syndicated loans and borrowers' notes. There is no risk of interest rate changes from the borrowers' notes as a fixed interest rate has been secured by means of a hedging instrument (SWAP). All financing agreements include an agreement to comply with standard covenants (key indicators). For non-compliance with the covenants, the banks have the right to cancel the financing agreements. A counterparty risk exists with respect to the banks, who are partners to the agreement, in the hedging activities in the interest rate and currency area. We have carefully selected our banking relations. The GILDEMEISTER liquidity is sufficiently assessed. A risk could arise from the timing of payments in the project business. The agreed financing scope can absorb any possible time delays that are identifiable today. The risks from the financial area are manageable. Any possible damages amount in total to about € 24.5 million. The probability of occurrence of any damages is low.

Risks with respect to the assets of GILDEMEISTER Aktiengesellschaft arise mainly through the accounting and assessment of financial assets. Financial assets are accounted for at purchase cost or with the lower of fair value. The value retention of financial assets is determined annually with the aid of the capitalised income value calculation, which is based on the budget overview of the investment companies. Due to the values determined, there was no need for devaluation at the reporting date. In the event that the planned results are not achieved, devaluation to the lower of fair value may be required. Currently, the present budget overviews do not provide any reason for impairment in 2009.

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. In view of the continuing tense economic situation, however, a new rise in risks cannot be excluded.

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

**Under Section 289 paragraph 4, no. 1 HGB**

The registered capital of GILDEMEISTER Aktiengesellschaft amounts to € 118,513,207.80. It is divided into 45,582,003 owner shares with an accounting par value of € 2.60 per share.

**Under Section 289 paragraph 4, no. 6 HGB**

With respect to the appointment and dismissal of members of the Executive Board, reference is made to the statutory provisions in Sections 84 and 85 of the German Companies Act (AktG). Moreover, this authority is specified to that effect in Section 7 para. 2 of the Articles of Association of GILDEMEISTER Aktiengesellschaft as amended in May 2009, by which the Supervisory Board appoints the members of the Executive Board, determines their number and assigns their duties. The provisions on amendments to Articles of Association are regulated in Sections 133 and 179 of the German Companies Act in conjunction with Section 15 (4) of the Articles of Association.

**Under Section 289 paragraph 4, no. 7 HGB**

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital by up to € 50,073,300.00 in nominal terms during the period until 15 May 2010 by issuing new owner shares for contributions in cash and / or in kind (authorised capital).

Moreover, the company is authorised to purchase its own shares up to a pro rata amount of just under 10% of the registered capital, this corresponds to € 11,851,321.00. This authorisation is intended to place the company in a position of having its own shares available at short notice, without having to make use of the stock market, in order to offer these shares to a seller in return for the acquisition of entities or investments in other entities.

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

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

Moreover there has been a contingent increase in the registered capital up to a further € 37,500,000 through the issue of up to 14,423,076 individual shares in the name of the holder (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 14 May 2004, in the period until 31 March 2009 are exercised or any conversion obligation or obligation to exercise an option under the aforementioned bonds are fulfilled.



### Under Section 289 paragraph 4, no. 8 HGB

The main agreements, which are subject to a change of control condition as a result of a takeover offer, are the syndicated loan agreement of € 175 million and the borrower's notes with a total volume of € 200 million of GILDEMEISTER Aktiengesellschaft. In the event of a change of control (acquisition of 25% or more of the voting rights), the repayment of the syndicated loan (if necessary, also in part payments) or the repayment of the borrower's notes may be requested.

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

In addition, the legislator has resolved that the Executive Board shall issue an explanatory report on the information given pursuant to Section 289 paragraph 4 HGB:

As at 31 December 2009, the registered capital of the company 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 voting right and is the determining factor for the share of profits.

The company is managed by the Executive Board and is represented by the Executive Board towards third parties. The appointment and revocation of appointment of members of the Executive Board is the responsibility of the Supervisory Board pursuant to Section 84 of the Companies Act (AktG).

The most recent amendment to the Articles of Association took place at the 107<sup>th</sup> Annual General Meeting of Shareholders on 15 May 2009, on this occasion Clause 5 and Clause 12 of the Articles of Association were amended.

In the reporting year the Executive Board did not exercise the existing authorisation, with the exception of the authorisation to increase the share capital through the issue of new shares with the approval of the Supervisory Board.

The conditions for a change of control comply with the 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, if necessary.

### Supplementary report

No events subject to reporting requirements have occurred in the period since the start of the new financial year until the date of this Management Report with the exception of the newly concluded financing agreements and financial covenants (cf. the notes page 26).

### Forecast report

According to economic experts, the global economy will only recover slowly in the current financial year. Forecasts of the German Engineering Federation (VDMA) are assuming a stagnation in machine production and the German Machine Tool Builders Association (VDW) is expecting a further global decline in the machine tool business. The current forecasts of the VDW and the British economic research institute, Oxford Economics, expect production output and the market volume to decrease on a value basis by 6.5%, respectively. We are therefore expecting a decline in sales revenues in the industry of 6.5%.

The financial year 2010 will be a further test for GILDEMEISTER; we are facing another difficult year. We have reacted quickly and the adjustment measures introduced create a good starting position for the future. On the basis of the market forecasts relevant for us, in financial year 2010 we will aim to achieve a moderate rise in order intake and sales revenues. Significant factors influencing profitability are the development of order intake and its price quality, as well as the volume of sales. We are working on ensuring that the operational and structural measures introduced have a positive effect. With respect to the current, difficult financial year 2010, we are not planning to distribute a dividend.

Due to the lower order backlog, sales revenues will decline once again. In “Machine Tools”, we are expecting a difficult international market environment. In “Services”, we expect a revival in the market. For the solar business we expect a positive development trend.

In financial year 2011, conditions will also remain challenging; the machine tool builders' industry is nevertheless expecting clear improvement trends. In view of our strong global presence and the cooperation with Mori Seiki, we will share in the expected sustained recovery in the global market. In the medium-term, we intend to return to our former targets. We have implemented new structures, we will drive their realisation and lever further potential. For the financial year 2011, we see a clear rise in order intake and sales revenues. We are likewise expecting a recovery in the results and a clear improvement. We will return to growth step by step. The basis of our success in the past has always been our employees. On good days and not so good days, we could always rely unreservedly on the dedicated commitment of our workforce. Developing and challenging performance is part of our corporate culture. In this way we can safeguard long-term profitable growth and the future of GILDEMEISTER.

### A. General Declaration

The Annual Financial Statements of GILDEMEISTER Aktiengesellschaft for the year ending 31 December 2009 were prepared in compliance with the regulations stipulated in the German Commercial Code (HGB) and the German Companies Act (AktG). The form of the previous year's statement, particularly the subdivision of the statement of financial position and the comprehensive income statement, has been retained. The new accounting rules in accordance with the German Accounting Law Modernisation Act (BilMoG) will be adopted as of 1 January 2010.

