ANNUAL REPORT 2008

BUSINESS REPORT

Grasping chances. Showing strengths.

www.gildemeister.com

GILDEMEISTER

GRASPING CHANCES. SHOWING STRENGTHS.

COVER PRODUCT OVERVIEW: The cover picture shows the finish processing of a mould insert for the consumer goods industry, completely machined in 870 minutes on the universal milling machine DMU 80 MONOBLOCK® with 5-axis machining.

SWOT-ANALYSIS / TARGETS AND RESULTS

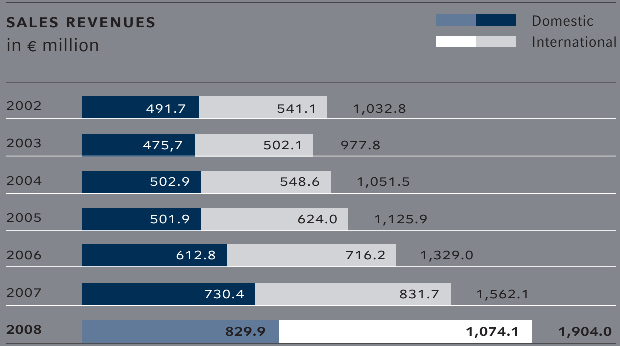
Key Figures

The Consolidated Annual Financial Statements for GILDEMEISTER Aktiengesellschaft as at 31 December 2008 were prepared in accordance with the International Financial Reporting Standards (IFRS) – as they have to be applied in the European Union.

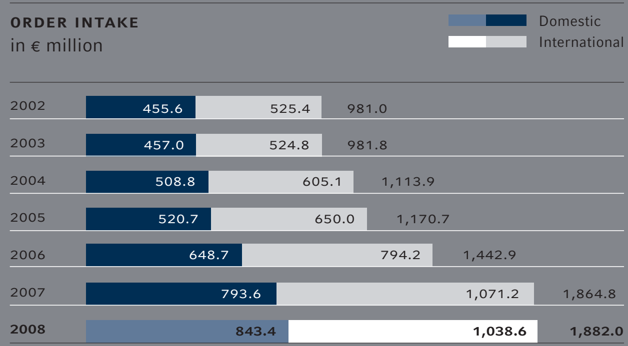
GILDEMEISTER-GROUP	2008 € million	2007 € million	Changes 2008 against 2007 € million	 %
Sales revenues				
Total	1,904.0	1,562.1	341.9	22
Domestic	829.9	730.4	99.5	14
International	1,074.1	831.7	242.4	29
% International	56	53		
Order intake				
Total	1,882.0	1,864.8	17.2	1
Domestic	843.4	793.6	49.8	6
International	1,038.6	1,071.2	-32.6	-3
% International	55	57		
Order backlog*				
Total	727.4	749.4	-22.0	-3
Domestic	232.7	219.2	13.5	6
International	494.7	530.2	-35.5	-7
% International	68	71		
Investments	50.2	53.1	-2.9	-5
Personnel costs	405.5	366.4	39.1	11
Personnel quota in %	20.7	22.9		
Employees	6,191	5,772	419	7
plus trainees	260	226	34	15
Total employees*	6,451	5,998	453	8
EBITDA	188.9	158.2	30.7	19
EBIT	158.2	125.9	32.3	26
EBT	126.7	83.4	43.3	52
Annual profit	81.1	50.1	31.0	62

* Reporting date 31 December

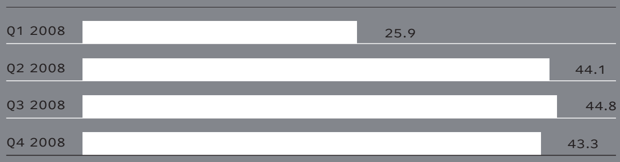
SALES REVENUES
in € million



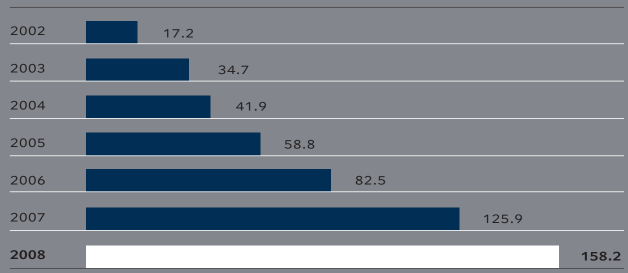
ORDER INTAKE
in € million



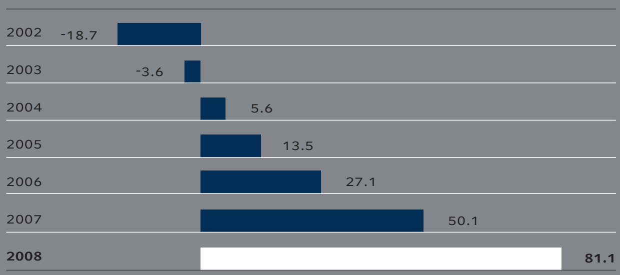
QUARTERLY RESULTS (EBIT)
in € million



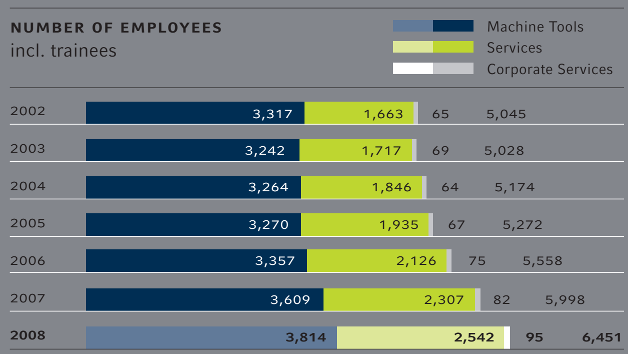
EBIT
in € million



ANNUAL RESULT
in € million



NUMBER OF EMPLOYEES
incl. trainees



Grasping chances. Showing strengths.

GILDEMEISTER has made this its motto for the year 2009. Our powerful innovative strength should enable us to extend our position as the worldwide leading producer of cutting machine tools. Our wide-ranging technological know-how sets us apart from our competitors; it makes us less dependent on individual industries and markets. In addition to our core areas of expertise of "turning" and "milling", as well as "ultrasonic" and "laser technology", we offer automation and software solutions for machine tools. This is complemented by our continuously growing service business. The "Solar Technology" division with its successful "SunCarrier" product achieved a breakthrough in the financial year 2008. All the business areas were profitable in the reporting year. For GILDEMEISTER, as an international manufacturer of investment goods, the financial year 2009 is also associated with high risks. In the increasingly overall difficult business environment, we are concentrating on our strengths and will use the opportunities that arise creatively.

Grasping chances.
Showing strengths.

January . . . . . . February . . . March . . . . April . . May . . . . June

01
The year 2008 is marked for GILDEMEISTER by innovations. With 17 new developments, the range of products and thus the market position are further improved.

02
a+f GmbH receives a major order for the supply of solar installations to Spain. In Alange (Extremadura region), 240 "SunCarriers" at a value of € 55.4 million are installed.

Powerful start to the exhibition and trade fair year: At the most important kick-off event in southern Germany, the traditional in-house exhibition at DECKEL MAHO in Pfronten, GILDEMEISTER achieves order intake of € 102.6 million.

03
GILDEMEISTER further expands the solar technology business area: a+f GmbH receives a major order worth € 49.9 million from Spain. The order is for the supply of 216 "SunCarriers" to Badajoz (Extremadura region).

In the first quarter, GILDEMEISTER increases order intake to € 591.9 million (+42%). Sales revenues increase to € 392.0 million (+22%). Profitability develops in line with plans. EBT rises to € 18.1 million (+108%).

04
At the METAV in Düsseldorf, 227 machines are sold for a total of € 57.9 million. At this important spring event for manufacturing technology and automation, GILDEMEISTER shows all the exhibits in the trendsetting new machine design.

05
GILDEMEISTER optimises the infrastructure at the Bielefeld plant and creates an additional assembly area of about 3,000 square metres for the CTV series.

On 16 May the 106th Annual General Meeting takes place attended by more than 1,400 shareholders at the Stadthalle in Bielefeld. All the resolutions are passed with an overwhelming majority.

06
As a follow-up to the largest specialist trade fair worldwide for solar technology, the Intersolar in Munich, a+f GmbH concludes a further major order for a value of € 21.6 million.

Order intake, sales revenues and earnings clearly increase in the first half year. The group reports an annual profit of € 33.8 million at 30 June 2008 – more than double the first half-year 2007. Due to the positive business development GILDEMEISTER raises its targets for the financial year 2008.

July . . . August . . . September . . . October . . . November . . . December

07

Through successful refinancing, GILDEMEISTER creates a sound, long-term financial framework. The high-yield bond is redeemed prematurely and replaced by borrowers' notes loan in line with the market.

08

At the start of the new training year, GILDEMEISTER takes on 66 trainees at its domestic companies. In doing so, the technology group once again shows the importance it places on vocational training.

09

At the industry's important trade fairs, the AMB (Stuttgart) and IMTS (Chicago), GILDEMEISTER sells 329 machines and thereby achieves order intake of € 82.4 million.

GILDEMEISTER once again receives recognition for its annual report 2007. In the annual ranking of the "manager magazin" GILDEMEISTER wins in the MDAX category.

Despite the global financial crisis, GILDEMEISTER achieves growth in order intake, sales revenues and earnings in the first nine months. Order intake increases to € 1,592.8 million (+13%); sales revenues rise to € 1,363.2 million (+27%). Profitability continues to develop positively as announced: EBT amounts to € 91.6 million (+89%). Due to the good business development, GILDEMEISTER raises the sales revenues target for 2008.

10

GILDEMEISTER has been continuously investing for years in its production sites. With the commissioning of a new assembly hall, DECKEL MAHO concludes the construction work in Pfronten.

GILDEMEISTER opens a new centre of technology, by which it implements a further important stage of the modern site concept in Bielefeld.

11

At the in-house exhibition at DMG Hilden, with the world premiere of the CTX beta 500, GILDEMEISTER presents the last of a total of 17 new developments for the year The new CTX series is an intelligent modular system, which allows the customer to put together his own, individual universal lathe.

The DMG Training Academy presents an award in Stuttgart to an Egyptian delegation from the German university in Cairo for its excellent co-operation. As official licensor, DMG trains lecturers and students in Cairo.

The most important Asian industry trade fair, the JIMTOF in Tokyo, brings the autumn trade fairs to a close. GILDEMEISTER presents eight high-tech machines to its Japanese customers and is a main draw for the public attracting 5,071 visitors to its exhibition stand.

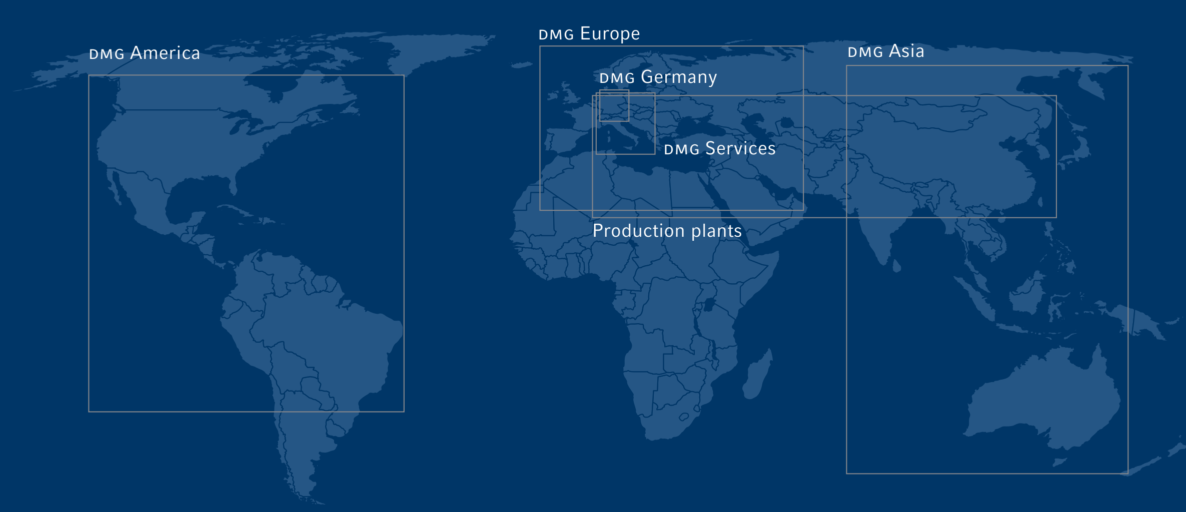
12

The financial year 2008 is the best year for GILDEMEISTER in the company's 138-year history. Order intake of € 1,882.0 million (+1%) was above the previous year's level. Sales revenues increase to € 1,904.0 million (+22%). EBT rises to € 126.7 million (+52%). The group annual profit grows to € 81.1 million (+62%).

The business area of solar technology continues its successful development and captures new markets. For the first time a+f delivers the "SunCarrier" to Italy. The order is worth € 12 million. Due to the dynamic development, a new centre of competence is erected at the Würzburg site.

GILDEMEISTER is the leading manufacturer of cutting machine tools worldwide. We offer innovative machine technologies, service expertise and software products aligned with requirements. The “Machine Tools“ segment is complemented by the “Services“ segment. The group-wide holding functions are found under “Corporate Services”. The “Machine Tools“ segment forms the group’s new machine business with turning, milling, ultrasonic and laser technologies, as well as electronics and automation. The development and technological expertise of GILDEMEISTER is combined in ten production plants as well as in DMG Electronics and DMG Automation. DMG Vertriebs und Service GmbH covers the “Services“ segment together with its subsidiary companies. Cross-functional services are supplied covering every aspect of our very diverse machine range. This segment also includes the “SunCarrier“ division of a+f. GILDEMEISTER is globally positioned: A total of 69 national and international own sales and service locations in 34 countries ensure direct contact with our customers. The basis of our success is formed by our 6,451 dedicated employees.

GILDEMEISTER Sites

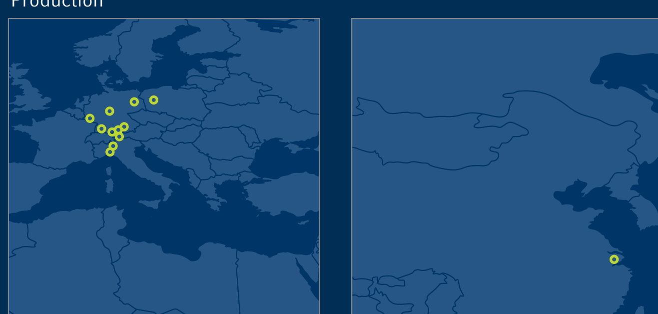


GILDEMEISTER Aktiengesellschaft; Bielefeld

GILDEMEISTER Beteiligungen AG; Production (13)

Production plants Turning	Production plants Milling	Production plants Turning and Milling	Production plants Ultrasonic / Lasertec	Automation / Control / Ecoline
GILDEMEISTER Drehmaschinen GmbH Bielefeld	DECKEL MAHO Pfronten GmbH Pfronten	FAMOT Pleszew S.A. Pleszew	SAUER GmbH Idar-Oberstein, Kempten	DMG Automation GmbH Hüfingen
GRAZIANO Tortona S.r.l. Tortona	DECKEL MAHO Seebach GmbH Seebach, Geretsried	DECKEL MAHO GILDEMEISTER Machine Tools Co., Ltd., Shanghai		DMG Electronics GmbH Pfronten
GILDEMEISTER Italiana S.p.A. Bergamo				DMG Ecoline GmbH* Klaus

Production



DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER; Bielefeld (69)

DMG Germany Stuttgart (7)
DMG Stuttgart Vertriebs und Service GmbH
DMG München Vertriebs und Service GmbH
DMG Hilden Vertriebs und Service GmbH
DMG Bielefeld Vertriebs und Service GmbH
DMG Berlin V. u. S. GmbH Berlin, Chemnitz
DMG Frankfurt Vertriebs und Service GmbH

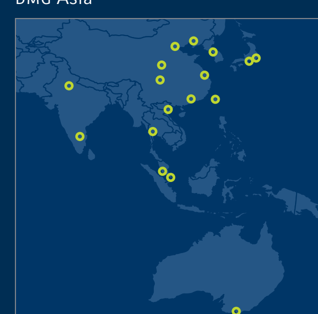
DMG Europe Klaus (Austria) (26)	
DMG Italia S.r.l. Bergamo, Tortona, Ancona	DMG Ibérica S.L. Barcelona, Bilbao
DMG France S.a.r.l. Les Ulis, Lyon, Scionzier	DMG Scandinavia Sverige AB Sollentuna
DMG Austria GmbH Klaus, Wiener Neudorf	DMG Scandinavia Danmark Kvistgård
DMG (Schweiz) AG Dübendorf (Zürich)	DMG Scandinavia Norge AS Langhus
DMG Polska Sp.zo.o. Pleszew	DMG Istanbul Ltd. Istanbul
DMG Russland o.o.o. Moskau	DMG Hungary Kft. Budapest
DMG (UK) Ltd. Luton	DMG Romania Sales & Services S.R.L. Bukarest
DMG Benelux Veenendaal, Zaventem	DMG South East Europe E.P.E. Thessaloniki
DMG Czech s.r.o. Brno, Trenčin	DMG Middle East* Dubai

