



GILDEMEISTER Aktiengesellschaft Bielefeld

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Executive Board report to the Annual General Meeting regarding item 10 of the agenda pursuant to § 203 (1) and (2) sentence 2 AktG in connection with § 186 (4) sentence 2 AktG on the exclusion of the pre-emptive rights with respect to authorized capital

GILDEMEISTER

Executive Board report to the Annual General Meeting regarding item 10 of the agenda pursuant to § 203 (1) and (2) sentence 2 AktG in connection with § 186 (4) sentence 2 AktG on the exclusion of the pre-emptive rights with respect to authorized capital.

“Regarding agenda item 10, the Executive Board and Supervisory Board recommend amending § 5 (3) of the Articles of Association in order to cancel the existing authorized capital account (which expires on 15 May 2010 anyway) and replace it with a new authorized capital account. In accordance with § 203 (1) and (2) sentence 2 AktG in connection with § 186 (4) sentence 2 AktG, the Executive Board hereby issues the following report concerning the grounds for excluding the pre-emptive right:

(1) Current authorized capital and reason for the change

The Executive Board and Supervisory Board recommend to the Annual General Meeting that the existing authorized capital account be cancelled and that a new authorized capital account be created. Section 5 (3) of the currently applicable Articles of Association provides for authorized capital, according to which the Executive Board has the authority, with the consent of the Supervisory Board, to increase one or more times, either in whole or in parts, the registered share capital by up to € 50,073,300 through the issuance of new no-par value bearer shares in exchange for cash and/or for non-cash capital contributions. This authorized capital will expire as of 15 May 2010; i.e., immediately after the Annual General Meeting. In April 2009, € 5,926,700 of the existing authorized capital was used up through the issuance of 2,279,500 no-par value bearer shares.

In order to give the Company future strategic options, the creation of a new authorization should put management in a position to increase in the future the Company's registered share capital by issuing new no-par value bearer shares.

(2) New authorized capital and the related benefits for the Company

The new authorized capital will for the most part be coextensive with the previous authorized capital.

The total amount of new authorized capital to be created should up to € 59,256,600. The Executive Board is authorized, with the consent of the Supervisory Board, to increase on or before 13 May 2015 the registered share capital of the Company one or more times either in whole or in parts by up to € 59,256,600 through the issuance of up to 22,791,000 new no-par value bearer shares in exchange for cash and/or non-cash capital contributions (authorized capital). The new shares may be subscribed by one or more credit institutions designated by the Executive Board, subject to the obligation that they must offer the shares to the shareholders (indirect pre-emptive right).

The recommended authorization to issue new shares from the authorized capital is intended to put the Executive Board in a position, with the consent of the Supervisory Board, to quickly obtain on the financial markets the capital, which is required to

continue developing the Company, through the issuance of new shares or to quickly utilise any emerging strategic options and favourable market conditions to quickly cover any future financing needs. The authorization to create new authorized capital will give the Company's management a flexible instrument for structuring the corporate policy for the next 5 years.

(3) Exclusion of the pre-emptive right

Under the principle set forth in § 186 (1) AktG, which under § 203 (1) AktG also applies in connection with authorized capital, each shareholder must, upon request, be allotted a portion of the new shares which matches the shareholder's pro rata interest in the existing registered share capital.

Nevertheless, the Executive Board should be authorized pursuant to § 203 (2) sentence 1 AktG in connection with § 186 (3) sentence 1 AktG to exclude – subject to the prior approval of the Supervisory Board – the shareholders' pre-emptive rights in certain narrowly defined cases when it utilises the authorized capital.