### B. Accounting and Valuation Principles

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

#### USEFUL LIFE OF ASSETS

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

Depreciation of additions to intangible assets and fixed assets was carried out in the year of acquisition pro rata temporis according to straight-line method depreciation. Additions with procurement costs of € 150 to € 1,000 were combined in a compound item and were depreciated over five years. The method of depreciation has not changed since the previous reporting period. The rates of depreciation / amortisation also remained unchanged with respect to intangible assets, office and factory buildings, and factory and office equipment. Financial assets are recognised on the statement of financial position at their acquisition costs or the lower fair value.

Receivables and other assets with a term of up to one year were recognised at face value, receivables and other assets with a term of more than one year were recognised in the statement of financial position at their present value. Receivables in foreign currencies were translated at the exchange rate at the reporting date. If the exchange rate at the reporting date falls below the rates prevailing at the time of origination, receivables are adjusted to the lower exchange rate at the reporting date.

The valuation of company pension provisions was carried out on an actuarial basis in accordance with Section 6a EStG (German Income Tax Law) with an assumed rate of interest of 6% p.a. For this purpose, the reference tables by Prof. Dr. Klaus Heubeck that were published in July 2005 were used as a basis. The pensions are not insured by an external pension fund. Provisions for obligations arising from old-age part-time agreements include expenses for wage and salary payments to employees during the preretirement lay-off phase and additional compensation. Furthermore, the provision comprises accumulation benefits which, on the basis of a collective pay agreement or a works agreement, the employer cannot avoid. These provisions are accrued proportionately from the start of the active phase of the part-time retirement and are measured at present value taking as a basis a discount rate of 5.5%.

Part-time retirement claims are safeguarded against possible insolvency within the framework of a double fiduciary relationship. For safeguarding, liquid funds are transferred to a fiduciary association. The remaining provisions were assessed so that they take into account all identifiable risks and contingent obligations. The valuations were made on the basis of proper commercial judgement. In each case the anticipated cost of fulfilment was taken into account. Provisions for employee anniversary bonuses were discounted at an interest rate of 5.5% p.a.

Liabilities are assessed at their amounts repayable.

### C. Notes to individual items in the statement of financial position

#### Assets

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

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

**2 FINANCIAL ASSETS** The changes in financial assets of GILDEMEISTER Aktiengesellschaft are set out in the supplement to the statement of financial position. The companies included in the “Shares in affiliated companies” account, and the corresponding information on principal places of business, equity capital, capital shares and results as of 31 December 2009 are set out in a separate summary at the end of the Notes.

The cooperation agreement concluded on 23 March 2009 with Mori Seiki contains a cross-holding agreement of 5% each. In the reporting year, GILDEMEISTER acquired a total of 4,427,000 shares in several tranches in Mori Seiki Co. Ltd. via the stock exchange at acquisition costs of JPY 793 to JPY 1,040 per share. Payments made for the acquisition of the shares amounted to € 31,260 (incl. ancillary acquisition costs). GILDEMEISTER holds as of the end of the reporting period 4.0% of Mori Seiki Co. Ltd. after the latter carried out a capital increase in December 2009. As in the previous year, no impairments of financial assets were made in the reporting year.

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

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

**3 RECEIVABLES AND OTHER ASSETS** Amounts owed by affiliated companies of € 311,402 K (previous year: € 272,264 K) are primarily due to profit and loss transfer agreements, and costs and finances allocations. Other assets include, amongst others, asset values from reinsurance for the social protection of employees of € 2,354 K (previous year: € 2,142 K) and tax refund claims of € 1,706 K (previous year: € 2,466 K).

Other assets to a value of € 2,354 K (previous year: € 2,142 K) have a residual term of more than one year.

- 4 SECURITIES The federal treasury bonds from 2008 were disposed of at a profit as of 13 March 2009.
- 5 CASH ASSETS, BANK BALANCES The statement pertains mainly to bank balances.
- 6 PREPAID EXPENSES The deferred charges relate to payments before the end of the reporting period, which represent expense for the following year.

### Equity and liabilities

#### 7 EQUITY *Subscribed capital*

The registered capital of GILDEMEISTER Aktiengesellschaft amounts to € 118,513,207.80 and is fully paid up. It is divided into 45,582,003 owner shares with an accounting par value of € 2.60 per share. The Executive Board availed itself in the reporting year of the authorisation to increase the share capital through the issue of 2,279,500 new bearer shares at a par value of € 2.60 against contributions in cash or in kind by € 5,926,700 (authorised capital). The shares were purchased in the course of a strategic partnership by the Japanese machine tool builder, Mori Seiki. The following comments are principally taken from the articles of association of GILDEMEISTER Aktiengesellschaft (status May 2009).

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital by up to € 50,073,300.00 in nominal terms during the period until 15 May 2010 by issuing new owner shares for contributions in cash and / or in kind (authorised capital). This authority can be exercised on one occasion or, in partial amounts, on more occasions.

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

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

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

- a) capital increases through non-cash capital contribution so as to acquire, in applicable cases, companies, sections of a company or participating interests in companies for the transfer of shares,
- b) to the extent required for dilution protection purposes, in order to grant the holders of warrants or the creditors of convertible bonds issued by the company or its associated companies as part of an authorisation of the Board by the general meeting of shareholders, a subscription right to new shares to the extent they would be entitled to following the exercising of the option or conversion right or the fulfilment of conversion obligations,
- c) to exclude any residual amounts from the subscription right, and



- d) capital increase through cash contribution, if the issue price of the new shares is not significantly lower than the exchange price at the time the issue price is finally defined by the Executive Board within the meaning of section 203 paragraphs 1 and 2, 1 and 2, and section 186 paragraph 3 sentence 4 of the German Companies Act (AktG), and the prorated amount of the share capital relating to the new shares that are subject to the exclusion of the subscription right, in aggregate does not exceed 10% of the share capital at the time the new shares are issued. The limit of 10% of the registered capital includes shares that are sold during the lifespan of the authorised capital to the exclusion of the shareholders' subscription rights pursuant to section 71 paragraph 1, no. 8 sentence 5 and section 186 paragraph 3 sentence 4 of the German Companies Act (AktG), and shares with respect to which a conversion right or option right or a conversion obligation or option obligation due to option and / or convertible bonds exists and that were issued by virtue of authorisation of the general meeting of shareholders from 14 May 2004 to the exclusion of the subscription right pursuant to section 221 paragraph 4 and Section 186 paragraph 3 sentence 4 of the German Companies Act (AktG). The Executive Board is authorised, with the approval of the Supervisory Board, to lay down further details for the capital increase and its implementation.

The share capital has been conditionally increased by up to a further € 37,500,000.00 through the issue of up to 14,423,076 owner shares (conditional capital I). The contingent capital increase is for granting new 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 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 above named authorising 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 rights, 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 conversions rights, or the fulfilment of conversion or option obligations.

#### *Capital provisions*

Through the capital increase, the capital reserves increased compared to the previous year by € 12,149,735 to € 83,447,597. The increase arises from the premium from the shares issued to Mori Seiki.

## Revenue reserves

### Statutory provisions

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

### Other revenue provisions

Other revenue provisions in an amount of € 155,532,902 have remained unchanged in comparison with the previous year.