DMG Asia Shanghai, Singapur (17)		
DMG China	DMG Shanghai Co. Ltd. Shanghai	DMG Asia Pacific
	DMG Beijing Sales Office Beijing	
	DMG Guangdong Sales Office Guangdong	
	DMG Chongqing Sales Office Chongqing	
	DMG Shenyang Sales Office Shenyang	
	DMG Xi'an Sales Office Xi'an	
	DMG Nippon K.K. Yokohama, Nagoya	
	DMG India Pvt. Ltd. Bangalore, Neu-Delhi	

DMG Germany

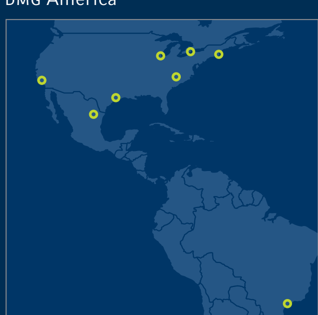
DMG Europe

DMG Asia

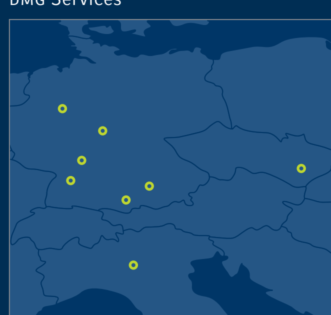


		DMG America Itasca (Illinois) (8)	DMG Services Bielefeld, Pfronten (11)	
Asia Pacific Pte. Ltd. Singapur	DMG Norht America	DMG Chicago Inc. Itasca (Illinois)	DMG Service Fräsen Pfronten GmbH Pfronten	a+f GmbH Würzburg
G Australia Pty. Ltd. Melbourne	DMG Norht America	DMG Charlotte LLC Charlotte	DMG Service Fräsen Seebach GmbH Seebach, Geretsried	DMG MICROSET GmbH Bielefeld
G Malaysia SDN BHD Kuala Lumpur	DMG Norht America	DMG Houston Inc. Houston	DMG Service Drehen GmbH Bielefeld	SACO S.p.A. Castelleone
G (Thailand) Co. Ltd. Bangkok	DMG Norht America	DMG Los Angeles Inc. Los Angeles	DMG Trainings-Akademie GmbH Bielefeld, Pfronten, Stuttgart	
Vietnam Sales Office Hanoi	DMG Norht America	DMG Boston LLC.* Boston	DMG Spare Parts GmbH Geretsried	
DMG Korea Ltd. Seoul	DMG Norht America	DMG Canada Inc. Toronto	DMG Gebrauchtmaschinen GmbH Geretsried, Bielefeld, Zlin	
Machinery Taiwan Ltd. Taichung	DMG Latin America	DMG México S.A. de C.V. Queretaro		
	DMG Latin America	DMG Brasil Ltda. São Paulo		

DMG America



DMG Services



* New group companies 2008: 3.
Simplified organisational structure according to management criteria (status: March 2009).
The legal corporate structure is presented in the Notes to the Consolidated Financial Statements on page 76 et seq.

Hans Henning Offen (68)

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

Report of the Supervisory Board

During the financial year 2008, the Supervisory Board has been intensively concerned with the development of the group and with the strategic development up to the year 2011. Six meetings were held at the Bielefeld location. The Supervisory Board discussed strategic issues concerning corporate planning, business policy, business development, the risk status, the risk management and the compliance. Moreover, the Executive Board regularly prepared written, comprehensive and timely reports on any events of significant importance and on the development of key financial indicators. In this year too, there were no conflicts of interest of members of the Supervisory Board.

At the end of the 106th Annual General Meeting of Shareholders on 16 May 2008 the term of office of the incumbent supervisory board ended. The election of the employee representatives took place on 4 March 2008; the annual general meeting elected the shareholder representatives on 16 May 2008. The composition of the Supervisory Board changed as follows: Rainer Stritzke withdrew as the employee representative. Matthias Pfuhl was appointed in his place. All the former members of the Supervisory Board were elected for a further five-year term. The new period of office will run until the end of the annual general meeting of shareholders that passes the resolution on discharge for the financial year 2012.

The Supervisory Board expresses its complete confidence in the Chairman of the Executive Board

The core topic of the **Strategy Meeting on 29 January 2008** was the long-term direction of the group. In addition, the Supervisory Board was informed at length of the Public Prosecutor's investigations that are based on an initial suspicion of tax evasion and are directed against different individual persons. The Supervisory Board made it clear that GILDEMEISTER will actively participate in an extensive clarification of the incidents and for this purpose commissioned an internal company investigation by the audit department. In addition, external advisors were commissioned to carry out an investigation and evaluation. The Supervisory Board is not aware of any inappropriate behaviour of any members of the Executive Board; it especially expressed its complete confidence in the Chairman of the Executive Board. All members of the Supervisory Board were present at this meeting.

At the **Annual Accounts Meeting on 11 March 2008**, following its own audit, the Supervisory Board unanimously approved the group and annual accounts of GILDEMEISTER Aktiengesellschaft as at 31 December 2007. Furthermore, the Supervisory Board discussed the investment amount for the financial year 2008. It decided to increase the planned investments for the reporting year by € 3.5 million to € 53.5 million, in order to further expand the assembly and showroom areas at the Pfronten site. Ten members of the Supervisory Board and the auditors attended this meeting.

Preparations were made for the 106th annual general meeting at the third **Supervisory Board Meeting on 15 May 2008**. In addition, the Supervisory Board dealt with the business development in the first quarter of 2008 and obtained detailed information on the status of the internal and external investigations. On the basis of the results available, the Supervisory Board reaffirmed its full confidence in the Executive Board. All members of the Supervisory Board were present at the meeting.

The fourth **Supervisory Board Meeting** took place **on 16 May 2008** following the 106th annual general meeting; it was the constituent meeting of the new Supervisory Board. Hans Henning Offen was reappointed as the chairman, Gerhard Dirr as his deputy. In addition, the Supervisory Board elected Matthias Pfuhl as Gerhard Dirr‘s successor to the Technology and Development Committee. All members of the Supervisory Board were also present at this meeting.

Topics at the **Supervisory Board meeting on 18 September 2008** were the commissioned investigations, the compliance structures and the recommandations of the Corporate Governance Code. The chairmen of the Supervisory Board and of the Financial and Audit Committee had received reports in the previous months in several separate working group meetings on the procedure and progress of the investigations commissioned by the Supervisory Board on 29 January 2008. At this Supervisory Board meeting the Supervisory Board examined, in each case in the absence of the members of the Executive Board – initially in the presence of the auditors, then without the auditors – the concluding reports of the investigations. Following a detailed discussion, the Supervisory Board determined that there had been no inappropriate behaviour of any member of the Executive Board and that there were no grounds to continue any further investigations of its own. In this regard, the Supervisory Board also discussed exhaustively the compliance structure at GILDEMEISTER, which had been consistently and continuously further developed during the reporting year. In addition, the Supervisory Board looked into the new recommendations of the German Corporate Governance Code in the version of 6 June 2008. In line with these recommendations, in the absence of the Executive Board, it debated the remuneration provisions for the Executive Board and, following a detailed examination of the current remuneration system – including the fundamental contractual elements – approved of these. An amendment to the by-laws for the Supervisory Board was also passed in order to implement in full the new recommendations contained in the code. Following preparation by the committees, once again the Supervisory Board reappraised its activities in the reporting year in accordance with the code guidelines. The focus of the evaluation was placed on compliance; included in this was the evaluation of individual fundamental aspects, such as the frequency of meetings and the structure and composition of

Compliance structures consistantly further developed committees. Additionally, the Supervisory Board discussed further potential for consistently increasing the efficiency of its work. A further efficiency appraisal will take place in turn in the financial year 2009. All members of the Supervisory Board were present at this meeting.

The core topic of the **Budget Meeting on 27 November 2008** was mainly the effects of the global financial and economic crisis on the future development and direction of the group. The Supervisory Board analysed in depth the corporate planning for the financial year 2009, which it unanimously approved. In addition, it discussed a comprehensive programme of measures for the financial year 2009, by which GILDEMEISTER would confront the financial crisis and the growing pressure on profitability. Furthermore, the Supervisory Board dealt with the further development of the finance and tax strategy and authorised the Executive Board to found a treasury company. Finally, the Supervisory Board resolved upon the following main point of the audit for the financial year 2008: an examination of goodwill impairment (IAS 36) in the event of a possible worsening economic outlook. All members of the Supervisory Board were present at the meeting.

A significant part of the Supervisory Board's work is carried out by committees: In the financial year 2008, the Supervisory Board of GILDEMEISTER Aktiengesellschaft continued to have four committees. The **Financial and Auditing Committee** met three times. The topics were the audit of the group and annual reports, the further development of the finance and tax strategy, and the proposal to appoint the auditors. The committee monitored the auditors' independence and obtained the declaration of independence of the auditors pursuant to Clause 7.2.1 of the German Corporate Governance Code. In this respect, a further topic was the possible issue of mandates to the auditors for non-audit related services. Further core aspects were the budget for 2009 to 2011, risk management, the structure of the compliance organisation and possible effects of the planned German accounting law modernisation act (BilMoG).

The **Personnel, Nominations and Remuneration Committee** conferred three times, in particular on the remuneration assessment and structure of the Executive Board. Further main points were the D&O insurance retention and vocational and further training throughout the group. Furthermore, the Nomination Committee, which met as a subcommittee of the Personnel, Nomination and Remuneration Committee without the employee representatives, drew up the proposals for the shareholder representatives to be elected at the 106th annual general meeting.

The **Technology and Development Committee** met four times; it conferred on the standardisation of product components, optimising productivity, key performance indicators for the production plants, and the strategic research and development cooperation with universities. In the reporting year there was no need to call a meeting of the **Conciliation Committee.**

Recommendations of the German Corporate Governance Code met in full

In December 2008 the Supervisory Board and Executive Board adopted the **Declaration of Compliance 2008** with the German Corporate Governance Code. Once again GILDEMEISTER meets all the recommendations. The Executive Board and the Supervisory Board acknowledge good corporate governance as an integral component of corporate management, which, in keeping with the interests of the shareholders, is focused on a sustainable increase in enterprise value. The joint report on "Corporate Governance" can be found on pages 65 et seq.

At the **Annual Accounts Meeting of 10 March 2009**, following its own audit, the Supervisory Board approved the consolidated annual financial statements and the annual financial statements for the financial year 2008. The annual financial statements of GILDEMEISTER Aktiengesellschaft have therefore been certified in accordance with Section 172 of the German Companies Act (AktG). The Supervisory Board endorses the Executive Board's proposal for the appropriation of retained profits. The Executive Board prepared the Annual Financial Statements and the Management Report 2008 of GILDEMEISTER Aktiengesellschaft in accordance with the provisions of the German Commercial Code (HGB). The 2008 Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft were prepared in accordance with the International Financial Reporting Standards (IFRS), as applicable within the European Union. Pursuant to the exemption provision in Section 315a of the German Commercial Code (HGB), consolidated financial statements in accordance with the German Commercial Code were not prepared. The auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin – formerly KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin – issued an unqualified audit certificate for both the Financial Statements and Management Reports.

The Supervisory Board thanks the Executive Board and all employees for their commitment and performance, which once again have made the reporting year a record year for GILDEMEISTER.

Hans Henning Offen
Chairman of the Supervisory Board
Bielefeld, 10 March 2009

The Executive Board

Dr. Rüdiger Kapitza (54)
has been the Chairman of the Executive Board since April 1996. He was appointed to the Board of GILDEMEISTER Aktiengesellschaft in 1992. Following his apprenticeship as a machinist and industrial clerk at GILDEMEISTER, he studied economics in Paderbon and obtained his doctorate at the Johannes Gutenberg University in Mainz. Dr. Rüdiger Kapitza is responsible for corporate strategy, key accounting, personnel, purchasing, auditing, compliance, as well as investor and public relations.

Günter Bachmann (57)
has been a member of the Executive Board since October 2006. The engineering graduate studied mechanical engineering at the Technical University of Chemnitz and started his professional career in 1974 in the production area at today’s DECKEL MAHO Seebach GmbH in Thüringen. He was promoted to Head of Production in 1985 and in 1994 to Managing Director of the company. Günter Bachmann is responsible for technology and production.

Letter from the Chairman

Dear Shareholders,

the financial year 2008 was the best year for GILDEMEISTER in the company's 138-year history. We have achieved our targets in all the key financial ratios. We have further strengthened our position as worldwide leading manufacturer of cutting machine tools. Below is an overview of the key figures: Order intake of € 1,882.0 million was above the previous year's level. Sales revenues rose by 22% to € 1,904.0 million. It was important to us to grow profitably – this, too, we have managed to achieve: EBITDA reached € 188.9 million and EBIT € 158.2 million. EBT rose by 52% to € 126.7 million. The group annual profit grew 62% to € 81.1 million. Earnings per share amounted to € 1.87 and were thus 61% above the previous year's figure. The foundations of our performance are our employees' excellent qualifications, motivation and identification with our company.

The figures for the financial year just ended, however, should not deceive us as to how serious the situation in 2009 is. The financial crisis has severely curtailed our customers' willingness to invest. In the fourth quarter 2008, in particular, orders fell abruptly to an extent never experienced before. The capital markets had to report losses as a consequence of the global crisis in the financial markets. The GILDEMEISTER share too, developed in line with the MDAX development: Our share price fell significantly: at year-end it was quoted at € 7.85 (status: 30 Dec. 2008).

	ORDER INTAKE in € million	SALES REVENUES in € million	EBT in € million	ANNUAL PROFIT in € million
2007	1,864.8	1,562.1	83.4	50.1
2008 Forecast Q3	> 1,864.8	> 1,850.0	> 125.1	> 75.2
2008	**1,882.0**	**1,904.0**	**126.7**	**81.1**

Letter from the Chairman

Dear Shareholders, the share price development in no way reflects – as you can see from the figures– the real company situation. This annual report will provide you with all the facts in this respect. Naturally, we would like you, our owners, to participate in our business successes – even if the financial crisis has been affecting the machine tool market since the third quarter and we are expecting a significant decline in demand in 2009. The Executive Board and the Supervisory Board will propose to the annual general meeting of shareholders on 15 May 2009 that an increased dividend of € 0.40 per share be distributed.

Our success in the financial year 2008 had a broad foundation: The “Machine Tools” segment contributed to this, as did the “Services” segment. Consistent market focus on all world markets, our numerous customers and technological leadership in products – these were once again our success factors. Worldwide sales of 6,245 machines show this very clearly. As a full-liner, we offer our customers comprehensive technical services – this, again, paid off. We were able to reinforce our undisputed strong position in nearly all the major markets worldwide and, in part, were also able to extend it. As you know, since 2007 we have established a foothold in the important market of the future, that of regenerative energy. Today we are able to report that our entry into the solar technology field has proven to be very profitable. The “SunCarrier” – a sun-tracking system with photovoltaic modules – is exactly in line with the times. We have primarily been successful with the “SunCarrier” in Spain, Germany, Greece and Korea. In the financial year 2008, we were able to win orders from Italy for the first time. Overall, the solar technology subsidiary a+f obtained order intake to € 162.1 million and thus doubled it compared to the previous year.

Letter from the Chairman

"Grasping chances. Showing strengths" – our motto for 2009 shows how we intend to develop further in the future. The current financial report permits you an overview of GILDEMEISTER. With our newly designed products, which are consequently tailored to meet the needs of our customers, we will face the coming challenges. At present, they are characterised primarily by the consequences of the financial crisis that has effected nearly all areas of the economy and it will probably not be over any time soon.

What opportunities do we see? It is clear to us that the crisis offers us opportunities, for example to win additional market shares. The trend towards consolidation is favourable for GILDEMEISTER. Our presence in the marketplace will be aggressive. The GILDEMEISTER business model is solid and we are following a clear company strategy. Our diverse mix of industries – which we assiduously maintain – will assist us in becoming more resistant against general economic influences. Numerous branches of industry rely on high-performance turning, milling, ultrasonic and laser machines from GILDEMEISTER and not all of these branches have been drawn to the same extent into the economic downturn. Even the more stable industries, such as the medical technology, precision engineering or optics and aerospace, number among our customers. One of our recipes for success is recognising and seizing future trends. Solar technology is one example of this! The efficient use of energy and the search for climate neutral energy sources is a global topic that goes beyond any economic highs and lows.