- a) With respect to a portion of authorized capital (€ 5,000,000), the Executive Board should be authorised, with the prior approval of the Supervisory Board, to exclude the pre-emptive rights in order to be able to issue shares to employees of the Company and enterprises affiliated with the Company. In this regard, the authorized capital should be used for issuing shares to employees of GILDEMEISTER Aktiengesellschaft and other companies within the GILDEMEISTER Group. Such a share issuance might take place, for example, under a newly created employee stock ownership plan which is intended in the Company's interest to promote the employees' loyalty to their company.*
- b) The Executive Board should be authorized, with the prior approval of the Supervisory Board, to exclude the pre-emptive rights during capital increases made in exchange for non-cash capital contribution in order to allow the Company, in suitable situations, to acquire companies, company divisions or holdings in other companies or other assets in exchange for a transfer of Company shares. This arrangement should place the Executive Board in a position to acquire companies, company divisions or holdings in other companies or other assets from third parties in exchange for a grant of Company shares without the need for having to tap the capital markets. GILDEMEISTER Aktiengesellschaft faces global competition. It must be in a position, at any time, to quickly and flexibly act on international markets in the interests of its shareholders. This includes having the option to acquire companies, divisions of companies or holdings therein or other assets in order to improve its competitive position. The best possible use of such an option in the interests of the shareholders and the Company itself could in some cases consist of executing an acquisition of a company, division of a company and a holding or the purchase of another suitable asset in exchange for granting shares of the acquiring company. The opportunity for issuing shares significantly enhances the Executive Board's flexibility in acting in the international competitive arena. Practice has shown that holders of attractive acquisition targets frequently demand voting shares from the acquiring company as consideration for the sale of their shares. Particularly among*

the ever expanding company divisions, which are affected by such transactions, consideration can often not be paid in cash without jeopardising the company's liquidity or increasing to an undesirable degree its level of indebtedness. The authorized capital cannot be used for these purposes unless pre-emptive rights can be excluded. The Executive Board should therefore be authorized to exclude pre-emptive rights in these cases. The authorized capital with the opportunity for excluding pre-emptive rights puts the Company in a position to react quickly and without the delays often associated with shareholder resolutions, which are often important or even decisive, in an effort to successfully close any such acquisition transactions and to remain competitive with other acquisitive enterprises.

Where pre-emptive rights are excluded, the relative ownership interests and relative voting power of the existing shareholders are reduced, however. Yet if pre-emptive rights are granted, the acquisition of companies, company divisions or holdings of companies in exchange for the granting of shares would not be possible and the related benefits unobtainable for the Company and the shareholders. As a rule, the Executive Board will use the stock market price as a benchmark in valuing the transferred Company shares which will be used as consideration. A schematic link to the stock market price is not, however, envisaged, in order to avoid, above all, compromising previously achieved negotiations due to fluctuations in the stock market price.

The Executive Board shall exercise its authority to exclude the pre-emptive rights, only if the acquisition transaction in exchange for the grant of Company shares is in the Company's clear best interests. Only if this condition is met will the Supervisory Board also grant its approval.

- c) *Moreover, the Executive Board should be authorized, with the prior approval of the Supervisory Board, to exclude the pre-emptive rights, if such exclusion is required to protect against dilution, in order to grant to the holders of warrants or the creditors under convertible bonds, which are issued by the Company or one of its affiliates under an authorization granted to the Executive Board by the Annual General Meeting, a pre-emptive right to the same extent such warrant holders or creditors would be entitled after exercising their option or conversion rights or after discharging their conversion duties. The terms and conditions of convertible and warrant-linked bonds typically provide that in the event of a capital increase, anti-dilution protection must be granted either by lowering the option or conversion price or by granting a pre-emptive right. In order from the very outset not to be limited to the alternative of reducing the option or conversion price, authorization should be granted during the utilization of the authorized capital to exclude the shareholders' pre-emptive rights to subscribe new shares to the extent such exclusion would be required in order to grant the holders of the warrants or convertible bonds the number of subscription rights to which they would be entitled as shareholders. This anti-dilution protection also serves to simplify the placement of bonds on the capital markets and therefore serves the interests of the shareholders in having an optimal financing structure for the Company. The exclusion in favour of warrant holders and creditors under convertible bonds allows such persons to participate in a capital increase to the extent they would be entitled to participate as such if they had subscribed shares based*

on the exercise of their option or conversion rights or the performance of their conversion duties. Such arrangement will in effect counteract the dilution resulting from the capital increase.

d) The Executive Board should also be authorized, with the prior approval of the Supervisory Board, to exclude the pre-emptive rights in order to eliminate any fractional amounts arising from the pre-emptive rights. The authorization to exclude the pre-emptive rights for fractional amounts creates the possibility of setting simple and practical subscription ratios during any capital increase. Fractional amounts arise if as a result of the subscription ratio or the amount of the capital increase, not all new shares can be distributed equally to the shareholders. The exclusion of the pre-emptive rights for such fractional amounts is required in order to present a subscription ratio that can be technically implemented. The shares excluded as fractional amounts under the shareholders' pre-emptive rights shall be disposed of in the best manner by the Company either through a sale on the stock markets or in some other way. The level of possible dilution due to the limitations of the fractional amounts is low given that the fractional amounts are insignificant relative to the overall capital increase.