### Proposed appropriation of earnings

The financial year 2009 of GILDEMEISTER Aktiengesellschaft closes with a net annual loss of € -1,731,672.76. It will be proposed to the Annual General Meeting of Shareholders on 14 May 2010 that, taking into account the profit carryforward of the previous year of € 8,195,405.88, the remaining profit of € 6,463,733.12 be appropriated as follows:

- \_ the distribution of € 4,558,200.30 to the shareholders by payment of a dividend of € 0.10 per share,
- \_ to carry the remaining balance of € 1,905,532.82 forward to new account.

#### DEVELOPMENT OF THE NET RETAINED PROFITS

	€ K
Net retained profit as of 31 Dec. 2008	25,516
Distribution	-17,321
Retained profits brought forward	8,195
Net loss 2009	-1,732
<b>Net retained profits at 31 Dec. 2009</b>	<b>6,463</b>

**8 TAX PROVISIONS** Tax provisions include liabilities for corporation tax of € 1,465 K and trade tax of € 2,221 K.

**9 OTHER PROVISIONS** Other provisions primarily include expenses for other employee expenses in an amount of € 3,766 K (previous year: € 3.690 K), of which for severance pay € 2,760 K (previous year: € 2,760 K), profitsharing bonuses in an amount of € 2,063 K (previous year: € 7,702 K), provisions for maintenance and repair of € 702 K (previous year: € 1,952 K), expenses for legal and consultancy fees and costs for the preparation of accounts of € 1,583 K (previous year: € 2,900 K), provisions for Supervisory Board remuneration of € 894 K (previous year: € 614 K), anticipated losses from pending transactions of € 164 K (previous year: € 913 K) and other provisions of € 1,350 K (previous year: € 2,077 K).

## 10 LIABILITIES

	Reported in the Balance sheet as at 31 Dec. 2009 € K	Of which Residual term up to 1 Year € K	Of which Residual term 1 to 5 Years € K	Of which Residual term more than 5 Years € K	Reported in the balance sheet as at 31 Dec. 2008 € K
1. Borrower's notes	200,000	0	140,000	60,000	200,000
2. Bank loans and overdrafts <sup>1)</sup>	80,802	80,075	252	475	110,876
3. Trade payables	2,207	2,207	0	0	3,252
4. Liabilities to affiliated companies	120,622	120,622	0	0	157,968
5. Other Liabilities <sup>2)</sup>	5,606	5,606	0	0	6,655
	409,237	208,510	140,252	60,475	478,751
<b>Outstanding in each maturity period at 31 Dec. 2008</b>		<b>277,949</b>	<b>140,327</b>	<b>60,475</b>	<b>478,751</b>

<sup>1)</sup> of which secured by mortgages: € 802 K (previous year: € 874 K)  
<sup>2)</sup> of which from taxes: € 1,982 K (previous year: € 4,897 K), of which social security contributions: € 0 K (previous year: € 0 K)  
of which accrued interest : € 3,577 K (previous year: € 1,714 K)

Two borrowers' notes have been issued. The first with a volume of € 140,000 K had a term until 2013, the second with a volume of € 60,000 K had a term until 2015. The borrowers' notes are thus equal ranking with the other financing.

Short-term and medium-term working capital requirements for GILDEMEISTER Aktiengesellschaft, and – within the scope of the group in-house cash management – for the majority of the domestic subsidiaries, are covered for the most part by a syndicated loan agreement. The syndicated loan agreed on 30 June 2006 has a term until 30 June 2011 and a volume of € 175,000 K. The credit volume is divided into two different tranches, which differ in their amount, usability and term, withdrawal modalities and agreed interest rates. The group companies, GILDEMEISTER Drehmaschinen GmbH, DECKEL MAHO Pfronten GmbH, DECKEL MAHO Seebach GmbH, DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, GILDEMEISTER Italiana S.p.A., FAMOT Pleszew Sp.z o. o. and GILDEMEISTER Partecipazioni S.r.l. were guarantors both within the scope of the borrower's notes as well as of the loan agreement.

The former financial agreements within the scope of the syndicated loan and the borrowers' notes oblige GILDEMEISTER to comply with covenants. As the financial key figures have changed as a consequence of the economic crisis, we initiated early negotiations with our lenders to adjust the existing financing agreements and to reset the covenants. In November 2009, GILDEMEISTER issued a mandate to a banking group to attend to the refinancing and at the start of December submitted an application for a waiver of the right to extraordinary termination by the banks. GILDEMEISTER was able to assume from the end of December 2009 that the banks would agree to the waiver. In January 2010, the creditors for the syndicated loan and the borrowers' notes waived their right to termination to year-end 2009, which they would have been entitled to for non-compliance with the covenants.

Within the scope of adjusting the financing agreements existing as of 31 December 2009, the former borrowers' notes were restructured in 2010. For the borrowers' note with a previous volume of € 140,000 K, termination agreements in an amount of € 20,400 have been concluded. The adjusted borrowers' note now has a volume of € 119,600 K and an unchanged term until 2013. It bears interest at a 6-month EURIBOR rate plus an additional

interest charge of a maximum of 4.75% (previously: 1.80%). For the borrowers' note of an original volume of € 60,000, termination agreements have been concluded for an amount of € 8,000 K. The reduced volume amounts to € 52,000 K. The original term of seven years has been shortened to a 5-year term and now ends in 2013. It bears interest at a 6-month EURIBOR rate plus an additional interest charge of a maximum of 4.75% (previously: 2.30%). In addition, a new borrowers' note of € 30,000 K has been drawn. It likewise has a term until 2013 and will bear interest at a 6-month EURIBOR rate plus an additional interest charge of a maximum of 4.75%.

In addition, in February 2010, as part of the refinancing, a new syndicated loan agreement was concluded with a volume of € 211,900 with the aim of securing the entity's financing until 2012 and of meeting the planned capital requirements. The new loan facility comprises two tranches: The first tranche with a volume of € 154,900 K comprises an already agreed (forward start) loan with a term until December 2012. It can be drawn on in cash from 26 June 2011 and replaces the existing syndicated loan. The second tranche with a volume of € 57,000 K may be drawn on immediately. It likewise has a term until December 2012. The new facility has been drawn from the banks in the existing banking consortium.

As for the previous financing, the lending banks have completely waived the right to collateral both for the syndicated credit line as well as for the borrowers' notes in the refinancing. The companies DECKEL MAHO Pfronten GmbH, DECKEL MAHO Seebach GmbH, GILDEMEISTER Drehmaschinen GmbH, DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, GILDEMEISTER Beteiligungen AG, a+f GmbH, FAMOT Pleszew Sp.z o. o., GILDEMEISTER Partecipazioni S.r.l. and GILDEMEISTER Italiana S.p.A. are guarantors for the loan agreements and the borrowers' notes.