Letter from the Chairman

What strengths do we have? The best recipe for success in times of crisis is to have innovative solutions. Our strengths lie in our powerful innovative strength paired with our speed of implementation, in our highly-developed product and application expertise, and in our market-oriented range of services, as well as in our tight network of global customer ties. GILDEMEISTER will continue to maintain its fast pace of innovation. There are new requirements arising in many market segments, for example in energy and medical technology, or for environmentally-friendly fuel efficient drive technologies. In times of crisis, we have to roll up our sleeves and tighten our belts. Who is not aware of this? We are experienced in reducing costs and optimising sales and services. In the current financial year we intend to realize again substantial savings; amongst others, an accelerated standardisation shall contribute to this. We are going to reduce investments without impairment of our performance by a fifth even in marketing, IT and external advisors. One of our biggest strengths is our highly-qualified technical and commercial employees, who work with great dedication every day all over the world. Their performance capability, flexibility and loyalty to GILDEMEISTER are exemplary. The effects of the economic slump are also forcing us to react in the personnel department: We have initiated measures to reduce and adjust the existing personnel capacity. This includes a reduction of the number of temporary employees and overtime working; short time working will be introduced at some sites. In addition we will examine all areas of the company with the aim of adjusting capacity to suit demand. Our strategically fast and dynamic action paired with an experienced and a young, dynamic management team make us strong. In addition to our global presence, our fast pace of innovation and a thought-out diversification, this is a fundamental pillar of our corporate strategy.

Letter from the Chairman

2009 will be a particularly hard test of our long-lasting strategy. A good strategy only becomes successful by a decisive and dynamic implementation. This applies, in particular, to the year 2009. GILDEMEISTER is well equipped to hold its ground in difficult market conditions. A high degree of flexibility allows us to respond appropriately to changing market conditions. In no way are we prepared to make any cutbacks with respect to research and development, for there is no question of comprising our technological advance. In total we will present 19 world premieres this year. We will use the important events in the industry in Germany, Italy and China, to prove our market leadership once again through our drive for innovations. We will continue to pay particular attention to the growth regions in Asia and eastern Europe. In the area of solar technology, we are placing our main focus on Italy. The “SkyCarrier“ – the new tracking system for solar installations in the equatorial region is intended primarily to tap into the markets in the Middle East.

We want to extend our market leadership even further. In the worldwide declining market for machine tools, we intend to win market shares from our competitors and to close better in comparison to the industry. As a consequence of the international economic downturn, over the course of the year we will also notice more strongly a reluctance to purchase on the part of both our domestic and international customers. The machine tools business will decline in 2009, the service business will be almost stable and we expect positive development in the solar business under the precondition of secured project financing. This development will inevitably have an impact on sales revenues and earnings. The extent of the worldwide economic crisis, its duration and its effects on GILDEMEISTER cannot be planned for with sufficient certainty at the present time. We have a sound financial basis and a clear corporate strategy. We are not planning any significant acquisitions. GILDEMEISTER remains well placed in major markets and, due to the measures consistently initiated, we are convinced to emerge stronger from the crisis.

Letter from the Chairman

At GILDEMEISTER we have a tradition of trustful and constructive cooperation between all those involved. It has formed the basis of our success in the past and will now provide the foundations for the tasks that lie before us. Therefore – also on behalf of my colleagues on the Executive Board – I would like to thank all our employees, customers, suppliers, investors and all other business partners. I am certain that our reciprocal trust – particularly in times of crisis – constitutes a reliable success factor. We are thankful that we can depend on our highly-qualified and dedicated employees without any reservations. And it is dependability, which we especially appreciate from you, our esteemed shareholders: Your confidence in us is what spurs us on in our work. My Executive Board colleagues and I will continue to lead GILDEMEISTER with the goal of achieving long-term value added and in line with good corporate governance. It is your right that your company should be successful and that your investment is worth it long-term. We are putting every effort in to ensuring this is so!

Yours sincerely,

Rüdiger Kapitza

Dr. Rüdiger Kapitza
Chairman of the Executive Board
Bielefeld, 10 March 2009

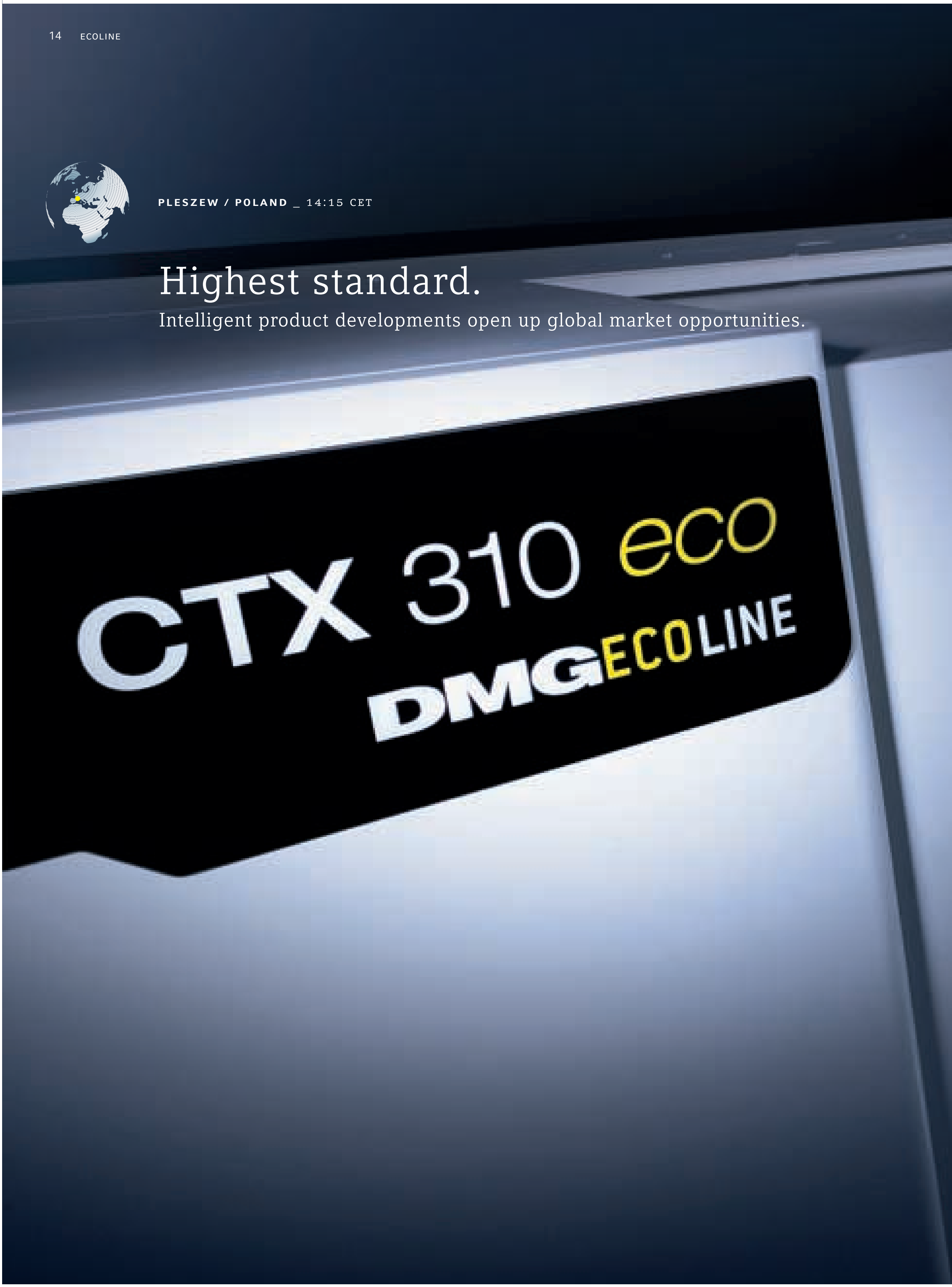
Dr. Thorsten Schmidt (36)
has been a member of the Executive Board since October 2006 and is responsible for sales and services. He holds a doctorate in economics from Münster University and has been working at GILDEMEISTER since January 2002. Within a very short space of time he took over management responsibility in sales and services in America and then as Managing Director in Asia.

Michael Welt (54)
has been a member of the Executive Board since January 2003. He is responsible for controlling, finance, tax, balances and information technology (IT). Michael Welt holds a degree in business administration and joined the group in 1996 as the Commercial Director of DECKEL MAHO Pfronten GmbH. He held various positions before joining GILDEMEISTER, most recently as a managing director in the field of machine and plant construction.

PLESZEW / POLAND _ 14:15 CET

Highest standard.

Intelligent product developments open up global market opportunities.



THE SOLUTION

Simple solution.

Affordable machine concepts with the customary high DMG high-tech quality.

SUCCESS FACTOR

ECOLINE

Fit for global competition through first class technology at a favourable price

SUCCESS FACTOR ECOLINE

Success for everyone through high-tech for all

Customary high DMG quality at the best price? DMG Ecoline makes it possible and opens up worldwide attractive market opportunities for ambitious start-ups and small enterprises. Even, and especially, in economically eventful times.

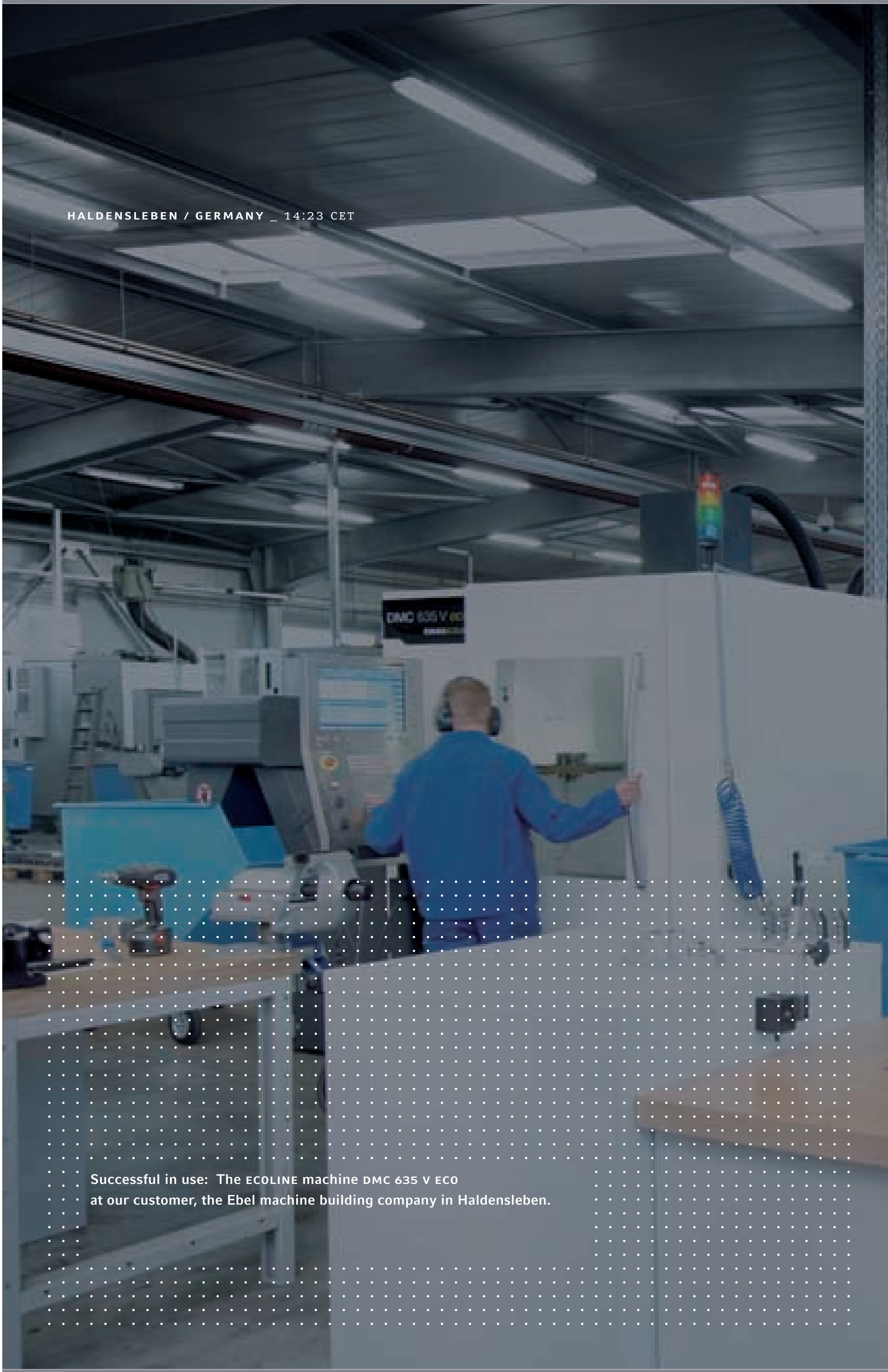
"Competition is becoming more and more difficult, we need high-quality turning and milling machines at affordable prices. Can you help us?" These types of requests have been put to GILDEMEISTER more and more frequently in recent years. In particular, smaller enterprises in the fast-growing national economies of the so-called "BRIC" countries (Brazil, Russia, India and China) are generating enormous demand with respect to affordable quality machines. GILDEMEISTER has responded in its customary flexible and competent manner, in this case with the development of the DMG Ecoline: Top machines, including the most up-to-date 3D control technology, practical equipment and worldwide service – and all this at a price that suits even limited budgets. **The quality benchmark for entry level machines.** With these advantages the innovative product line covers the needs of the target group exactly. *How was it possible to manage the difficult balancing act between top class technology and noticeably lower cost expenditure?* The solution is as simple as it is intelligent: All the DMG Ecoline designs have been implemented thanks to the consistent standardisation of the proven GILDEMEISTER technology. Whether controls quality, finish, design, ergonomics or service – with the first DMG Ecoline systems, GILDEMEISTER

RALPH CHRISTNACHT, Managing Director of DMG Ecoline GmbH.

has set new benchmarks in every respect at the level of entry machines. Naturally, success was not long in coming: The response to the DMG Ecoline was excellent. Now even the smallest operation could afford a GILDEMEISTER machine and thus not only increase its production quality but even improve efficiency significantly. The best pre-conditions, therefore, in order to keep up permanently with the national and international markets.

New thinking – new markets – new customers. For GILDEMEISTER, too, DMG Ecoline developed right from the start into a success story with the best future prospects. On the one hand, thanks to the well-thought out high-tech best-price principle, new customers and markets could be won even in economically tense times. On the other, the new customer share at DMG Ecoline in 2008 of more than 80% provided a solid foundation for the future sale of more complex GILDEMEISTER machines to these enterprises. In view of this market success, it goes without saying that the DMG Ecoline product range will be further extended. At the moment, a new universal milling machine and a CNC automatic lathe, amongst others, are in the planning. The result in the future, therefore, will also be: Success for all through high-tech for all.

HALDENSLEBEN / GERMANY _ 14:23 CET



Successful in use: The ECOLINE machine DMC 635 V ECO
at our customer, the Ebel machine building company in Haldensleben.

SUCCESS FACTOR ECOLINE

We create productivity.

At the entry level, GILDEMEISTER offers affordable high-tech solutions with the ECOLINE.

Business Environment

At the end of the first half-year 2008 the upsurge in the global economy lost pace. In the second half of the year, the international financial crisis caused a noticeable slowdown. Throughout the whole of Asia the economic drive increasingly lost momentum; there was even less economic stimulus from Japan. The slowdown was most noticeable in the USA. This was later followed by Europe, where Germany was particularly affected.

Overall Economic Development

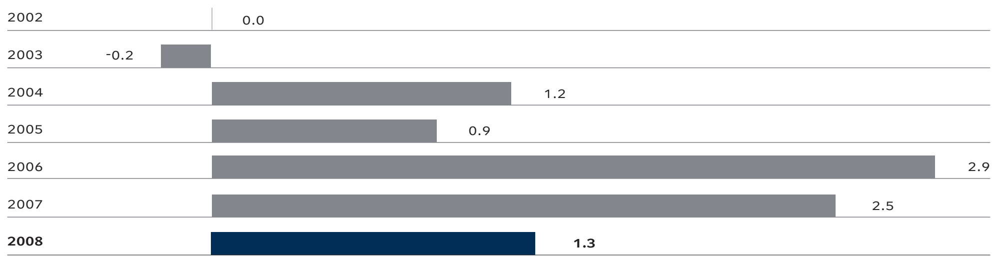
In the reporting year the **global economy** slid into a period of economic decline. Even China suffered a setback but, as previously, developed a strong driving force. The slowdown was most noticeable in the USA. This was later followed by Europe, where Germany was particularly affected. According to provisional calculations of the Institute for World Economics (IfW) at the University of Kiel, aggregate output rose worldwide by 3.6% (previous year: 5.0%).

In **Asia** the rate of growth declined increasingly. To a great extent, China was an exception to this and thus remained the main motor of the global economy. The economic trend in Japan was noticeably in decline; this was caused by less demand internationally. According to IfW estimates, gross domestic product in China rose by 9.6% (previous year: 11.9%) and in Japan by 0.1% (previous year: 2.1%).

Economic development in the **USA** slowed down noticeably as a consequence of the real estate crisis and the resulting problems on the financial markets. Consumer spending declined, as did investments in plant and equipment likewise. According to IfW calculations, gross domestic product fell to 1.2% (previous year: +2.0%).

Europe likewise did not escape the declining economic trend. However, the effects differed from country to country. Overall capital investments weakened and private consumption fell, too. According to provisional figures of the IfW, gross domestic product in the euro states rose by 0.9% (previous year: 2.7%).