e) Finally, the Executive Board should be authorized, with the prior approval of the Supervisory Board, to exclude the pre-emptive rights with respect to capital increases in exchange for cash capital contributions, if the issue price of the new shares is not "significantly" (within the meaning of §§ 203 (1) and (2), 186 (3) sentence 4 AktG) below the stock market price on the date the final issue price is set by the Executive Board and the pro rata amount of the registered share capital attributable to the new shares, for which the pre-emptive rights are excluded, does not in total exceed 10% of the registered share capital at the time the new shares are issued. Included in this 10% threshold of the registered share capital are those shares, which are sold during the period of the authorized capital subject to the exclusion of the shareholders' pre-emptive rights pursuant to §§ 71 (1) no. 8, sentence 5, 186 (3) sentence 4 AktG, as well as those shares, with respect to which there is a conversion right or option or a conversion duty or option duty based on warrant-linked bonds and/or convertible bonds, which were issued on the basis of the shareholder resolution of 14 May 2004 while excluding pre-emptive rights pursuant to §§ 221 (4), 186 (3) sentence 4 AktG.

The provision is consistent with § 186 (3), sentence 4, AktG. The Executive Board is thereby placed in a position to cover any future financing needs on a short-term basis while utilising more favourable market conditions to the advantage of the Company and the shareholders. Above all, management will have the ability, on a short-term basis, to exploit stock market conditions and to thereby command a higher issue price by taking advantage of more real-time market price-setting. If pre-emptive rights are granted, then the aforementioned opportunity would be very limited given the very time-consuming process of settling pre-emptive rights. Experience has shown that due to their much quicker execution and settlement, capital increases that are done with an exclusion of pre-emptive rights pursuant to § 186 (3), sentence 4 AktG generate more incoming cash than comparable capital increases done with the shareholder pre-emptive rights.

A pre-emptive rights exclusion may be carried out only if the issue price for the new shares is not significantly below the stock market price for previously exchange-listed shares of the same class. Any discount off the stock market price may not be more than 5% of the actual stock market price.

The authorization to exclude the pre-emptive right is limited under the rule of § 186 (3), sentence 4, AktG to an amount equal to 10% of the registered share capital existing at the time the new shares are issued. Included in this maximum threshold are any shares, which are otherwise issued with an exclusion of pre-emptive rights pursuant to or in accordance with the § 186 (3), sentence 4, AktG or any of the Company's treasury shares.

Limiting the amount and creating an obligation to set the issue price for the new shares as close as possible to the stock market price effectively restricts the dilution of value of the existing shares and the loss of influence by the shareholders. Although the existing shareholders face a slight decrease in their relative ownership interest and voting rights, any shareholders who wish to preserve their relative ownership quota and their relative voting rights will have an opportunity, however, to purchase the necessary number of shares on the open stock market.

Depending on how business continues to develop particularly in connection with the expanded cooperation with Mori Seiki Co., Ltd., Japan, it may be practical to give Mori Seiki Co., Ltd. an opportunity to increase its existing holdings in the Company. In order to make such increased holding possible, it may make sense to utilise the authorized capital and the possibility for a simplified exclusion of the pre-emptive rights pursuant to § 186 (3), sentence 4, AktG. Given the great significance of the industrial partnership between GILDEMEISTER and Mori Seiki, intensifying the relationship by expanding the capital holdings could be in the best interests of the Company and its shareholders.

In considering all the circumstances, the Executive Board and Supervisory Board believe that excluding the pre-emptive rights in the foregoing situations for the reasons stated, even if the interests of the existing shareholders are diluted, is objectively justified and reasonable. The Executive Board shall in each individual case carefully review whether the use of the authorization to increase capital and possibly exclude pre-emptive rights is in the well-understood interests of the Company, while also weighing the interests of the existing shareholders. The Supervisory Board shall grant its approval after conducting its own review. The Executive Board shall report each use of authorized capital at the next Annual General Meeting.”

Bielefeld, March 2010

GILDEMEISTER Aktiengesellschaft
sig. The Executive Board

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