# 11 CONTINGENCIES AND OTHER FINANCIAL OBLIGATIONS

At the end of the reporting period the following contingencies and other financial obligations existed, shown at their face value:

CONTINGENCIES	Status 31 Dec. 2009 € K	Status 31 Dec. 2008 € K
Guarantees	171,224	220,146
Warranties	6,097	10,283
	177,321	230,429
<b>OBLIGATIONS FROM TENANCY AND LEASE AGREEMENTS DUE</b>		
within 1 year	431	554
within 1 to 5 years	1,039	1,181
after 5 years	0	127
	1,470	1,862

The guarantees of GILDEMEISTER Aktiengesellschaft include maximum-amount guarantees of € 40,175 K (previous year: € 36,760 K). The value date of the liabilities to banks pertaining to guarantees was fixed at 31 December 2009 at an amount of € 17,517 K (previous year: € 27,407 K). At the end of the reporting period GILDEMEISTER Aktiengesellschaft is jointly and severally liable for liabilities of € 30,589 K (previous year: € 32,189 K). The guarantees of GILDEMEISTER Aktiengesellschaft also include guarantees for affiliated

companies for contingent claims of a factoring bank amounting to € 738 K (previous year: € 7,219 K).

Advance customer payment guarantees of € 54,523 K (previous year: € 35,801 K) were given to several group companies.

Moreover, GILDEMEISTER Aktiengesellschaft also has a guarantee line, which can be used for advance and performance guarantees of the domestic subsidiaries with secondary liability of GILDEMEISTER Aktiengesellschaft. On 31 December 2009 the amount used was € 94,370 K (previous year: € 142,938 K).

Moreover, GILDEMEISTER Aktiengesellschaft has issued comfort letters for DMG Europe Holding GmbH, Sauer GmbH, a+f GmbH, DMG Benelux B.V. and DMG Malaysia SDN BHD in an amount of € 16,206 K. The liabilities in this respect were valued at € 2,848 K as at 31 December 2009.

In addition, GILDEMEISTER Aktiengesellschaft has entered into two building leasing arrangements for DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg, and DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bad Homburg. The monthly rental interest on these agreements amounts to € 105 K. These agreements have a term until 2024.

## 12 DERIVATIVE FINANCIAL INSTRUMENTS

The face and fair market values of derivative financial instruments existing at the end of the reporting period are set out below:

	Nominal volume		Fair value	
	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008
	€ K	€ K	€ K	€ K
Forward exchange contracts	103,286	174,853	2,338	1,295
Currency swaps	200,000	200,000	-18,347	-15,522
	<b>303,286</b>	<b>374,853</b>	<b>-16,009</b>	<b>-14,227</b>

The nominal value corresponds to the total of all sale and purchase amounts of derivative financial transactions. The fair market values shown correspond to the price at which third parties would assume the rights or obligations arising from the financial instruments. The fair market values are the current values of the derivative financial instruments excluding any adverse trends in value from underlying transactions. The fair market values of the derivative financial instruments used are determined on the basis of quoted market prices or through accrual methods based on customary models.

The fair market values of the forward exchange contracts are balanced at € 2,338 K and comprise positive market values of € 3,671 K and negative market values of € 1,333 K. If the pre-conditions exist, the forward exchange contracts are combined in valuation units per currency. Due to the negative fair market values after forming the valuation units, a provision of € 165 K (previous year: € 913 K) for anticipated losses related to incomplete contracts was made on 31 December 2009.



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

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

The forward exchange contracts undertaken report a residual term of up to two years and serve to hedge foreign currency receivables to group companies in USD, CAD, SGD, JPY and AUD. Interest rate swaps for a nominal total volume of € 140,000 K were concluded at a secured interest rate of 4.98% up to 5.02% with a term to 29 May 2013. The interest rate swaps bind GILDEMEISTER to pay a fixed interest rate for the term on the volume concluded. As a set-off GILDEMEISTER receives a EURIBOR 6-month rate payment from the contractual partner to the interest rate swap.

In addition, GILDEMEISTER has concluded an additional interest rate swap for a nominal volume of € 60,000 K and a fixed interest rate of 4.79% with a term until 29 May 2015. The interest rate swaps bind GILDEMEISTER to pay a fixed interest rate for the term on the volume concluded. As a set-off, GILDEMEISTER receives a EURIBOR 6-month rate payment from the contractual partner to the interest rate swap.

#### **D. Notes and disclosures on individual items in the statement of comprehensive income**

13 SALES REVENUES	Sales revenues of € 11,425 K (previous year: € 14,996 K) primarily pertain to sales arising from the group-wide holding functions.
14 OTHER OPERATING INCOME	Other operating income consists mainly of income from cost allocation and refund of expenses as well as exchange rate and currency gains. In addition, earnings from the dissolution of provisions of € 3,122 K (previous year: € 382 K) are included.
15 PERSONNEL COSTS	In the financial year 2009, the employee pension plan contributions amounted to € 3,417 K (previous year: € 2,265 K). Direct remuneration of the members of the Executive Board amounted to € 2,988 K (previous year: € 7,441 K). Of this, € 1,673 K (previous year: € 1,328 K) was attributed to the fixed remuneration, € 400 K to the STI (previous year: € 6,000 K), € 0 K to the LTI as the EBIT margins fixed for the tranche were not reached in the allocation year 2009, and € 800 K to a performance remuneration awarded for 2009. Benefits in kind accounted for € 115 K (previous year: € 113 K). Former members of the Executive Board and their surviving dependants were paid € 604 K (previous year: € 597 K). Pension provisions for former members of the Executive Board and their surviving dependants have been formed in an amount of € 5,863 K (previous year: € 5,963 K).

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

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

	2009	2008
Salary earnings	68	70

#### 16 OTHER OPERATING EXPENSES

Other operating expenses resulted amongst others from external services in an amount of € 3,335 K (previous year: € 4.880 K). The costs of preparing the financial statements, legal and consultancy fees amount to € 3,406 K (previous year: € 9,723 K). Furthermore, expenses for investor and public relation expenses of € 2,460 K (previous year: € 3,317 K), travelling and entertaining expenses of € 1,422 K (previous year: € 1,730 K), rental and lease expenses of € 1,597 K (previous year: € 955 K), insurance contributions of € 1,389 K (previous year: € 1,549 K) and costs of money transactions and capital procurement of € 555 K (previous year: € 1,796 K) mainly due to the capital increase, are shown. Exchange rate and currency losses of € 3,121 K are set off against € 2,639 K exchange rate and currency gains.

#### Auditor's fees and services

In the financial year 2009, the fees of the auditor of the Financial Statements, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, amounted to € 407 K (previous year: € 373 K) and include the fees and expenses for the statutory audit of the annual and consolidated financial statements. In addition, for other confirmation or assessment services € 4 K (previous year: € 3 K) and other services of € 383 K (previous year: € 599 K) were also charged to expenses.

#### Mandatory notification in accordance with Section 26 of the German Securities Trading Act (wphG)

Mori Seiki Co. Ltd., Nagoya, Japan, pursuant to Section 21 paragraph 1 of the wphG (German Securities Trading Act), informed us by letter of 8 April 2009 that their share of voting rights in GILDEMEISTER Aktiengesellschaft, Gildermeisterstrasse 60, 33689 Bielefeld, Germany, had exceeded the thresholds of 3% and 5% and amounted to 5.00087721% (2,279,500 voting rights) as of 7 April 2009.