GROSS DOMESTIC PRODUCT IN GERMANY
Real changes against the previous year in %

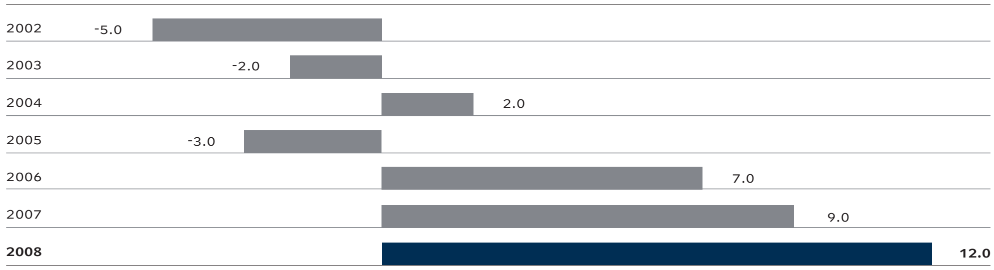


Source: Federal Statistical Office, Wiesbaden

In **Germany** the economic trend from mid-2008 was decidedly downwards. According to estimates of the Federal Statistical Office, gross domestic product rose by 1.3% (previous year: 2.5%). Exports increased by 4.7% (previous year: 8.0%). Domestic economic activity was driven, amongst others, by investments in equipment, which rose by 5.3% (previous year: 6.9%). Investments in manufacturing industries made a significant contribution to this. The following graphic provides comparative figures for recent years. The employment market eased in the reporting year. An average 3.3 million people were registered unemployed, some 500,000 less than the previous year. The number of company insolvencies rose to 30,000. According to initial calculations of the Federal Statistical Office, the rate of inflation was running at 2.6% (previous year: 2.3%). The financial situation of the state budget worsened. A budget deficit of 0.1% was clearly below the upper threshold of the Maastricht agreement.

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

INVESTMENT IN THE GERMAN MANUFACTURING SECTOR
Nominal changes against the previous year in %



Source: ifo Institute, Munich

The US dollar, the Chinese yuan and the Japanese yen are important for GILDEMEISTER's international business. The weak development of the euro particularly affected **exchange rates** during the second half of the year for the currencies most important to GILDEMEISTER. The US dollar continually gained in value against the euro. On 2 January, the US dollar started the year at 0.68 euros and initially remained at this level for the first six months of the year. Following a low on 15 July of 0.63 euros, the exchange rate continued to rise gradually and, over the remainder of the year, the US dollar made gains of more than 14% against the euro. The US dollar closed the year at 0.72 euros. This resulted in an average annual rate of exchange of 0.68 euros (previous year: 0.73 euros). As a result of this, our products became more favourably priced in the dollar regions and thus became more competitive. In relation to the Chinese yuan, initially there was no significant change against the euro but then it became increasingly weaker. On 31 December, the exchange rate was 9.50 yuan. The Japanese currency started 2008 at 163.83 yen. On 27 October, it had its highest value of 115.75 yen. With the exception of a temporary fall in value in July, the yen gained appreciably in value and closed the year at 126.14 yen. The average annual exchange rate of 152.45 yen was thus below that of the previous year (161.25 yen). The yen therefore recorded a gain in value of 5.5% against the euro. We thus had a currency advantage compared to our Japanese competitors. Further information on selected currencies can be found on page 21.

Development of the Machine Tool Industry

International development

Triggered by an increasing lack of demand as a reaction to the international financial crisis, the global market for machine tools developed significantly weaker in the second half of 2008 than in the previous year. The German Machine Tool Builders' Association (VDW) calculated **global output** at € 54.5 billion (previous year: € 51.8 billion). This represents an increase of 5% (previous year: 9%). As in the previous year, Japan was the world leader with € 10.8 billion, whereby its share in global output was 20% (previous year: 20%). Germany claimed second place again with € 10.7 billion; this likewise corresponds to 20% of all machine tools produced worldwide (previous year: 18%). China followed with output of € 8.5 billion or 16% of global output. Taking places four to seven were Italy (output: € 5.6 billion; global output share: 10%), Taiwan (€ 3.4 billion; 6%), South Korea (€ 3.1 billion; 6%) and the USA (€ 2.6 billion; 5%). Together these seven countries produced 83% of all machine tools (previous year: 80%).

The share of the individual world regions in the international production of machine tools is shown in the following table:

THE INDIVIDUAL WORLD REGIONS' SHARES IN INTERNATIONAL PRODUCTION*

in %	2008	2007
Shares in worldwide production		
Europe	45	44
(of which Germany)	(20)	(18)
Asian Pacific Region	48	49
(of which Japan)	(20)	(20)
(of which China)	(16)	(15)
America	7	7

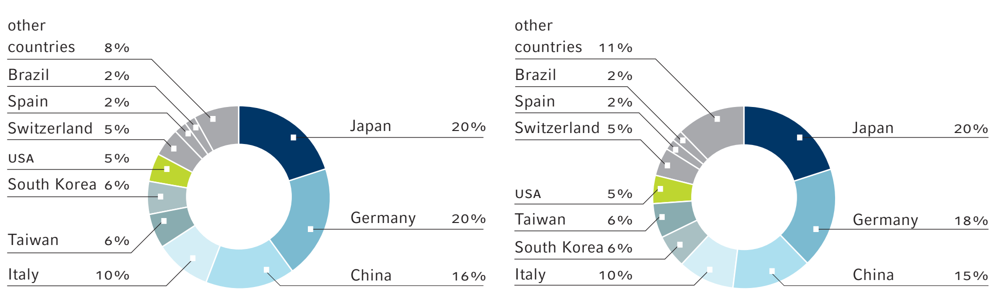
* provisional figures for 2008; revised values 2007

In the major markets, production share developed as follows:

WORLDWIDE PRODUCTION OF MACHINE TOOLS*

2008: total € 54.5 billion

2007: total € 51.8 billion



* provisional figures for 2008; revised values 2007

In the reporting period, 56% of global production was exported (previous year: 56%). With a share of 64% in **exports**, Germany took first place (previous year: 71%). Japan followed in second place with 54% (previous year: 52%). Together these two countries achieve 42% of world exports on a value basis (previous year: 42%); they were followed by Italy (11%), then Taiwan, Switzerland, China and the USA – each with a share of world exports of less than 10%.

Due to the financial crisis, the VDW calculated only a slight rise in global consumption of 5% to € 54.5 billion (previous year: € 51.8 billion). A comparison of the development of **global consumption** over the last ten years is presented in the chapter "Forecast report" on page 106. China accounted for 22% of all machine tools purchased (previous year: 23%), by which China is once again the largest sales market worldwide at € 12.2 billion. China is followed by Germany (€ 6.8 billion), Japan (€ 5.5 billion) and the USA (€ 4.6 billion). Places five to seven are taken by Italy (€ 4.0 billion), South Korea (€ 2.8 billion) and Taiwan (€ 1.9 billion). These seven countries represent 69% of all global consumption of machine tools (previous year: 71%). Brazil was ahead of India in eighth place.

The share of the individual world regions in the international consumption of machine tools is shown in the following table:

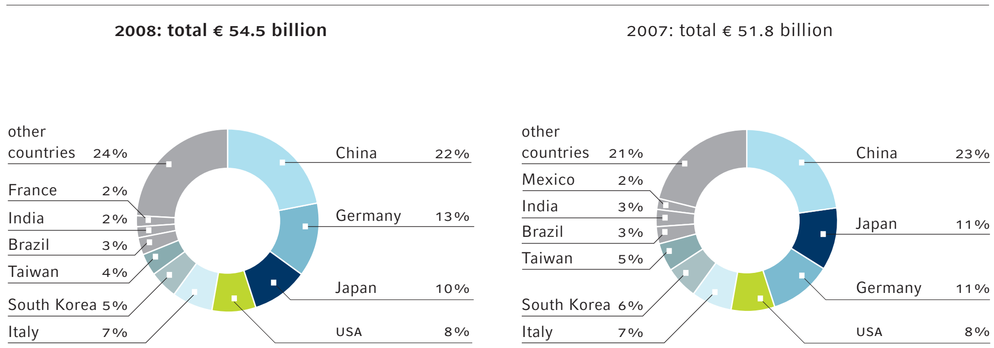
THE INDIVIDUAL WORLD REGIONS' SHARES IN INTERNATIONAL CONSUMPTION*

in %	2008	2007
Shares in worldwide consumption		
Europe	45	44
(of which Germany)	(13)	(11)
Asian Pacific Region	48	49
(of which Japan)	(10)	(11)
(of which China)	(22)	(23)
America	7	7

* provisional figures for 2008; revised values 2007

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

WORLDWIDE CONSUMPTION OF MACHINE TOOLS*



* provisional figures for 2008; revised values 2007

In the **import** of machine tools, China registered a slight decline of 1%, however again took first place for the seventh year in a row with € 5.1 billion (previous year: € 5.2 billion). The USA increased its imports from € 3.1 billion to € 3.3 billion (6%). Together the two major import nations accounted for 30% of machine tool imports (previous year: 31%). Based on total consumption, China's import share decreased by 2 percentage points to 42% (previous year: 44%). In comparison, the USA had to import 72% of its consumption in 2008 (previous year: 73%). The German import share amounted to 44% (previous year: 49%). This was followed by Italy with an import share of 39% (previous year: 37%) and Taiwan with 60% (previous year: 71%).

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

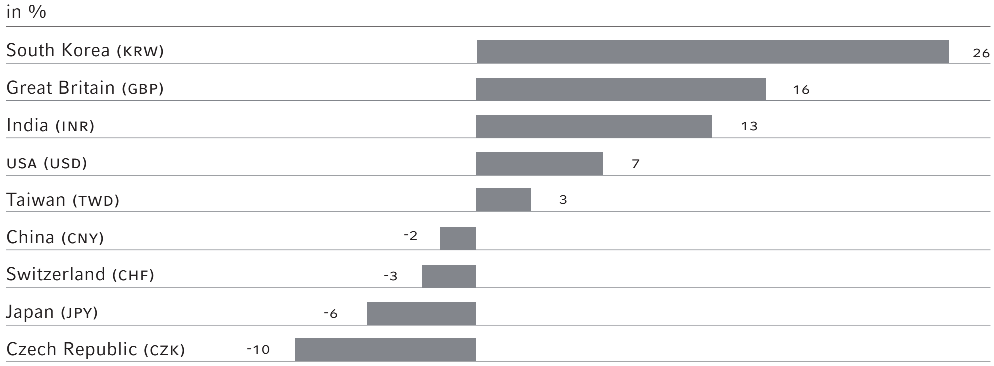
Explanatory notes on the problems of exchange rates

World Machine Tools Statistics

The world machine tool statistics of the VDW are shown in euros and reflect development within the eurozone, therefore without any exchange rate effects. However, with respect to third currencies, such as the US dollar, yen or yuan, exchange rate distortions remain relevant. As the chart of the movement of the euro with respect to selected currencies below shows, the shifts in purchasing power for some currencies compared to 2007 were definitely significant. Due to an upward revaluation of 26% against the previous year, the euro became most expensive for customers from Korea. The currencies of Great Britain (16%) and India (13%) also lost in value greatly. The US dollar was devaluated by 7%. The Taiwan dollar fell by 3%. In contrast, the Czech krone recorded a gain in value of 10% compared to the previous year. The Swiss franc appreciated by 3%; the Japanese yen gained 6% over the course of the year. However, there were no significant exchange rate influences for China (-2%).

The euro developed against selected currencies as follows:

CHANGES OF EACH NATIONAL CURRENCY 2008 AGAINST 2007 AGAINST THE EURO
in %



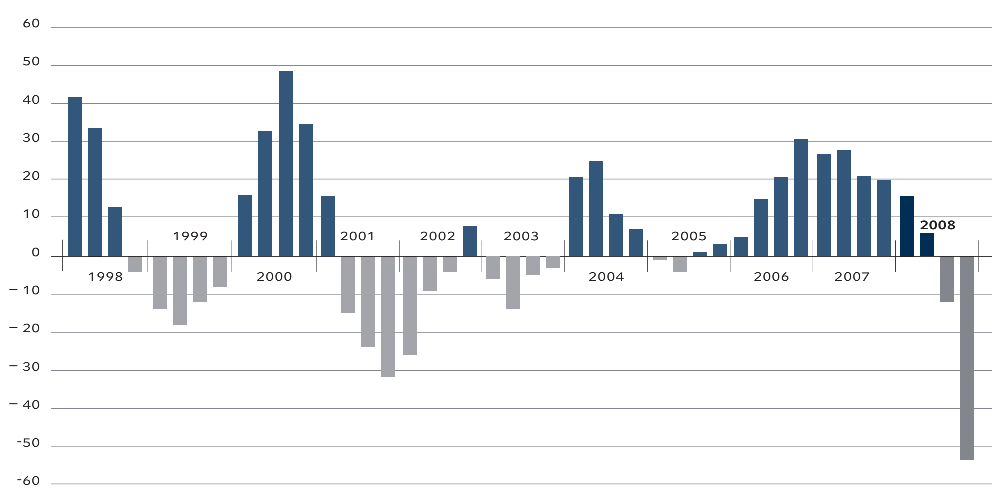
Source: German Central Bank

German Machine Tool Industry

In 2008 the German machine tool industry reported overall a decline in order intake, a higher rate of production and an increase in exports. **Order intake** of € 14.2 billion remained below the level of the previous year (€ 16.0 billion). At the same time, domestic demand fell by 14% (previous year: +33%). International demand decreased by 9% (previous year: +26%). The ifo business climate index for the manufacturing industries reflected the change in economic conditions. According to this survey, the main consumer industries (mechanical engineering, automotive manufacturing and electrical engineering) reported significantly lower assessments than in the previous year. Order intake of the German machine tool industry developed over the course of the year as follows:

MACHINE TOOL ORDER INTAKE IN GERMANY*

Real changes against the previous year in %



* previous year's figures partly adjusted

Production rose by 13% to € 14.3 billion and once again surpassed the record level of the previous year (€ 12.6 billion).

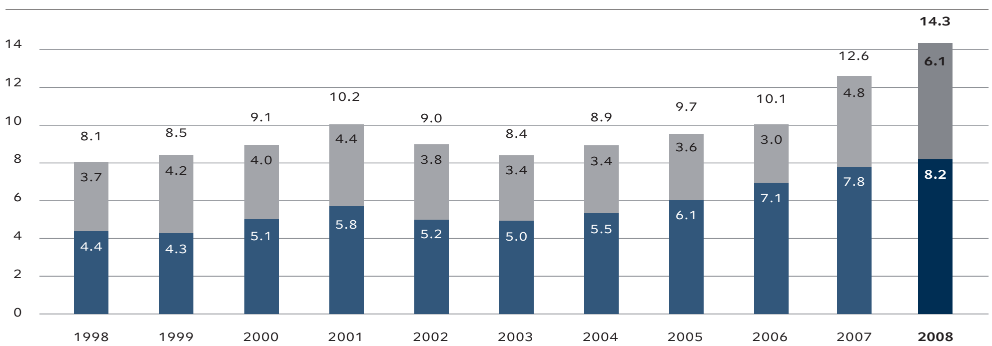
Exports recorded the export of machines to a value of € 8.2 billion and thus some 5% or € 0.4 billion higher than the previous year; this represents an export share of 57% (previous year: 62%). The most important sales market for German machine tools was China at € 1,160.6 million, which corresponds to 14% of German exports (previous year: 12%).

Machines to a value of € 700.8 million were delivered to the USA (previous year: € 636.2 million). The 10% rise is explained by the strong demand from the fields of automotive construction and wind energy, which increased the need for German machines. Russia replaced Italy as the third most important export market, taking delivery of machines to a value of € 511.3 million (+20%) (export share: 6%). In comparison with the previous year, clear gains were made in the following exports: Ukraine (+133%), Saudi Arabia (+68%), Slovenia (+31%), Brazil (+30%), Poland (+22%) as well as Austria and Switzerland (each +15%).

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

MACHINE TOOL PRODUCTION IN GERMANY
in € billion

Domestic sales
Export



Domestic consumption reached € 8.9 billion and rose by € 1.6 billion or 22% compared to the previous year (€ 7.3 billion). With an import share of 30%, nearly every third machine tool imported came from Switzerland. This was followed by Japan, Italy, the Czech Republic and the USA. In the top 10, imports from Austria at 38% were strongest, followed by China (+37%) and the Czech Republic (+36%). Machine tool **imports** rose by € 0.4 billion or 12% to € 3.7 billion (previous year: € 3.3 billion). German machine tools to a value of € 6.1 billion were sold domestically. Thus more than half the domestic consumption was also produced in Germany.

At the start of the reporting year, the German machine tool plants recorded **capacity utilisation** of 95% (previous year: 92%). Utilisation rose in summer to 96% (previous year: 95%) and at year-end it fell again slightly to 93% (previous year: 95%). At the start of the year capacity utilisation of producers of cutting machine tools amounted to 98% (previous year: 95%), in summer to 100% (previous year: 98%) and at the end of the year was again 98% (previous year: 97%). The production capacity of German machine tool manufacturers was therefore completely utilised.

