



GILDEMEISTER Aktiengesellschaft Bielefeld

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Explanatory Report of the Management Board to the statements under sections 289 para. 5, 315 para 2 No. 5 of the German Commercial Code (HGB – Handelsgesetzbuch)

GILDEMEISTER

Explanatory Report of the Management Board of GILDEMEISTER Aktiengesellschaft to the statements under Section 289 para. 5 and Section 315 para. 2 No. 5 of the German Commercial Code (HGB – Handelsgesetzbuch)

Legal Background

The German Accounting Law Modernisation Act (BilMoG), which entered into force on 29 May 2009, amended various provisions of German law including Sections 289 and 315 of the German Commercial Code (HGB) and Sections 120 and 175 of the German Stock Corporations Act (AktG). BilMoG required the Management Board to present at the general meeting a written report containing, among other things, newly introduced compulsory disclosures in the company management report under Section 289 para. 5, HGB or Group management report under Section 315 para. 2 No. 5, HGB on the internal control and risk management system in relation to the company or Group financial reporting process.

Subject Matter of the Report

According to the explanatory memorandum to BilMoG, the internal control system encompasses the policies, processes and tasks that help ensure effective and efficient financial reporting, the quality of financial reporting and compliance with applicable law. This also includes the internal audit system and the risk management system to the extent that it relates to financial reporting.

Main Features and explanation of the Internal Control System and of the Risk Management System in Relation to the Financial Reporting Process

The accounting-related internal control system is part of the overall internal control system (ICS) of the 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 IFRS financial statements. The analyses carried out by risk management contribute to identifying risks that may have an effect on financial reporting and to introducing measures to minimise these risks. The accounting-related internal control system includes basic principles, procedures and measures to ensure that accounting principles are adhered to in group accounting. In this respect, we analyse new legislation, accounting standards and other communiqués with respect to their effect on the consolidated financial statements.

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

Bielefeld, March 2010

GILDEMEISTER Aktiengesellschaft
sig. The Executive Board

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