### Remuneration of the Supervisory Board

In the financial year 2009, € 894 K (previous year: € 614 K) were transferred to provisions for Supervisory Board members' remuneration. Further details on the remuneration of the Supervisory Board are given in the Management Report.

17 INCOME FROM PROFIT AND LOSS TRANSFER AGREEMENTS	The income from profit and loss transfer agreements of GILDEMEISTER Aktiengesellschaft of € 24,584 K (previous year: € 117,187 K) was accounted for by one affiliated company (previous year: two companies).
18 INCOME FROM PROFIT-SHARING	Income from profit-sharing in an amount of € 485 K relates to the dividend payout of Mori Seiki.
19 OTHER INTEREST AND SIMILAR INCOME	In the reporting period affiliated companies were charged interest to the value of € 22,082 K (previous year: € 23,087 K).
20 EXPENSES FROM THE ASSUMPTION OF LOSSES	Expenses from the assumption of losses in an amount of € 8,163 K (previous year: € 0 K) is attributable to an affiliated company.
21 INTEREST AND SIMILAR EXPENSES	The interest expense of € 23,522 K (previous year: € 29,244 K) includes interest of € 3,711 K (previous year: € 7,346 K), charged by the affiliated companies. The remainder of the interest expenses are essentially interest on liabilities to banks.
22 TAXES ON INCOME AND EARNINGS	Due to the German interest-capping rules, taxes on interest carryforwards of € 2,736 K (previous year: € 0 K) have been added. Taxes on income and earnings include income unrelated to the accounting period in an amount of € 398 K (previous year: € 352 K).
23 DECLARATION OF COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE OF PRACTICE	The declaration of compliance in accordance with Section 161 German Companies Act (AktG) was issued on December 2009 and has been made permanently accessible to shareholders on our website <a href="http://www.gildemeister.com">www.gildemeister.com</a> .

## E. Corporate Directory

- Supervisory Board mandate pursuant to Section 100 AktG (German Companies Act)
- \* Member of comparable domestic and foreign control bodies of business enterprises

### Supervisory Board

#### Hans Henning Offen,

Großhansdorf, born 1940, Chairman,  
Independent Industry Consultant,

- Lindner Hotels AG, Düsseldorf, member of the Supervisory Board
- \* Schwarz Beteiligungs GmbH, Neckarsulm, member of the Advisory Board
- \* Familienstiftung Schwarz, Neckarsulm, member of the Supervisory Board
- \* Kaufland Stiftung & Co. KG, Neckarsulm, member of the Supervisory Board
- \* Lidl Stiftung & Co. KG, Neckarsulm, member of the Supervisory Board
- \* Heckler & Koch GmbH, Oberndorf am Neckar, Chairman of the Advisory Council until 28 July 2009
- \* Alpha-Stiftung, Dresden, board of trustees
- \* LD-Stiftung, Dresden, board of trustees
- \* Bürgerstiftung Stormarn, Bad Oldesloe, member of the Executive 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

#### Günther Berger,

Munich, born 1948,  
Independent Industry Consultant,

- Rathgeber AG, Munich, member of the Supervisory Board

#### Harry Domnik,

Bielefeld, born 1953,  
1<sup>st</sup> secretary of the IG Metall-Headquarters, Bielefeld,  
\* ThyssenKrupp Umformtechnik GmbH,  
Ludwigsfelde, Deputy Chairman of the  
Supervisory Board

#### Dr.-Ing. Jürgen Harnisch,

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

- Schenck Process Holding GmbH, Darmstadt, 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
- \* Kongsberg Automotive Holding ASA, Kongsberg, Norway, member of the Supervisory Board

#### Dr. jur. Klaus Kessler

Stuttgart, born 1942,  
Lawyer, until 31 October 2009,  
Partner in Schelling & Partner  
Lawyers and notaries, Stuttgart  
Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW), Düsseldorf, member of the Executive Committee  
\* Baden-Württembergische Wertpapier Börse, Stuttgart, Deputy Chairman of the Stock Exchange Council

#### Prof. Dr.-Ing. Walter Kunerth,

Zeitzlarn, born 1940,  
Independent Industry Consultant,  
• Götz AG, Regensburg, Chairman of the Supervisory Board  
• Paragon AG, Delbrück, Chairman of the Supervisory Board  
\* Autoliv Inc., Stockholm, Sweden, member of the Board of Directors

**Prof. Dr.-Ing. Uwe Loos,**

Stuttgart, born 1946,  
Independent Industry Consultant,

- Dorma Holding GmbH + Co. KGaA, Ennepetal, member of the Supervisory Board
- Adam Opel GmbH, Rüsselsheim, member of the Supervisory Board
- \* KUKA AG, Augsburg, member of the Supervisory Board
- \* Claas KGaA mbH, Harsewinkel, member of the Shareholders' Committee
- \* Bharat Forge LTD, Pune, India, Non-Executive Independent Director
- \* cdp Bharat Forge GmbH, Ennepetal, member of the Advisory Council
- \* HP Pelzer Group, Witten, member of the Supervisory Board
- \* Rodenstock GmbH, Munich, member of the Supervisory Board, member of the Advisory Board

**Dr.-Eng. Masahiko Mori,**

Nagoya, born 1961,  
President of Mori Seiki Co. Ltd.  
since 6 November 2009

**Matthias Pfuhl,**

Schmerbach, born 1960,  
Chairman of the Works Council at  
DECKEL MAHO Seebach GmbH,

**Günther-Johann Schachner,**

Peiting, born 1952,  
1<sup>st</sup> secretary of the IG Metall Headquarters,  
Weilheim

**Norbert Zweng,**

Eisenberg, born 1957,  
Head of Logistics at DECKEL MAHO  
Pfronten GmbH,  
Senior Executives' representative