The extent of **order backlog** rose in the first six months, before declining in the second half of the year and reached an average of 8.7 months (previous year: 7.5 months). The extent of order backlog is based on calculations and represents an average value for the industry. It can only be viewed as a rough indication of the actual order backlog as it takes into account not only standard machines with very short delivery periods but also special machines and non-cutting machine tools with long delivery periods.

The number of **employees** in German machine tool companies averaged 70,839 (previous year: 66,369).

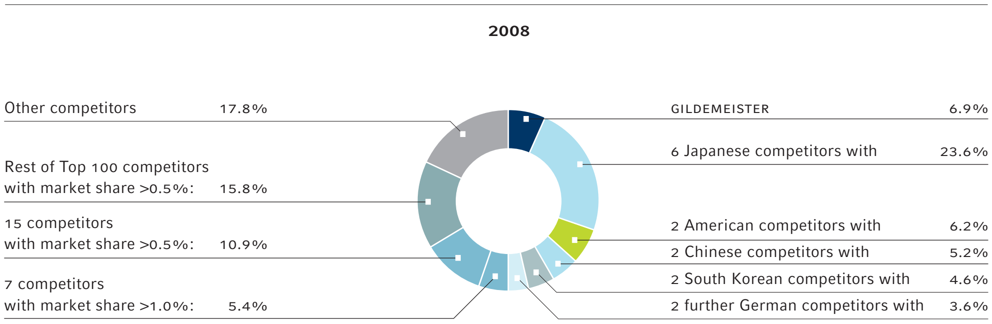
Reliable statements on the **profitability** of the German machine tool industry are not readily available as only a few companies publish the corresponding figures. Therefore the association has to rely on estimates. However, it can be determined that, despite the worldwide financial crisis, profitability within the industry was still satisfactory.

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

General statement on the Business Environment

Despite the dramatic financial crisis, as a technological trendsetter and full-liner, **GILDEMEISTER** was able to participate in the growth in the world economy and the global market for machine tools in the reporting year. As a rule, due to the high order backlog, our business development followed the overall economic development with a time lag. As a worldwide leading manufacturer of cutting machine tools, we have increased our **global market share** in the market sector relevant to us of "turning and milling" to 6.9% (previous year: 6.5%). We were further able to expand our **competitive position** in a distinctly more difficult market environment. At the same time, we had to contend with strong Asian competition. In the first six months of the year we had a currency-related competitive disadvantage in the major sales markets, such as the USA, Japan and China. The development of order intake in the machine tool business was influenced most especially in the fourth quarter of 2008 by the international financial crisis and the associated uncertainty of our customers. In Germany we increased order intake. In Europe business developed nearly steadily. In America, order intake development progressed positively for us; the still brisk business ensured an increase in market share. In Asia orders slackened off. Further information on the order intake can be found on page 29 et seq.

MARKET SHARES OF THE WORLDWIDE RELEVANT MANUFACTURER OF CUTTING MACHINE TOOL*
in %



* provisional figures for 2008

NEUWIED / GERMANY _ 16:15 CET

Greater complexity.

Industries of the future require perfect solutions for demanding workpieces.

THE SOLUTION

Shorter processing times.

Accelerated production for maximum cost-efficiency.

SUCCESS FACTOR

TURN & MILL

Complete machining with turning-milling spindle and tool changer

SUCCESS FACTOR TURN & MILL

Higher cost-effectiveness within a short time

Turning and milling with only one machine?
Above all, for enterprises who supply smaller and medium-sized lot sizes ready-to-install to their consumers, it is virtually a dreamlike vision. With complete machining systems from GILDEMEISTER, good cost-effectiveness becomes firm reality.

Anyone who wants to hold their ground as a manufacturing enterprise amongst the global competition has to confront one important factor every day: time is money. With small and medium-sized lot sizes, in particular, long tooling and programming times distinctly reduce production efficiency. This applies especially to parts that have to pass through several machines during production. This is exactly the right challenge for the worldwide market leader in matters of turning and milling.

Lower item costs – shorter delivery times – improved market opportunities. Thanks to decades of experience and its traditional fine-tuned intuition for the needs of its customers, GILDEMEISTER has successfully developed the perfect solution: the modular constructed universal platform Turn & Mill. This complete machining system ideally combines turning and milling in one machine each. This also includes equipping with the DMG Ergo*line*® control technology as well as the unique workshop-oriented DMG software including 3D simulation.
The advantages of this design compared to sequential processing are impressive: up to 50% reduction in tooling and programming times, a shorter processing time of up to 30% from the raw part to the finished part,

HARRY JUNGER, Managing Director of GILDEMEISTER Drehmaschinen GmbH.

as well as a reduced wastage quota due to higher machining precision. Companies that produce with Turn & Mill machines from GILDEMEISTER can thus use two unbeatable marketing arguments: lower piece costs and shorter delivery times.

A development advantage that pays off. For GILDEMEISTER, too, universal turning milling systems open up excellent growth opportunities: Above all in the industries of the future, such as aerospace, renewable energy and medical technology, but also in the supplier industry in general, worldwide demand in the coming years will rise significantly. GILDEMEISTER is already best prepared for this development. On the one hand, the Turn & Mill universal platform enables the production of high-quality turning-milling machines at a uniquely favourable price-performance ratio. On the other, in the area of technology integration, the innovative DMG software ensures a development lead of at least two years. A lead that will soon be further expanded, amongst others, with novel solutions for tooth milling and 5-axis machining, as well as a technical revolution in the area of the workshop programming of multi-channel machines.

Complete machining Turn & Mill on a CTX gamma 2000 TC
at our customer, the company Winkler+Dünnebier AG in Neuwied.

SUCCESS FACTOR TURN & MILL

We increase efficiency.

Clear advantage over sequential processing: greater time-saving with reduced wastage quota.

Results of Operations, Financial Position and Net Worth

The financial year 2008 was the best year in the company's history. GILDEMEISTER achieved its set targets. Sales revenues of € 1,904.0 million were above € 1.85 billion as announced and exceeded the record figure of the previous year by +22%. Order intake reached € 1,882.0 million and was thus even higher than the previous year's level. As a consequence of the international financial crisis, a sudden reluctance to purchase occurred in all world markets in the fourth quarter. Earnings before tax (EBT) and the annual profit increased as planned by more than 50%. EBT rose by 52% to € 126.7 million, the annual profit grew by 62% to € 81.1 million.

Sales Revenues

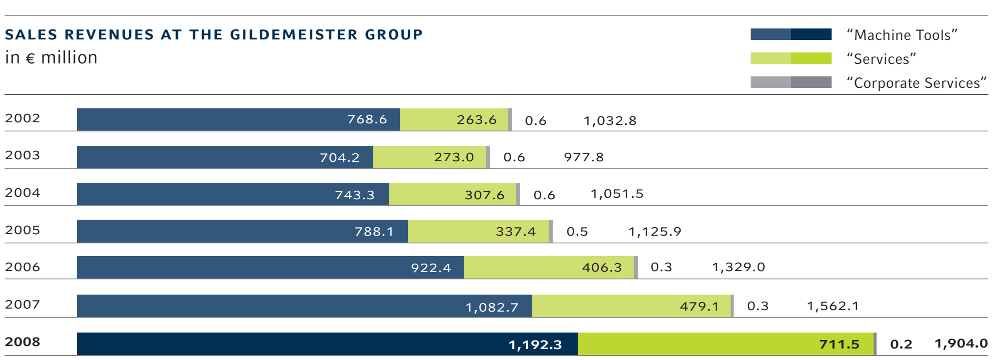
GILDEMEISTER was able to surpass clearly the sales revenues of the previous year and achieve a record figure in the company's 138-year history. We were able to achieve an increase in sales revenues both for technology machines and for the area of entry-level machines. For the first time the ECOLINE series contributed to this. A significant contribution to the sales revenues increase was made by the solar business with the "SunCarrier".

At € 1,904.0 million, sales revenues exceeded by 22% the previous year's figure (€ 1,562.1 million). This represents an increase of € 341.9 million. In the fourth quarter, sales revenues amounted to € 540.8 million and were thus 11% higher than the same period in the previous year (€ 487.2 million). In the reporting year, the "Machine Tools" segment achieved an increase of € 109.6 million (+10%). The "Services" segment contributed € 232.4 million (+49%) to the increase in sales revenues; the "Solar technology" division had a share of € 199.5 in this.

Domestic sales revenues rose by 14% to € 829.9 million; international sales revenues increased by 29% to € 1,074.1 million. The export share amounted to 56% (previous year: 53%).

More detailed information on the sales revenues in each segment can be found on pages 45 et seq.

In a multiple year comparison, the segments contributed to group sales revenues as follows:



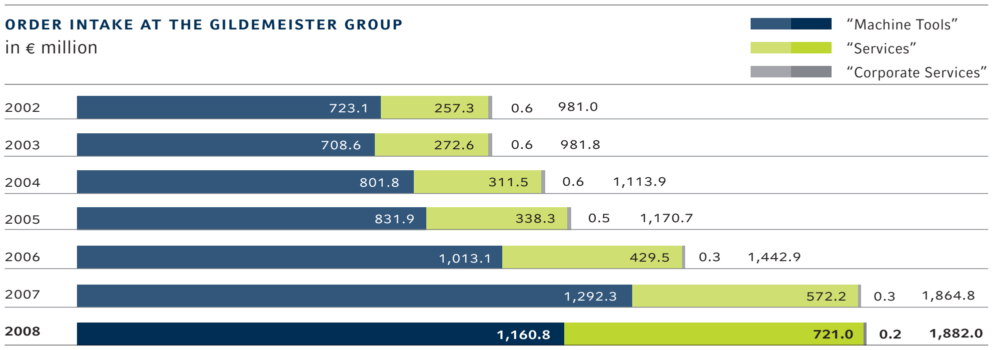
Order intake

Order intake reached € 1,882.0 million and was some € 17.2 million or 1% higher than the previous year (€ 1,864.8 million). Despite the increasingly difficult market environment, order intake in the first three quarters still developed satisfactorily. In the fourth quarter, we, too, had to suffer losses due to the international economic crisis: Order intake amounted to € 289.2 million (previous year's quarter: € 461.1 million). Over the whole year, the "Machine Tools" business amounted to € 1,160.8 million (previous year: € 1,292.3 million). "Services" rose to € 721.0 (previous year: € 572.2 million); the doubling of "solar technology" contributed to this with € 162,1 million (previous year: € 81.5 million).

Domestic order intake rose by 6% to € 843.4 million (previous year: € 793.6 million). International orders amounted to € 1,038.6 million (previous year: € 1,071.2 million). The international share of orders amounted to 55% (previous year: 57%).

In a multiple year comparison, the segments shared in group order intake as follows. More detailed information on order intake in each segment can be found on page 45 et seq.

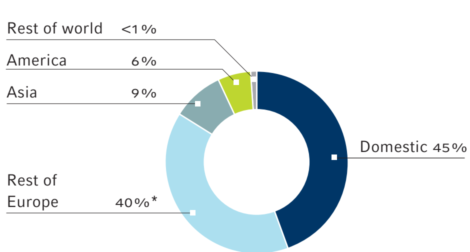
ORDER INTAKE AT THE GILDEMEISTER GROUP
in € million



In the individual market regions, order intake developed as follows:

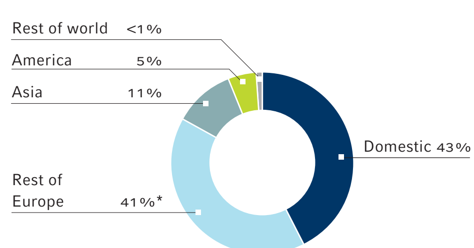
ORDER INTAKE AT THE GILDEMEISTER GROUP BY REGION

2008: total € 1,882.0 million



* SunCarrier 9% share

2007: total € 1,864.8 million



* SunCarrier 4% share

BUSINESS REPORT Results of Operations
BUSINESS REPORT Corporate Situation
BUSINESS REPORT Supplementary Report
BUSINESS REPORT Opportunities and Risk Report
BUSINESS REPORT Forecast Report

The 6,245 turning and milling machines sold, as well as ultrasonic / laser and reconditioned machines, were sent to 4,385 different customers. Due to the decline in demand in the fourth quarter, the **sales volume** of "machine tools" decreased by 8% compared to the previous year. At the start of the year, we raised **selling prices** by 1% to 3% depending on the market and product. **Key accounting** once again made a significant contribution to this: Customer service for internationally operating major customers is individually adapted to suit their particular requirements. Our top customers from the fields of aerospace and medical technology, the automotive industry and machine and plant construction, contributed € 188.8 million to order intake despite dampened willingness to invest (previous year: € 225.8 million). Our customer base is very well-balanced and is spread across all industries; the company success is thus not dependent upon any individual consumer industries.

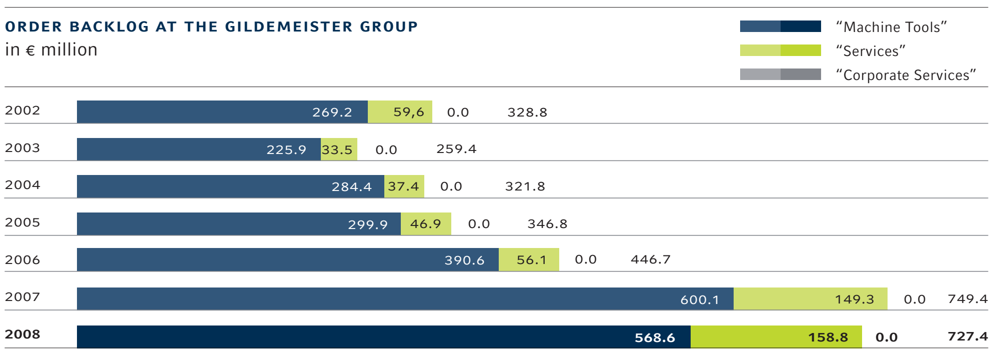
Order backlog

The order backlog within the group as of 31 December 2008 amounted to € 727.4 milion; it was thus € 22.0 million or 3% below the previous year's level (31 Dec. 2007: € 749.4 million). The "Solar Technology" division of a+f GmbH accounted for € 36.7 million or 5%.

Of the current orders, international orders account for 68% (corresponding date of the previous year: 71%). The domestic order backlog increased by 13.5 million or 6% to 232.7 million (previous year: € 219.2 million). The international order backlog declined by € 35.5 million or 7% to € 494.7 million (previous year: € 530.2 million).

The following graphic shows the development of order backlog in a multiple year comparison. Further information on order backlog in each segment can be found on page 45 et seq.

ORDER BACKLOG AT THE GILDEMEISTER GROUP
in € million



The still high order backlog signifies production capacity utilisation in the "Machine Tools" of an average of about five months. For the majority of our production companies, this represents an initial stable basic capacity utilisation for the new financial year. The average level of capacity utilisation, however, will be determined significantly by the high order backlog for the technology machines.

Results of Operations

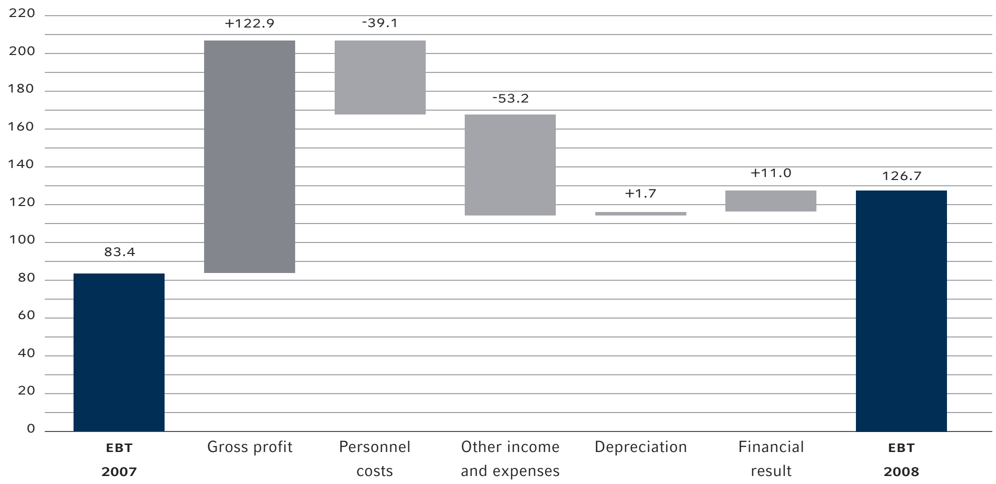
Annual profit increased by 62%

Profitability in the financial year 2008 developed positively as planned: **EBITDA** reached € 188.9 million (previous year: € 158.2 million); **EBIT** amounted to € 158.2 million (previous year: € 125.9 million). **EBT** rose by 52% to € 126.7 million (previous year: € 83.4 million). The **annual profit** in the group grew by 62% to € 81.1 million (previous year: € 50.1 million). With the increase in sales revenues of 22%, EBT rose by 52%. Our results expectations – an increase in EBT and the annual profit of more than 50% – have been reached.