**Executive Board****Dipl.-Kfm. Dr. Rüdiger Kapitza,**

Bielefeld,  
Chairman

**Dipl.-Ing. Günter Bachmann,**

Wutha-Farnroda

**Dipl.-Kfm. Dr. Thorsten Schmidt,**

Bielefeld

**Dipl.-Kfm. Michael Welt,**

Pfronten

## Affiliated companies

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES PROCUREMENT / COMPONENTS					Participation quota in %	Result for the accounting period 2009 <sup>1)</sup> in € K
			National currency	Equity <sup>1)</sup> in € K		
GILDEMEISTER Beteiligungen AG, Bielefeld <sup>2/5)</sup>				240,416	100.0	
DECKEL MAHO Pfronten GmbH, Pfronten <sup>4/6/7)</sup>				47,922	100.0	
SAUER GmbH, Stipshausen / Idar-Oberstein <sup>4/8/9)</sup>				6,942	100.0	
DECKEL MAHO GILDEMEISTER (Shanghai)						
Machine Tools Co., Ltd., Shanghai, China <sup>6)</sup>	CNY K	143,090		14,549	100.0	1,000
FAMOT Pleszew Sp.z o.o., Pleszew, Poland <sup>6)</sup>	PLN K	64,803		15,788	100.0	2,043
GILDEMEISTER Drehmaschinen GmbH, Bielefeld <sup>4/6/7)</sup>				15,750	100.0	
GILDEMEISTER Partecipazioni S.r.l., Tortona, Italy <sup>6)</sup>				110,037	100.0	452
GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italy <sup>3)</sup>				55,519	100.0	– 12,597
GRAZIANO Tortona S.r.l., Tortona, Italy <sup>3)</sup>				11,633	100.0	– 1,912
SACO S.p.A., Castelleone, Italy <sup>3)</sup>				1,487	100.0	– 6,055
DMG Italia S.r.l., Brembate di Sopra, Italy <sup>3)</sup>				3,619	100.0	633
a+f Italia S.r.l., Milan, Italy <sup>3)</sup>				886	100.0	856
SOLEINTENSO S.r.l., Spinazzola, Italy <sup>21)</sup>				– 9	100.0	– 16
MASSERIA MARAMONTI S.r.l., Milan, Italy <sup>21)</sup>				0	100.0	
DECKEL MAHO Seebach GmbH, Seebach <sup>4/6/7)</sup>				8,363	100.0	
DMG AUTOMATION GmbH, Hüfingen <sup>4/5/6/7)</sup>				1,486	100.0	
DMG Electronics GmbH, Pfronten <sup>4/6/7)</sup>				500	100.0	
DMG Spare Parts GmbH, Geretsried <sup>4/5/6/7)</sup>				12,000	100.0	
GILDEMEISTER Finance S.à.r.l., Luxembourg <sup>6)</sup>				2	100.0	– 10
MITIS Grundstücks-Vermietungs Gesellschaft mbH & Co.						
Objekt Bielefeld KG, Dusseldorf <sup>4)</sup>				– 53	100.0	– 6
MITIS Grundstücks-Vermietungs Gesellschaft mbH, Dusseldorf <sup>4)</sup>				35	100.0	9
DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld <sup>2/4/5)</sup>				124,863	100.0	
DMG Stuttgart Vertriebs und Service GmbH						
DECKEL MAHO GILDEMEISTER, Leonberg <sup>4/5/10/11)</sup>				45,001	100.0	
DMG München Vertriebs und Service GmbH für Werkzeugmaschinen						
DECKEL MAHO GILDEMEISTER, Munich <sup>4/5/12/13)</sup>				929	100.0	
DMG Hilden Vertriebs und Service GmbH						
DECKEL MAHO GILDEMEISTER, Hilden <sup>4/5/12/13)</sup>				935	100.0	
DMG Bielefeld Vertriebs und Service GmbH						
DECKEL MAHO GILDEMEISTER, Bielefeld <sup>4/5/12/13)</sup>				957	100.0	
DMG Berlin Vertriebs und Service GmbH						
DECKEL MAHO GILDEMEISTER, Berlin <sup>4/5/11/12)</sup>				301	100.0	
DMG Frankfurt am Main Vertriebs und Service GmbH						
DECKEL MAHO GILDEMEISTER, Bad Homburg <sup>4/5/12/13)</sup>				610	100.0	
GILDEMEISTER Italiana Deutschland GmbH, Leonberg <sup>4/5/12/13)</sup>				300	100.0	
DMG Europe Holding GmbH, Klaus, Austria <sup>10)</sup>				79,566	100.0	– 1,418
DMG Asia Pacific Pte. Ltd., Singapore <sup>14)</sup>	SGD K	9,636		4,772	100.0	192
DMG Australia Pty. Ltd., Clayton Victoria, Australia <sup>15)</sup>	AUD K	5,862		3,662	100.0	105
DMG (Thailand) Co. Ltd., Bangkok, Thailand <sup>15)</sup>	THB K	15,797		329	100.0	20
DMG Austria GmbH, Klaus, Austria <sup>14)</sup>				5,003	100.0	630
DMG ECOLINE GmbH, Klaus, Austria <sup>14)</sup>				99	100.0	– 1,870
DMG Middle East FZE, Dubai, United Arab Emirates <sup>14)</sup>	AED K	1,903		360	100.0	167

**PRODUCTION PLANTS, SALES AND SERVICE COMPANIES  
PROCUREMENT / COMPONENTS (CONTINUED)**

	National currency	Equity <sup>1)</sup> in € k	Participation quota in %	Result for the accounting period 2009 <sup>1)</sup> in € k
DMG Benelux B.V., Veenendaal, Netherlands <sup>14)</sup>		35,865	100.0	423
DECKEL MAHO GILDEMEISTER Brasil Ltda., São Paulo, Brazil <sup>16)</sup>	BRL K 5,281	2,103	100.0	-451
DECKEL MAHO GILDEMEISTER Ibérica S.L., Ripollet, Spain <sup>16)</sup>		2,522	100.0	597
AF SunCarrier Ibérica S.L., Madrid, Spain <sup>22)</sup>		0	100.0	
DMG America Inc., Itasca, USA <sup>16)</sup>	USD K 43,763	30,378	100.0	5,274
DMG Charlotte LLC, Charlotte, USA <sup>17)</sup>	USD K 2,179	1,512	100.0	-612
DMG Chicago Inc., Itasca, USA <sup>17)</sup>	USD K 2,778	1,928	100.0	-58
DMG Houston Inc., Houston, USA <sup>17)</sup>	USD K 89	62	100.0	-1,054
DMG Los Angeles Inc., Los Angeles, USA <sup>17)</sup>	USD K 333	231	100.0	-728
DMG Boston LLC, Burlington, USA <sup>17)</sup>	USD K 2,622	1,820	100.0	437
a+f USA LLC, Wilmington, USA <sup>17)</sup>	USD K 0	0	100.0	
DMG Asia Pte. Ltd., Singapore <sup>16)</sup>		13,579	100.0	5,780
DMG Benelux BVBA – SPRL., Zaventem, Belgium <sup>16)</sup>		3,184	100.0	369
DMG France S.a.r.l., Les Ulis, France <sup>16)</sup>		4,785	100.0	-87
DMG Czech s.r.o., Brno, Czech Republic <sup>16)</sup>	CZK K 166,643	6,295	100.0	1,006
DMG Polska Sp.z o.o., Pleszew, Poland <sup>16)</sup>	PLN K 22,780	5,550	100.0	1,136
DMG (Schweiz) AG DECKEL MAHO GILDEMEISTER, Dübendorf, Suisse <sup>16)</sup>	CHF K 17,606	11,867	100.0	1,395
DMG Romania Sales & Services S.r.l., Bukarest, Romania <sup>16)</sup>	RON K 628	148	100.0	215
DMG South East Europe E.P.E., Thessaloniki, Greece <sup>16)</sup>		80	100.0	-175
DMG (U.K.) Ltd., Luton, Great Britain <sup>16)</sup>	GBP K 3,878	4,366	100.0	682
DMG Russland O.O.O., Moskau, Russia <sup>14)</sup>	RUB K 45,762	1,060	100.0	325
DMG Istanbul Makine Tikaret ve Servis Limited Sirketi, Istanbul, Turkey <sup>14)</sup>	TRY K 3,318	1,540	100.0	-187
DMG Malaysia SDN BHD, Puchong / Kuala Lumpur, Malaysia <sup>14)</sup>	MYR K 7,258	1,471	100.0	515
DMG Nippon K.K., Yokohama, Japan <sup>14)</sup>	JPY K 455,466	3,420	100.0	1,632
DMG Scandinavia Sverige AB, Sollentuna, Sweden <sup>14)</sup>	SEK K 19,862	1,937	100.0	276
DMG Hungary Kereskedelmi és Szerviz Korlátolt Felelősségű Társaság, Budapest, Hungary <sup>14)</sup>		913	100.0	39
DMG Scandinavia Norge AS, Langhus, Norway <sup>14)</sup>	NOK K 5,676	684	100.0	-157
DMG Canada Inc., Toronto, Canada <sup>10)</sup>	CAD K 1,773	1,172	100.0	135
DECKEL MAHO GILDEMEISTER México S.A. de C.V., Queretaro, Mexico <sup>10)</sup>	MXN K 4,337	229	100.0	-937
DMG Technology Trading (Shanghai) Co. Ltd., Shanghai, China <sup>10)</sup>	CNY K 51,685	5,255	100.0	844
DMG DECKEL MAHO GILDEMEISTER (India) Pvt. Ltd., Bangalore, India <sup>10)</sup>	INR K 363,556	5,418	100.0	-633
DMG Machinery Taiwan Ltd., Taichung, Taiwan <sup>10)</sup>	TWD K 53,993	1,161	100.0	-789
DMG Korea Ltd., Seoul, Korea <sup>10)</sup>	KRW K 4,577,498	2,746	100.0	183
DMG Service Dreher GmbH DECKEL MAHO GILDEMEISTER, Bielefeld <sup>4/5/10/11)</sup>		1,500	100.0	
DMG Service Fräsen GmbH, Pfronten <sup>4/5/10/11)</sup>		2,730	100.0	
DMG Gebräuchtmaschinen GmbH DECKEL MAHO GILDEMEISTER, Geretsried <sup>4/5/10/11)</sup>		17,517	100.0	
DMG Gebräuchtmaschinen Czech s.r.o., Zlin, Czech Republic <sup>18)</sup>	CZK K 16,088	608	100.0	-431
DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER, Bielefeld <sup>4/5/10/11)</sup>		271	100.0	
DMG MICROSET GmbH, Bielefeld <sup>4/5/10/11)</sup>		1,405	100.0	
a+f GmbH, Würzburg <sup>4/5/10/11)</sup>		20,100	100.0	



**PRODUCTION PLANTS, SALES AND SERVICE COMPANIES**  
**PROCUREMENT / COMPONENTS (CONTINUED)**

	National currency	Equity <sup>1)</sup> in € k	Participation quota in %	Result for the accounting period 2009 <sup>1)</sup> in € k
<b>OTHER</b>				
BIL Leasing GmbH & Co 736 KG, Munich <sup>19)</sup>		0		
BIL Leasing GmbH & Co 748 KG, Munich <sup>20)</sup>		0		

<sup>1)</sup> 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.

<sup>2)</sup> Management and profit and loss transfer agreement with GILDEMEISTER Aktiengesellschaft

<sup>3)</sup> Participation interest of GILDEMEISTER Partecipazioni S.r.l.

<sup>4)</sup> 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.

<sup>5)</sup> 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 the management report.

<sup>6)</sup> Participation interest of GILDEMEISTER Beteiligungen AG

<sup>7)</sup> Management and profit and loss transfer agreement with GILDEMEISTER Beteiligungen AG

<sup>8)</sup> Participation interest of DECKEL MAHO Pfronten GmbH

<sup>9)</sup> Management and profit and loss transfer agreement with DECKEL MAHO Pfronten GmbH

<sup>10)</sup> Participation interest of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER

<sup>11)</sup> Management and profit and loss transfer agreement with DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER

<sup>12)</sup> Participation interest of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER

<sup>13)</sup> Management and profit and loss transfer agreement with DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER

<sup>14)</sup> Participation interest of DMG Europe Holding GmbH

<sup>15)</sup> Participation interest of DMG Asia Pacific Pte. Ltd.

<sup>16)</sup> Participation interest of DMG Benelux B.V.

<sup>17)</sup> Participation interest of DMG America Inc.

<sup>18)</sup> Participation interest of DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER

<sup>19)</sup> Special Purpose Entity der DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bad Homburg, excluding equity share

<sup>20)</sup> Special Purpose Entity der DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg, excluding equity share

<sup>21)</sup> Participation interest of a+f Italia S.r.l.

<sup>22)</sup> Participation interest of DECKEL MAHO GILDEMEISTER Ibérica, S.L.

**Income Statement**  
**for the period 01 January to 31 December 2009**  
**of GILDEMEISTER Aktiengesellschaft**

	Notes	2009 €	2008 €
1. Sales revenues	13	11,425,458	14,995,784
2. Other operating income	14	8,169,943	3,542,669
		19,595,401	18,538,453
3. Cost of materials			
a) Cost of raw materials and consumables for purchased goods		296,215	90,769
b) Cost of purchased services		2,299,122	4,393,214
		2,595,337	4,483,983
4. Personnel costs	15		
a) Wages and salaries		8,873,322	15,818,183
b) Social contributions, pensions and other benefits		4,171,050	2,973,724
		13,044,372	18,791,907
5. Depreciation of tangible and intangible assets		1,541,786	1,475,949
6. Other operating expenses	16	18,693,261	35,455,375
7. Income from management and profit and loss transfer agreements	17	24,584,035	117,187,335
8. Income from investments	18	485,405	0
9. Other interest receivable and similar income	19	23,435,568	23,659,077
10. Expenses from the assumption of losses	20	8,162,815	0
11. Interest payable and similar expenses	21	23,521,858	29,244,493
12. Profit on ordinary activities		540,980	69,933,158
13. Taxes on profit	22	2,272,653	25,922,921
14. Annual loss (in previous year: annual profit)		1,731,673	44,010,237
15. Profit carry forward from previous year		8,195,406	3,506,170
16. Withdrawal from revenue reserves		0	22,000,000
<b>17. Net profit for the year</b>		<b>6,463,733</b>	<b>25,516,407</b>

## Balance Sheet as at 31 December 2009 of GILDEMEISTER Aktiengesellschaft

ASSETS		31 Dec. 2009	31 Dec. 2008
	Notes	€	€
<b>A. Fixed Assets</b>			
I. Intangible assets	1		
Industrial property and similar rights and values and licences to such rights and values		127,742	44,729
II. Tangible assets	1		
1. Land and buildings		20,262,300	16,215,610
2. Other equipment, factory and office equipment		1,964,642	2,342,757
3. Payments on account and construction in progress		254,879	4,180,208
		22,481,821	22,738,575
III. Financial assets	2		
1. Shares in affiliated companies		387,653,026	387,403,026
2. Investments		31,259,815	0
		441,522,404	410,186,330
<b>B. Current Assets</b>			
I. Receivables and other assets	3		
1. Trade receivables		24,053	110
2. Receivables from affiliated companies		311,402,127	272,263,525
3. Other assets		4,485,865	6,307,298
		315,912,045	278,570,933
II. Securities	4	0	5,000,000
III. Cash assets and bank balances	5	47,164,990	191,728,714
<b>C. Prepaid Expenses</b>	6	54,944	54,080
		<b>804,654,383</b>	<b>885,540,057</b>