CONSOLIDATED INCOME STATEMENT OF THE GILDEMEISTER GROUP	2008 € K	%	2007 € K	%	Changes against previous year € K	%
Sales revenues	**1,903,964**	**97.4**	**1,562,037**	**97.7**	**341,927**	**21.9**
Changes in finished goods and work in progress	44,188	2.3	30,399	1.9	13,789	45.4
Capitalised payments	6,704	0.3	7,165	0.4	-461	6.4
Total work done	**1,954,856**	**100.0**	**1,599,601**	**100.0**	**355,255**	**22.2**
Cost of materials	-1,066,296	-54.5	-833,948	-52.1	-232,348	27.9
Gross profit	**888,560**	**45.5**	**765,653**	**47.9**	**122,907**	**16.1**
Personnel costs	-405,497	-20.7	-366,411	-22.9	-39,086	10.7
Other income and expenses	-294,211	-15.1	-241,024	-15.1	-53,187	22.1
EBITDA	**188,852**	**9.7**	**158,218**	**9.9**	**30,634**	**19.4**
Depreciation of fixed assets	-30,663	-1.6	-32,311	-2.0	1,648	5.1
EBIT	**158,189**	**8.1**	**125,907**	**7.9**	**32,282**	**25.6**
Financial results	-31,444	-1.6	-42,458	-2.7	11,014	25.9
EBT	**126,745**	**6.5**	**83,449**	**5.2**	**43,296**	**51.9**
Taxes on profit	-45,626	-2.4	-33,312	-2.1	-12,314	37.0
Annual profit	**81,119**	**4.1**	**50,137**	**3.1**	**30,982**	**61.8**

Total operating revenue in the financial year 2008 increased to € 1,954.9 million; it was thus some € 355.2 million or 22.2% higher than the previous year (€ 1,599.6 million). The increase resulted from a rise in revenues of € 341.9 million to € 1,904.0 million and a rise in stocks by € 13.8 million. Further explanations on the change in stocks are given in the “Financial position“ chapter. The materials quota rose to 54.5% (previous year: 52.1%). The rise is explained by the share in sales revenues of the material-intensive “SunCarrier” of € 199.5 million (previous year: € 7.4 million). Gross surplus of € 888.6 million was some € 122.9 million (+16.1%) above the previous year’s figure (€ 765.7 million); the gross surplus margin amounts to 45.5% (previous year: 47.9%).

DEVELOPMENT OF RESULTS (EBT) AT THE GILDEMEISTER GROUP 2007 AGAINST 2008
in € million



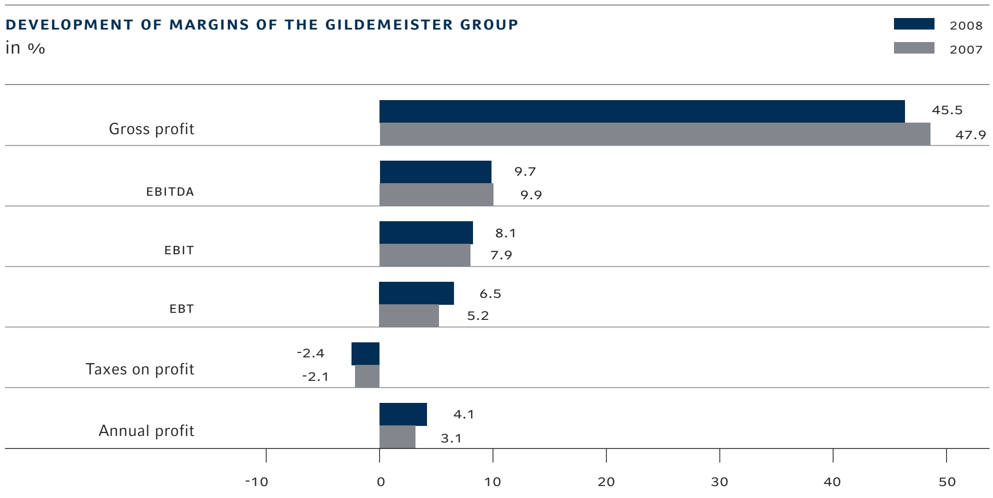
The personnel quota fell to 20.7% (previous year: 22.9%). Personnel costs amounted to € 405.5 million (previous year: € 366.4 million). More detailed information can be found in the "Employees" chapter on page 91. The balance of other expenses and income rose by € 53.2 million to € 294.2 million due to the volume. Other operating costs amounted to € 352.6 million (previous year: € 271.9 million). The increase resulted mainly from sales-related expenses, such as for outward freight, sales commissions, trade fair and advertising expenses and travel costs. In order to have flexibility for periods of cyclical downturn, we increased the number of temporary workers. Costs of rents and leases amounted to € 30.2 million (€ +3.6 milion). Other operating income rose to € 58.4 million (previous year: € 30.9 million). Details on the breakdown of other operating costs and income can be found in the Notes to the Consolidated Financial Statements on page 32 et seq. Depreciation fell by € 1.6 million) to € 30.7 million (previous year: € 32.3 million). The financial results were € -31.5 million (previous year: € -42.4 million) and were mainly burdened by the increase in funds tied down in inventories to safeguard production performance. A one-off expense was included in the previous year (€ 11.8 million) for the redemption of the bond.

The tax load ratio continued to improve as planned and was 36.0% (previous year: 39.9%). **Tax expenditure** amounted to € 45.6 million (previous year: € 33.3 million).

Our earnings margins have developed positively

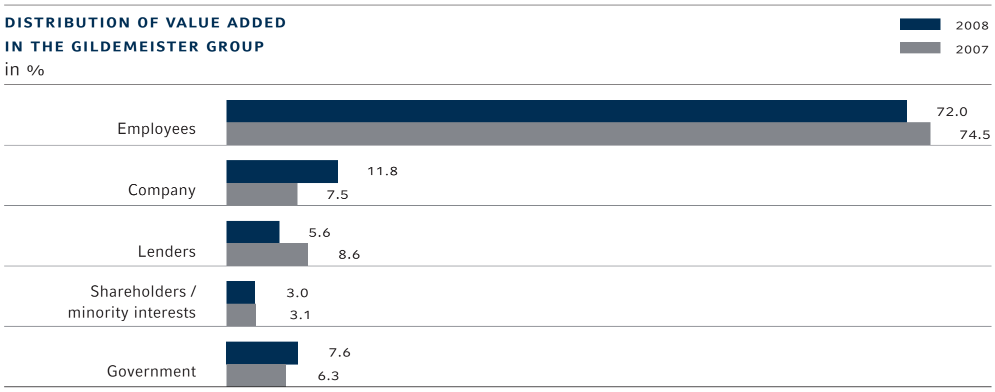
The earnings margins, which are determined on the basis of total work done, have developed as follows: The gross surplus margin reached 45.5% (previous year: 47.9%); the EBITDA margin amounted to 9.7% (previous year: 9.9%); the EBIT margin rose to 8.1% (previous year: 7.9%). The lower personnel and depreciation ratios compared to the previous year have had a positive impact on the earnings margins. The rise in costs of materials had an opposite effect. The EBT margin rose to 6.5% (previous year: 5.2%). Taking into account the tax expense, the annual profit improved to 4.1% (previous year: 3.1%)

DEVELOPMENT OF MARGINS OF THE GILDEMEISTER GROUP
in %



In the financial year 2008, the **value added** of the GILDEMEISTER group amounted to € 564.3 million (previous year: € 492.9 million); this corresponds to an increase of 14.5% or € 71.4 million). Following the distribution of the shares in value added, the company is left with a positive share of € 66.6 million (previous year: € 37.2 million).

DISTRIBUTION OF VALUE ADDED IN THE GILDEMEISTER GROUP
in %



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

VALUE ADDED STATEMENT OF THE GILDEMEISTER GROUP	2008 € million	%	2007 € million	%	Changes against previous year € million	%
Source						
Sales revenues	1,904.0	94.6	1,562.0	95.8	342.0	21.9
Other revenues	109.3	5.4	68.5	4.2	40.8	59.6
Operating performance	**2,013.3**	**100.0**	**1,630.5**	**100.0**	**382.8**	**23.5**
Cost of materials	1,066.3	53.0	833.9	51.1	232.4	27.9
Depreciation	30.7	1.5	32.3	2.0	-1.6	-5.0
Other expenses	352.0	17.5	271.3	16.7	80.7	29.7
Purchased materials and services	**1,449.0**	**72.0**	**1,137.6**	**69.8**	**311.4**	**27.4**
Value added	**564.3**	**28.0**	**492.9**	**30.2**	**71.4**	**14.5**
Distribution						
Employees	406.1	72.0	367.0	74.5	39.1	10.7
Companies	66.6	11.8	37.2	7.5	29.4	79.0
Lenders	31.4	5.6	42.5	8.6	-11.1	-26.1
Shareholders / minority interests	17.3	3.0	15.2	3.1	2.1	13.8
Government	42.9	7.6	31.0	6.3	11.9	38.4
Value added	**564.3**	**100.0**	**492.9**	**100.0**	**71.4**	**14.5**

Financial position

The group's financial position again developed positively in the reporting year. The **free cash flow** amounted to € 60.1 (previous year: € 84.8 million). We have therefore attained our forecast of achieving free cash flow of about € 50 million. We have primarily used the free cash flow to reduce net financial liabilities by € 44.6 million to € 120.4 million (previous year: € 165.0 million) and for the distribution of the dividend.

CASH FLOW	2008 € million	2007 € million
Cash flow from current operations	108.6	128.2
Cash flow from investment activity	-49.4	-46.7
Cash flow from financing activity	104.0	-27.7
Changes in cash and cash equivalents	162.3	53.4
Liquid funds at the start of the reporting period	95.6	42.2
Liquid funds at the end of the reporting period	257.9	95.6

Cash flow from running operations (cash received) was positive in the reporting year at € 108.6 million (previous year: € 128.2 million). Earnings before tax (EBT) of € 126.7 million (previous year: € 83.4 million) and depreciation of € 30.7 million (previous year: € 32.3 million) contributed to this cash flow. An increase in provisions (€ 32.0 million) and the rise in trade payables (€ 55.3 million) likewise had a positive effect. The increase in inventories required by sales (€ 65.2 million) reduced the cash flow as well as payment of taxes on earnings (€ 37.7 million) and interest (€ 34.7 million).

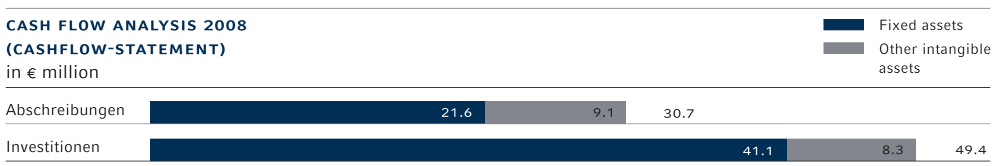
The **cash flow from investment activity (outflow of funds)** increased by € 2.7 million to € 49.4 million (previous year: € 46.7 million). Investments in tangible fixed assets were € 41.9 million (previous year: € 36.1 million) and in intangible assets were € 8.3 million (previous year: € 9.6 million). Further details can be found in the "Investments" chapter on page 44.

The **cash flow from financing activity (outflow of funds)** was marked by the redemption of the bond (€ -183.5 million), taking out the borrowers' note (€ +200.0 million) the taking of financial liabilities (€ +104.2 million) and the distribution of the dividend for the financial year 2007 (€ 15.2 million).

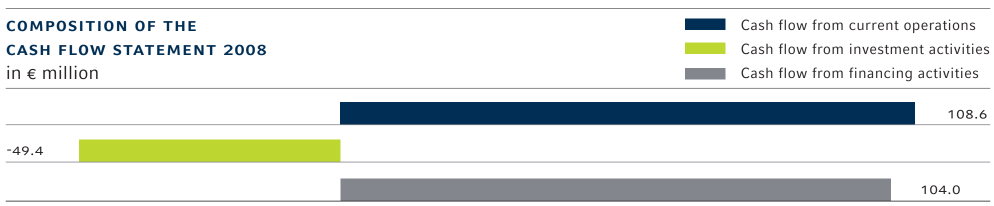
Within the scope of overall financing, GILDEMEISTER had sufficient **liquidity** at year-end. The balance of liquid funds amounted to € 257.9 million (previous year: € 95.6 million). Open cash lines were € 48.9 million (previous year: € 95.1 million). We had further open lines available (guaranteed bills outstanding, bills of exchange, ABS and factoring) of € 79.4 million (previous year: € 26.5 million). The portfolio of receivables sold through the ABS programme amounted to € 56.9 million (previous year: € 63.8 million) and through factoring agreements to € 20.8 million (previous year: € 32.9 million). Significant financial liabilities in foreign currencies are explained in more detail in the Notes to the Consolidated Financial Statements on page 61.

A detailed cash flow statement can be found in the notes to the consolidated financial statements on page 4. The most important key financial indicators for an analysis of the financial position are presented in the "multiple year overview" on page 84 in the notes to the consolidated financial statements.

CASH FLOW ANALYSIS 2008 (CASHFLOW-STATEMENT)
in € million



COMPOSITION OF THE CASH FLOW STATEMENT 2008
in € million



GILDEMEISTER covers its capital requirements by the operating cash flow and by short- and medium-term financing. The most significant components of this are the syndicated loan, the ABS programme and the borrowers' notes, which have replaced the subordinated bond. The syndicated loan has a volume of € 175 million and a term until 2011. The ABS programme has a volume of € 100 million and also has a term until 2011. In addition, there are only a few long-term loans and short-term bilateral financial commitments to individual subsidiaries with a total volume of € 50.7 million (previous year: € 59.7 million). With regard to the main terms and conditions, we refer to the explanatory notes on "financial liabilities" on page 54 in the Notes to the Consolidated Financial Statements. The subordinated bond was redeemed prematurely by GILDEMEISTER as planned and was paid back in full in July 2008. We received the funds for the redemption payment from the issue of two borrowers' notes, one with a volume of € 140 millon and a term until 2013, as well as one with a volume of € 60 million and a term until 2015. Through this re-financing, we will be able to achieve an interest advantage per year of € 5 million. Furthermore, within the re-financing framework, the banks for the syndicated loan waived the collateral of the shares in our subsidiary companies. The borrowers' notes thus rank pari passu with the other financing. Through the re-financing, we have created a sound financial framework long-term.

The main financing includes customary agreements on compliance with certain key indicators (covenants). As at 31 December 2008, GILDEMEISTER had complied with all contractual obligations.

Financing is ensured long-term

The financing was extended through off balance sheet operating leasing agreements. The main financing instruments and future financial obligations are specified in the Notes to the Consolidated Financial Statements under "financial liabilities" on page 54 and "Other Financial Obligations" on page 59.

In addition to loans, GILDEMEISTER requires lines of guarantee to issue payment guarantees and warranties. Guarantees can be drawn on from the syndicated loan as well as from the bilateral lines of guarantee. The main goal of our financing mix is to secure appropriate credit lines, which we wish to have available for the necessary liquidity for seasonal fluctuations within the industry and for further corporate growth.

In principle, the GILDEMEISTER group financing is carried out centrally. Only when group financing is not advantageous, due to the legal framework, is local financing used in individual cases. Cash pooling is used to utilise liquidity surpluses of subsidiaries cost-effectively within the group. In the "Opportunities and Risk Report" on page 100, and in the Notes to the Consolidated Financial Statements under "derivative financial instruments" on page 61, we give details of the risks arising out of financing and evaluation. Details are also given of the methods used to hedge interest and currency risks, as well as price change, default and liquidity risks.

Net Worth

The assets and capital structure developed as follows: The **balance sheet total** amounted to € 1,390.4 million (previous year: € 1,150.1 million). This rise is due to an increase in funds tied down in inventories (€ +64.8 million) as well as from an increase in liquid funds (€ +162.4 million) from the nearly complete drawing of the syndicated credit line in the fourth quarter 2008. To ensure our liquidity against the background of the persisting financial and bank crisis we decided in November 2008 – taking into consideration our broad bank consortium – to nearly drawing completely the syndicated loan in cash and invest the funds by avoiding nearly any risk. By this measure our balance sheet was extended by € 115.0 million; we thus accepted a loss of interest of € 0.2 million by end of the year. The **equity ratio** lessened as a result to 27.3% (previous year: 28.7%). Without an increase in liquid funds, the equity ratio would have improved to 29.8%.

BALANCE SHEET OF THE GILDEMEISTER GROUP	31 Dec. 2008		31 Dec. 2007		Changes against previous year	
	€ K	%	€ K	%	€ K	%
Assets						
Long-term assets						
Fixed assets	301,330	21.6	285,262	24.8	16,068	5.6
Receivables and other assets	46,630	3.4	43,144	3.8	3,486	8.1
	347,960	25.0	328,406	28.6	19,554	6.0
Short-term assets						
Inventories	425,858	30.6	361,044	31.4	64,814	18.0
Receivables and other assets	358,618	25.8	365,123	31.7	-6,505	-1.8
Liquid funds	257,922	18.6	95,552	8.3	162,370	169.9
	1,042,398	75.0	821,719	71.4	220,679	26.9
Balance sheet total	**1,390,358**	**100.0**	**1,150,125**	**100.0**	**240,233**	**20.9**
Equity and liabilities						
Long-term financing resources						
Equity	379,690	27.3	329,513	28.7	50,177	15.2
Outside capital						
Provisions	74,233	5.3	59,085	5.1	15,148	25.6
Liabilities	267,922	19.3	56,137	4.9	211,785	377.3
	342,155	24.6	115,222	10.0	226,933	197.0
	721,845	51.9	444,735	38.7	277,110	62.3
Short-term financing resources						
Provisions	178,443	12.8	154,956	13.5	23,487	15.2
Liabilities	490,070	35.3	550,434	47.8	-60,364	-11.0
	668,513	48.1	705,390	61.3	-36,877	-5.2
Balance sheet total	**1,390,358**	**100.0**	**1,150,125**	**100.0**	**240,233**	**20.9**

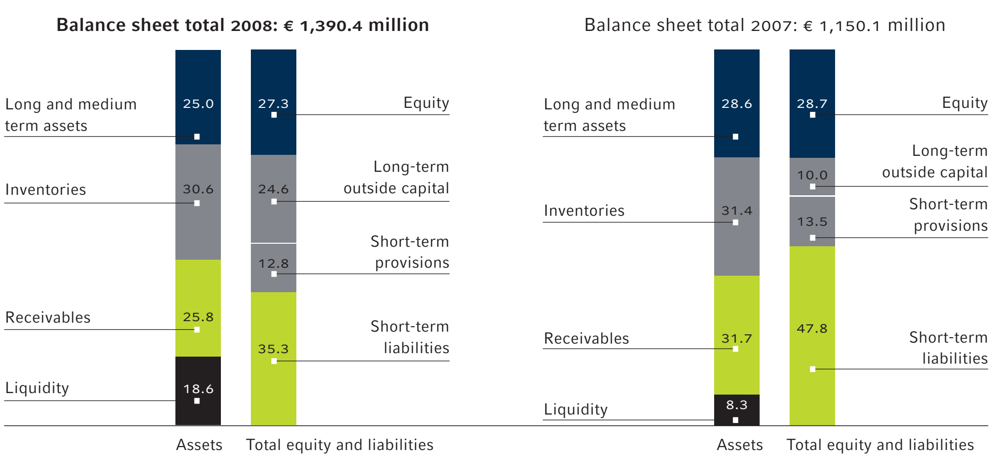
Under **assets, fixed assets** rose by € 16.0 million or 5.6% to € 301.3 million (previous year: € 285.3 million). Tangible assets increased by € 16.7 million and intangible assets decreased by € 0.7 million. The asset additions are set out in detail in the "Investments" chapter on page 44.

Non-current receivables and other assets increased by € 3.5 million or 8.1% to € 46.6 million (previous year: € 43.1 million). At the same time deferred taxes increased by € 0,5 million and other assets by € 2.6 million. Other assets include discounted bills of € 16.0 million (previous year: € 13.8 million).

Inventories rose by € 64.8 million to € 425.9 million (previous year: € 361.0 million). The inventory of raw materials and consumables (RHB) rose by € 30.6 million to € 160.1 million (previous year: € 129.5 million), the inventory of work in progress by € 21.0 to € 152.6 million (previous year: € 131.6 million) and the stock of finished goods by € 16.8 million to € 109.6 million (previous year: € 92.8 million). The rise in raw materials and consumables (RHB) and work in progress arose due to the necessity of disposables and advance performance for the high order backlog at year-end.

The inventories include stocks for the "SunCarrier"; these amounted to € 32.1 million (previous year: € 26.3 million) for materials and consumables, and € 16.5 million (previous year: € 12.7 million) for work in progress. The total inventories share in the balance sheet amounted to 30.6% (previous year: 31.4%). In relation to sales volume, the turnover rate of inventories was 4.5 (previous year: 4.3).

ASSETS AND CAPITAL STRUCTURE OF THE GILDEMEISTER GROUP
in %



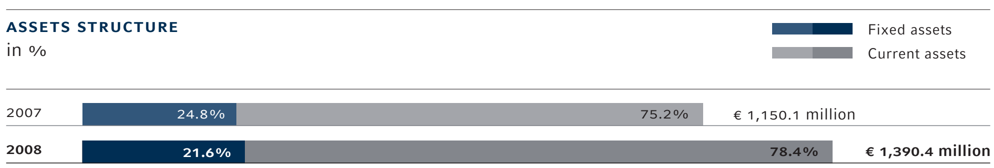
Current receivables and other assets have fallen compared to the previous year by 1.8% or € 6.5 million to € 358.6 million. Trade receivables lessened with a rise in sales performance by € 6.8 million to € 285.4 million. This is due to consistent optimisation of our accounts receivable management. The volume of receivables sold through the ABS programme and factoring amounted in total to € 77.7 million (previous year: € 96.7 million).

Turnover rate of receivables improved

Other assets increased by € 0.4 million to € 73.2 million. Under other assets, discounted bills receivable of € 10.1 are shown (previous year: € 14.4 million). The turnover rate of trade receivables improved to 7.1 (previous year: 6.2).

At the balance sheet date, **liquid funds** amounted to € 257.9 million (previous year: € 95.6 million) or 18.6% of the balance sheet total (previous year: 8.3%).

In the assets structure, the share of non-current assets decreased by 3.6 percentage points to 25.0% (previous year: 28.6%).



Under **equity and liabilities**, equity increased by € 50.2 million or 15.2% to € 379.7 million (previous year: € 329.5 million). The equity ratio amounted to 27.3% (previous year: 28.7%). We were able to improve **gearing** (proportion of net indebtedness to equity) to 31.7% (previous year: 50.0%), as we were able to reduce net financial liabilities and to increase equity at the same time.

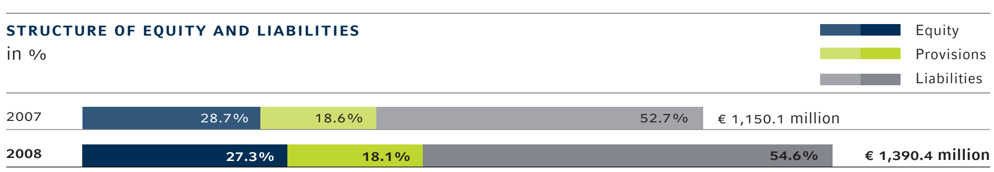
Long-term borrowed funds rose by € 226.9 million to € 342.2 million. The share of the balance sheet total climbed by 14.6 percentage points to 24.6% (previous year: 10.0%). The share of long-term provisions amounts to 5.3% (previous year. 5.1%). This includes company pension provisions of € 27.1 million (previous year: € 27.8 million) as well as other provisions for personnel obligations in an amount of € 26.5 million (previous year: € 24.3 million). Long-term financial liabilities rose by € 198.0 to € 240.3 million (previous year: € 42.3 million). The increase is due to taking the borrower's notes by which the redemption of the bond had been financed. Liabilities of € 3.6 million (previous year: € 3.0 million) relate to deferred tax liabilities.

Long-term financing resources rose in the reporting year by € 277.1 million or 62.3% to € 721.8 million. Non-current assets are financed as to 207.5% (previous year: 135.4%) by long-term available funds.

Short-term financing resources decreased by € 36.9 million or 5.2% to € 668.5 million, whereby provisions rose by € 23.5 million or 15.2% to € 178.4 milion (previous year: € 155.0 million). This includes increased provisions for risks arising from warranties and retrofittings of € 39.8 million (previous year: € 37.3 million) due to sales and for obligations arising from sales of € 36.0 million (previous year: € 29.8 million). Short-term financial liabilities fell by € 80.1 million to € 138.0 (previous year: € 218.1 million). Advance payments received for orders amount to € 96.4 million (previous year: € 112.1 million). Trade creditors increased with a rise in total operating revenue by € 56.2 million to € 198.6 million (previous year: € 142.4 million).

The total of fixed assets and inventories of € 727.2 million (previous year: € 646.3 million) is covered as to 99.3% (previous year: 68.8%) by long-term financing resources. The structure of total equity and liabilities compared to the previous year shows a decrease in equity ratio of 1.4 percentage points and in provisions of 0.5 percentage points. The liabilities ratio rose by 1.9 percentage points to 54.4% (previous year: 52.7%).

In addition to the assets shown in the group balance sheet, the group also uses **off balance sheet assets**. These relate mainly to certain leased or rented goods (operating lease). Details of these are presented in the Notes to the Consolidated Financial Statements on page 58. Within the scope of off balance sheet financing instruments, the group uses a receivables sales programme (ABS programme). Details of these can be found in the Notes to the Consolidated Financial Statements on page 25. Of special importance are our excellent, long-term relationships of trust with our customers and suppliers; they permit us direct access to the relevant markets and render us independent of short-term market fluctuations.



The following tables show the Annual Financial Statements of GILDEMEISTER Aktiengesellschaft in abbreviated form. The complete Annual Financial Statements including the Management Report are set out in a separate document.

BALANCE SHEET OF GILDEMEISTER AKTIENGESELLSCHAFT (HGB)	2008 € K	2007 € K
Assets		
Fixed assets		
Shares in affiliated companies	387,403	359,840
Other fixed assets	22,783	19,725
	410,186	**379,565**
Current assets		
Receivables from affiliated companies	272,264	289,604
Other current assets	203,090	53,764
	475,354	**343,368**
Balance sheet total	**885,540**	**722,933**
Equity and liabilities		
Equity	**365,614**	**336,760**
Provisions	**41,174**	**30,712**
Liabilities		
Financial liabilities	310,876	184,647
Liabilities to affiliated companies	157,968	151,725
Other liabilities	9,908	19,089
	478,752	**355,461**
Balance sheet total	**885,540**	**722,933**

The balance sheet total of GILDEMEISTER Aktiengesellschaft increased by € 162.6 to € 885.5 million. The increase arose in connection with nearly completely drawing on the syndicated loan.

INCOME STATEMENT OF GILDEMEISTER AKTIENGESELLSCHAFT (HGB)	2008 € K	2007 € K
Sales	14,996	13,146
Other operating income	3,541	5,688
Other expenses and income	-60,206	-48,045
Income from financial assets	117,187	88,166
Financial result	-5,585	-16,602
Profit / loss of ordinary activities	69,933	42,353
Income taxes	-25,923	-20,886
Annual profit	44,010	21,467
Profit brought forward	**3,506**	**7,925**
Transfer to revenue reserves	22,000	-10,730
Net profit	**25,516**	**18.662**

The GILDEMEISTER Aktiengesellschaft earnings were determined primarily by income from financial assets comprising the transfer of profit from domestic subsidiaries (€ 117.2 million) (previous year: € 88.2 million). The financial results were € -5.6 million (previous year: € -16.6 million). Tax expenditure of € 25.9 million comprises mainly corporate income tax and trade tax expenditure (previous year: € 20.9 million).

The financial year 2008 of GILDEMEISTER Aktiengesellschaft closes with an annual profit of € 44.0 million (previous year: € 21.5 million). The transfer to other revenue reserves amounts to € 22.0 million (previous year: € 10.7 million). Retained profits increased following transfer to revenue reserves and taking into account the profit carry forward (€ 3.5 million) by € 6.8 million to € 25.5 million (previous year: € 18.7 million).

€ 0.40 dividend for 2008

The Executive Board and the Supervisory Board will propose to the Annual General Meeting of Shareholders on 15 May 2009 that an increased **dividend** of € 0.40 per share be distributed for the financial year 2008 (previous year: € 0.35). This corresponds to an amount of € 17.3 million (previous year: € 15.2 million). Moreover, it will be proposed to the Annual General Meeting of Shareholders to carry forward the remaining balance of GILDEMEISTER Aktiengesellschaft of € 8.2 million to new account (previous year: € 3.5 million).

Value Reporting

Through its value reporting, GILDEMEISTER is consistent with its value-oriented management and transparent corporate reporting. Regular and structured communication with the capital markets facilitates the evaluation of corporate value for corporate investors. GILDEMEISTER meets the high demands and requirements of the capital market by issuing detailed interim reports over the course of the year and, at the end of the financial year, provides detailed information in the Group Management Report and Consolidated Financial Statements. The main focus of our corporate management is a sustainable increase in enterprise value.

An in-house controlling and monitoring system is used to ensure value-oriented control of the group and the individual companies. Our most important internal target and key performance indicators are **earnings before tax** (EBT) and the **return on capital employed** (ROCE). Controlling by ROCE and the relative economic value added – the difference between ROCE and cost of capital – is based on the assumption that the enterprise value rises when sustainable, positive value added is achieved. ROCE is a measure of the returns being realised on capital employed before taxes. ROCE reflects the efficiency of capital employed in the form of a relative variable and arises from the ratio of EBIT to the average operating assets.

The cost of capital is calculated as a weighted average of the cost of debt and equity valuation in accordance with the **WACC method** (Weighted Average Cost of Capital).

ROCE AND ECONOMIC VALUE ADDED

	2008	2007
EBIT (€ million)	158.2	125.9
Capital Employed (€ million)	752.7	708.6
ROCE (in %)	21.0	17.8
WACC (in %)	9.4	9.9
Relative economic value added before taxes (in %)	11.6	7.9
Economic value added before taxes (€ million)	87.3	56.0

WEIGHTED AVERAGE COST OF CAPITAL (WACC)

	2008	2007
Risk-free interest rate	3.7%	4.3%
Market risk premium	5.0%	5.0%
Beta factor	1.0	1.0
Cost of equity after tax	8.7%	9.3%
Cost of debt capital before tax	8.3%	8.5%
Tax rate (28.8%)	2.4%	2.4%
Cost of debt capital after tax	**5.9%**	**6.1%**
Share of equity	27%	29%
Share of debt capital	73%	71%
Cost of capital after tax	6.7%	7.0%
Tax rate	28.8%	28.8%
Cost of capital before tax (WACC)	**9.4%**	**9.9%**

In the reporting year ROCE rose to 21.0% (previous year: 17.8%) and was thus over 18% – a target that we had planned in the medium-term and which cannot be maintained in difficult economic times. The ROCE achieved was thus 11.6 percentage points above the weighted average cost of capital (WACC) of 9.4%. GILDEMEISTER achieved an economic value added of € 87.3 million (previous year: € 56.0 million). Information on planned future net investments can be found in the "Future development of the GILDEMEISTER group" on page 108.

In order to safeguard financing, GILDEMEISTER controls the group, amongst other medium-term, according to the following key performance indicators:

_ a ratio of net financial liabilities to EBITDA of less than 100%,
_ a ratio of net financial liabilities to equity (gearing) of less than 50%.

We give details of other relevant key performance indicators for the capital market in the "Results of operations" chapter on page 31 and in "GILDEMEISTER share" on page 58.

Investments

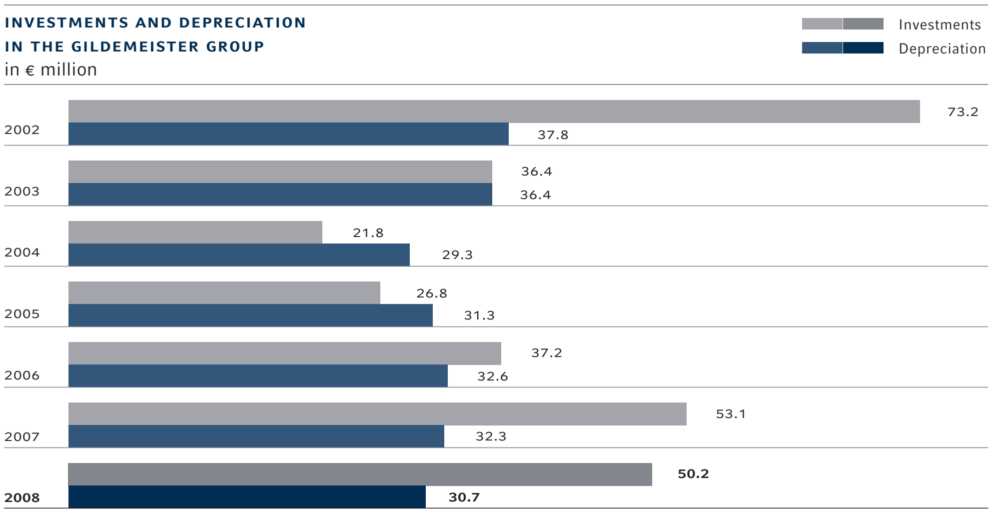
Investments amounted to € 50.2 million (previous year: € 53.1 million). In order to expand the assembly and exhibition areas at the Pfronten site, in the first quarter of 2008 the planned investment volume was increased by € 3.5 million to € 53.5 million. In the third quarter of 2008, we adjusted our investment strategy in view of the worldwide economic crisis and undercut the budget level of € 53.5 million. Of the investments, tangible assets accounted for € 41.9 million (previous year: € 37.9 million) and other intangible assets for € 1.4 million (previous year: € 2.3 million). The amount of capitalised development costs was € 6.9 million (previous year: € 7.4 million).