<b>EQUITY AND LIABILITIES</b>		<b>31 Dec. 2009</b>	<b>31 Dec. 2008</b>
	Notes	€	€
<b>A. Equity</b>	<b>7</b>		
I. Subscribed capital		118,513,208	112,586,508
II. Capital reserves		83,447,597	71,297,862
III. Revenue reserves			
1. Statutory provisions		680,530	680,530
2. Other revenue provisions		155,532,902	155,532,902
IV. Net profit		6,463,733	25,516,407
		364,637,970	365,614,209
<b>B. Provisions</b>			
1. Pension provisions		15,645,625	14,200,671
2. Tax provisions	8	3,685,964	7,125,941
3. Other provisions	9	11,447,278	19,847,614
		30,778,867	41,174,226
<b>C. Liabilities</b>	<b>10</b>		
1. Borrowers' note		200,000,000	200,000,000
2. Bank loans and overdrafts		80,802,344	110,875,847
3. Trade creditors		2,207,225	3,252,376
4. Amounts owed to affiliated companies		120,622,119	157,968,143
5. Other liabilities		5,605,858	6,655,256
		409,237,546	478,751,622
		<b>804,654,383</b>	<b>885,540,057</b>

## Fixed Asset Movement Schedule

### as at 31 December 2009 of GILDEMEISTER Aktiengesellschaft

#### ACQUISITION AND PRODUCTION COSTS

##### I. Intangible assets

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

##### II. Tangible assets

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

##### III. Financial assets

1. Shares in affiliated companies
2. Investments

##### Total fixed assets

#### DEPRECIATION

	As at 01 Jan. 2009 €	Additions €
<b>I. Intangible assets</b>		
Industrial property and similar rights and values an licences to such rights and values	17,304,994	79,062
	<b>17,304,994</b>	<b>79,062</b>
<b>II. Tangible assets</b>		
1. Land and buildings	17,510,431	959,178
2. Other equipment, factory and office equipment	7,049,410	503,546
3. Payments on account and construction in progress	0	0
	<b>25,559,841</b>	<b>1,462,724</b>
<b>III. Financial assets</b>		
1. Shares in affiliated companies	59,732,646	0
2. Investments	0	0
	<b>59,732,646</b>	<b>0</b>
<b>Total fixed assets</b>	<b>101,597,481</b>	<b>1,541,786</b>

	As at 01 Jan. 2009 €	Additions €	Disposals €	Book transfer €	As at 31 Dec. 2009 €
	17,349,723	85,275	0	76,800	17,511,798
	<b>17,349,723</b>	<b>85,275</b>	<b>0</b>	<b>76,800</b>	<b>17,511,798</b>
	33,726,041	1,173,473	0	3,832,395	38,731,909
	9,392,167	125,054	0	377	9,517,598
	4,180,208	254,879	270,636	-3,909,572	254,879
	<b>47,298,416</b>	<b>1,553,406</b>	<b>270,636</b>	<b>-76,800</b>	<b>48,504,386</b>
	447,135,672	250,000	0	0	447,385,672
	0	31,259,815	0	0	31,259,815
	<b>447,135,672</b>	<b>31,509,815</b>	<b>0</b>	<b>0</b>	<b>478,645,487</b>
	<b>511,783,811</b>	<b>33,148,496</b>	<b>270,636</b>	<b>0</b>	<b>544,661,671</b>

	Disposals €	Book Transfer €	As at 31 Dec. 2009 €	CARRYING AMOUNT As at 31 Dec. 2009 €	As at 31 Dec. 2008 €
	0	0	17,384,056	127,742	44,729
	<b>0</b>	<b>0</b>	<b>17,384,056</b>	<b>127,742</b>	<b>44,729</b>
	0	0	18,469,609	20,262,300	16,215,610
	0	0	7,552,956	1,964,642	2,342,757
	0	0	0	254,879	4,180,208
	<b>0</b>	<b>0</b>	<b>26,022,565</b>	<b>22,481,821</b>	<b>22,738,575</b>
	0	0	59,732,646	387,653,026	387,403,026
	0	0	0	31,259,815	0
	<b>0</b>	<b>0</b>	<b>59,732,646</b>	<b>418,912,841</b>	<b>387,403,026</b>
	<b>0</b>	<b>0</b>	<b>103,139,267</b>	<b>441,522,404</b>	<b>410,186,330</b>

### Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the annual financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of GILDEMEISTER Aktiengesellschaft, and the management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the entity.

Bielefeld, 16 March 2010

GILDEMEISTER Aktiengesellschaft

The Executive Board



Dipl.-Kfm. Dr. Rüdiger Kapitza



Dipl.-Ing. Günter Bachmann



Dipl.-Kfm. Dr. Thorsten Schmidt



Dipl.-Kfm. Michael Welt



## Auditors' report

We have audited the annual financial statements prepared by GILDEMEISTER Aktiengesellschaft, Bielefeld, comprising the statement of financial position, statement of comprehensive income and the notes to the financial statements, together with the accounting and management report for the financial year from 1 January to 31 December 2009. The accounting and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Executive Board of the company. Our responsibility is to express an opinion on the annual financial statements including the accounting and on the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with Section 317 German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). These 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 annual financial statements in accordance with the applicable financial reporting framework and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control systems and the evidence supporting the disclosures in the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the Executive Board, as well as evaluating the overall presentation of the annual financial statements and 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 financial statements comply with the statutory requirements and give a true and fair view of the net assets, financial position and results of operations of the company in accordance with the principles of correct accounting. The management report is consistent with the financial statements and as a whole provides a suitable view of the company's position and suitably presents the opportunities and risks of future development.

Berlin, 16 March 2010

KPMG AG  
Wirtschaftsprüfungsgesellschaft

Rehnen  
Auditor

Dübeler  
Auditor

18 March 2010	Press conference on Financial Statements, Bielefeld
18 March 2010	Publication of Annual Report 2009
19 March 2010	DVFA-Analysts' conference, Frankfurt
04 May 2010	First Quarterly Report 2010 (1 January to 31 March)
14 May 2010	General Meeting of Shareholders at 10 am in the Town Hall Bielefeld
17 May 2010	Distribution of Dividend
29 July 2010	Second Quarterly Report 2010 (1 April to 30 June)
09 November 2010	Third Quarterly Report 2010 (1 July to 30 September)
09 February 2011	Press release on provisional figures for the financial year 2010
13 May 2011	General Meeting of Shareholders at 10 Uhr in the Town Hall Bielefeld

Subject to alteration

ANNUAL REPORT

NOTES

INCOME STATEMENT /  
BALANCE SHEETRESPONSIBILITY STATEMENT /  
AUDITOR'S REPORT FINANCIAL CALENDAR

**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](http://www.gildemeister.com). Further copies and additional information on gildemeister are available free of charge upon request.

**Contact details**

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