In the reporting year depreciation of fixed assets, including capitalised development costs and finance leases, amounted to € 30.7 million and was thus slightly below the previous year's level (€ 32.3 million)

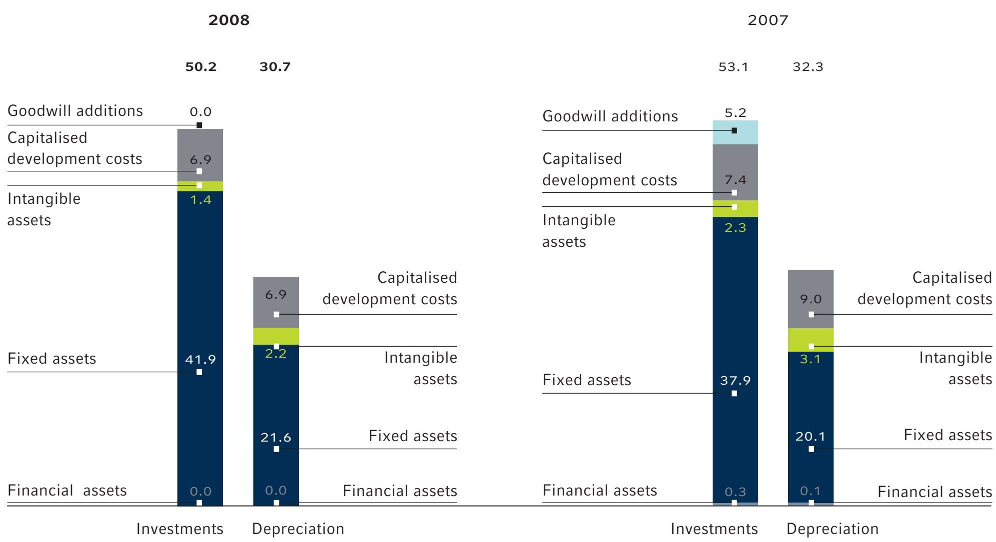
In addition to the optimisation of the assembly process at our production sites in Bielefeld and Pfronten, and the specific redesign of our sales and service centres in Asia and America, we have mainly focused on the acquisition of models, fixtures and tools for the further development and enhancement of our machine types. In order to share in the future in the fast growing business area of renewable energy, investments in the a+f GmbH in Wurzburg formed an additional main focus.

More detailed information on investments in each segment is included in the "Segment Report" chapter on page 49 et seq.

INVESTMENTS AND DEPRECIATION IN THE GILDEMEISTER GROUP
in € million



BREAK DOWN OF INVESTMENTS AND DEPRECIATION IN THE GILDEMEISTER GROUP
in € million



Segmental Reporting

Our business activities include the “Machine Tools” and ”Services” segments.“Corporate Services” constitutes the group wide holding functions. The individual segments shared in the sales revenues, order intake and EBIT of the group as follows:

SEGMENT KEY INDICATORS OF THE GILDEMEISTER GROUP

	„Machine Tools“			„Services“			„Corporate Services“		
	2008 € million	2007 € million	Changes 2008 against 2007 %	2008 € million	2007 € million	Changes 2008 against 2007 %	2008 € million	2007 € million	Changes 2008 against 2007 %
Sales revenues	1,192.3	1,082.7	10	711.5	479.1	49	0.2	0.3	-33
Order intake	1,160.8	1,292.3	-10	721.0	572.2	26	0.2	0.3	-33
EBIT	82.5	75.4	9	116.9	84.2	39	-41.2	-33.1	-24

Further information on segmentation by business area and geographical region is given in the Notes to the Consolidated Financial Statements on page 10 et seq.

"Machine Tools" segment

The "Machine Tools" segment includes the group's new machine business with the turning and milling, ultrasonic / lasers, as well as electronics and automation divisions. Our range of products is divided into 19 product lines. The product range can be found in the pull-out section in the front cover.

The turning business is managed by GILDEMEISTER Drehmaschinen GmbH in Bielefeld – also belonging to this is GRAZIANO Tortona S.r.l. – and GILDEMEISTER Italiana S.p.A. in Bergamo. Our full-line turning machine range has nine product lines: ranging from universal and vertical lathes to turning centres and multi-spindle automatic lathes, through to turning-milling centres for 6-sided complete machining.

DECKEL MAHO Pfronten GmbH and DECKEL MAHO Seebach GmbH are responsible for the milling division. We have concentrated our range of milling machines and machining centres into seven product lines, which are divided as follows: universal milling machines, milling machines for 5-axis machining, vertical and horizontal machining centres, and traversing column machines.

GILDEMEISTER offers cost-effective access to the field of entry level machines with its **ECOLINE machines**. These universal turning and milling machines are primarily produced at FAMOT Pleszew S.A. and DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd. In November, DMG ECOLINE GmbH was founded for the sales and services in connection with this new area of business.

SAUER GmbH is responsible for the ultrasonic / lasertec business. Both the ultrasonic and lasertec product lines complement our range of machines. Automation solutions from DMG Automation GmbH on the basis of comprehensive integration solutions with robots complete our product range. DMG Electronics GmbH combines our activities in control and software development throughout the group.

More detailed information on our products in the "Machine Tools" segment can be found in the "Production, Technology and Logistics" chapter on page 84 et seq.

KEY FIGURES "MACHINE TOOLS" SEGMENT	2008 € million	2007 € million	Changes 2008 against 2007 € million	%
Sales revenues				
Total	1,192.3	1,082.7	109.6	10
Domestic	572.1	495.7	76.4	15
International	620.2	587.0	33.2	6
% International	52	54		
Order intake				
Total	1,160.8	1,292.3	-131.5	-10
Domestic	579.8	558.7	21.1	4
International	581.0	733.6	-152.6	-21
% International	50	57		
Order backlog*				
Total	568.6	600.1	-31.5	-5
Domestic	189.8	182.1	7.7	4
International	378.8	418.0	-39.2	-9
% International	67	70		
Investments	34.6	38.3	-3.7	-10
Employees	3,554	3,383	171	5
plus trainees	260	226	34	15
Total employees*	3,814	3,609	205	6
EBITDA	104.8	99.9	4.9	5
EBIT	82.5	75.4	7.1	9
EBT	70.7	65.5	5.2	8

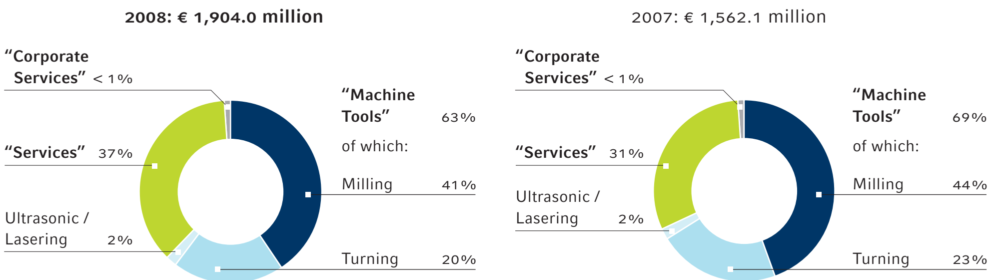
* Reporting date December 31

The development of the machine tools business in the reporting year was satisfactory. **Sales revenues** rose by € 109.6 million or 10% to € 1,192.3 million (previous year: € 1,082.7 million). Domestic sales revenues increased by 15% or € 76.4 million to € 572.1 million (previous year: € 495.7 million). International sales revenues grew by 6% or € 33.2 million to € 620.2 million (previous year: € 587.0 million). The international quota amounted to 52% (previous year: 54%). The "Machine Tools" segment had a 63% share of group sales revenues (previous year: 69%).

The change resulted from an increase in sales revenues from the "Solar Technology" division in the "Services" segment. The milling technology of DECKEL MAHO contributed 41% (previous year: 44%). The turning technology of GILDEMEISTER amounted to 20% (previous year: 23%). Ultrasonic / Lasering accounted for 2% (previous year: 2%). The sales volume of new machines fell by 8% compared to the previous year.

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

SALES REVENUE DISTRIBUTION IN THE GILDEMEISTER GROUP BY SEGMENT / BUSINESS DIVISION



Order intake in the "Machine Tools" segment declined by € 131.5 million or 10% to € 1,160.8 million (previous year: € 1,292.3 million). In the first three quarters, order intake still developed satisfactorily at +4% higher than the same period in the previous year. Both our technology machines and our standard machines contributed to the increase in order intake. Our ECO series met with very favourable interest in the market. Due to the international financial and economic crisis, order intake in the "Machine Tools" segment declined abruptly in the fourth quarter. Order intake in the fourth quarter reached € 156.6 million.

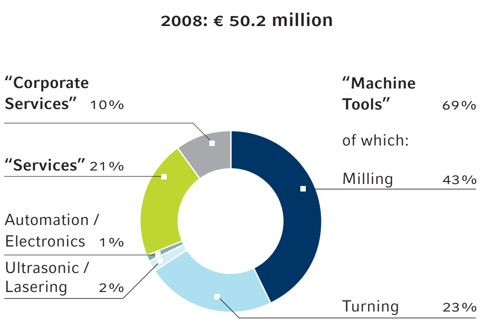
International orders fell by € 152.6 million or 21% to € 581.0 million (previous year: € 733.6 million). The international share therefore amounted to 50% (previous year: 57%). Domestic order intake amounted to € 579.8 million (previous year: € 558.7 million). As a result of the high order intake in the "Solar Technology" division, belonging to the "Services" segment, the "Machine Tools" segment accounted for 62% of orders compared to the previous year (previous year: 69%).

The **order backlog** as at 31 December 2008 of € 568.6 million (-5%) was still high (31 Dec. 2007: € 600.1 million). We assume that the order backlog will decline significantly in the financial year 2009. International orders recorded the major share at 67% (previous year: 70%); in total they fell by € 39.2 million or 9% to € 378.8 million (previous year: € 418.0 million). The volume of domestic orders amounted to € 189.8 million (previous year: € 182.1 million).

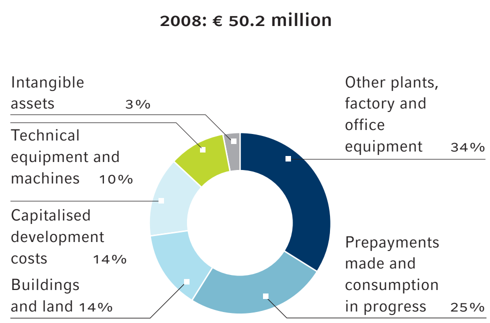
The earnings margins in the "Machine Tools" segment increased due to a rise in sales volume. **EBITDA** grew by 5% or € 4.9 million to € 104.8 million (previous year: € 99.9 million). **EBIT** of +9% amounted to € 82.5 million (previous year: € 75.4 million). **EBT** rose by 8% to € 70.7 million (previous year: € 65.5 million).

Investments in the "Machine Tools" segment amounted to € 34.6 million (previous year: € 38.3 million) and were thus below the planned level of € 36.6 million. Considering the worldwide economic crisis we have adjusted our investment strategy in the third quarter 2008 and fallen below the planned level. The following graphics show the amount and distribution of investments in each segment and divisions:

SHARE OF THE INDIVIDUAL SEGMENTS / DIVISION IN INVESTMENTS
in %



DISTRIBUTION OF INVESTMENT VOLUME BY TYPE OF INVESTMENT
in %



In the **turning division**, investments at GILDEMEISTER Drehmaschinen GmbH amounted to € 4.4 million. The procurement of models and fixtures for new machine types and the renewal of crane installations in the production halls had the major share in the investments. As the legal owner of the land and buildings in Italy, GILDEMEISTER Partecipazioni S.r.l. invested in modernizing the assembly areas in Tortona. In line with construction progress, € 2.6 million were capitalised in the reporting year. GRAZIANO Tortona S.r.l. invested primarily in cast models for the new CTX series. GILDEMEISTER Italiana S.p.A. invested € 1,8 million in the reporting year. The focus was placed as to € 0.8 million on acquiring production equipment for the assembly and production area. At FAMOT Pleszew S.A., the modernisation of the paint shop was the main focus of investment activity of € 0.5 million. Further investment resources flowed into the acquisition of new machines to expand mechanical production capacity. Capitalised development costs in the turning division amounted to € 2.4 million.

In the **milling division** DECKEL MAHO Pfronten GmbH invested € 14.7 million, of these € 3.5 million was placed on expanding the assembly areas for the DUOBLOCK® series and large machines by 2,400 square metres. Furthermore, in line with this building activity new exhibition areas for DMG Electronics GmbH and the "Center of Excellence – Aerospace" have been built. These targeted investments further develop the competence in the business area of the aerospace industry. The company invested a further € 2.9 million in expanding the areas of special construction and quality assurance, as well as production planning and control. DECKEL MAHO Pfronten deployed € 2.0 million in designs, tools, fixtures and measuring equipment. DECKEL MAHO Seebach GmbH invested € 5.9 million mainly in warehouse fixtures and replacing the climate control in the production area. Another main investment of € 1.2 million was deployed in the acquisition of fixtures and models for the series start-up of new machine types. DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd. Invested € 0.9 million in the reporting period. With the erection of two new assembly lines, we have further strengthened production of the ECO series at our Chinese site. The company invested an additional € 0.4 million in renovating the building. Capitalised development costs in the milling division amounted to € 3.3 million.

In the **ultrasonic / lasers division**, SAUER GmbH invested € 0.8 million and concentrated on acquiring tools and fixtures necessary for production. Capitalised development costs in the ultrasonic / lasers division amounted to € 0.3 million.

In the **automation / electronics division**, DMG Automation GmbH and DMG Electronics GmbH invested a total of € 0.4 million.

At the end of the year, the "Machine Tools" segment had 3,814 **employees** (previous year: 3,609). This represents 59% of total staff at the GILDEMEISTER group (previous year: 60%). Compared to the corresponding date of the previous year, the number of employees has increased by 205. In particular, additional personnel were specifically hired at the Shanghai, Bielefeld and Pleszew locations due to the higher sales performance. Further increases in staff numbers also occurred at the newly-founded DMG Electronics. Personnel expenditure in the "Machines Tools" segment amounted to € 206.9 million (previous year: € 186.2 million); the personnel quota amounted to 17.4% (previous year: 17.2%).

"Services" segment

The "Services" segment mainly includes the business activities of DMG Vertriebs und Service GmbH and its subsidiaries, as well as those of a+f GmbH with the two "SunCarrier" and "Components" divisions. The latter company serves the growing solar technology market with the "SunCarrier". The target group comprises investors and industrial customers with a particular interest in the profit-oriented generation of solar electricity. The business model is focused primarily on the complete execution of turnkey products and after-sales service. In the area of "Components", a+f GmbH is geared towards the acquisition of components for wind energy. **DMG Service Solutions** offers worldwide customised service solutions and service products over the entire lifespan of the DMG machine tools. The service solutions include various services, which, through our highly-qualified service staff and our worldwide sales and service network, ensure direct customer contact and rapid availability. **DMG service products** – such as DMG Power Tools, adjustment devices and tool management from DMG MICROSET, DMG Spare Parts as well as components from SACO – provide users with an opportunity to increase the productivity of their DMG machines tools significantly. Up-to-date service news may be obtained at **www.gildemeister.com**; detailed information on the "SunCarrier" can be found at **www.suncarrier.com**.

KEY FIGURES "SERVICES" SEGMENT	2008 € million	2007 € million	Changes 2008 against 2007 € million	%
Sales revenues				
Total	711.5	479.1	232.4	49
Domestic	257.6	234.4	23.2	10
International	453.9	244.7	209.2	85
% International	64	51		
Order intake				
Total	721.0	572.2	148.8	26
Domestic	263.4	234.6	28.8	12
International	457.6	337.6	120.0	36
% International	63	59		
Order backlog*				
Total	158.8	149.3	9.5	6
Domestic	42.9	37.1	5.8	16
International	115.9	112.2	3.7	3
% International	73	75		
Investments	10.6	10.7	-0.1	-1
Employees*	2,542	2,307	235	10
EBITDA	123.1	90.0	33.1	37
EBIT	116.9	84.2	32.7	39
EBT	108.6	75.8	32.8	43

* Reporting date December 31

The positive trend in the "Services" segment made a significant contribution to the good business development. Demand for our skilled services continued unchanged at a high level. The "DMG 24/7" hotline offered our customers worldwide competent service and increased the productivity of their machines – round the clock and with fast response times. In the reporting year, we have adapted the widespread global service network to meet regional requirements even better. The "24/7" service continued to have a correspondingly positive effect on customer loyalty.

Sales revenues increased by € 232.4 million or 49% to € 711.5 million (previous year: € 479.1 million). The "SunCarrier", in particular, contributed to this increase with € 199.5 million (previous year: € 7.4 million). The original service business recorded an increase of € 32.9 million or 7% compared to the previous year. Internationally, sales revenues from services rose by € 209.2 million or 85% to € 453.5 million; this represents a share of 64% (previous year: 51%). In Germany sales revenues also showed clear growth: Following € 234.4 million in 2007, sales revenues in the reporting year amounted to € 257.6 million; this represents an increase of 10% or € 23.2 million. The "Services" segment at 37% – due to the sales revenues contribution of the Solar Technology division – made a 6% higher contribution to total group sales revenues (previous year: 31%).

Order intake also developed satisfactorily with an increase of € 148.8 million or 26% to € 721.0 million (previous year: € 572.2 million). 63% of all orders came from abroad. In total, international orders had a value of € 457.6 million, which represents an increase of 36% compared to the previous year (€ 337.6 million). The main contributor to this positive development was a+f GmbH with its "SunCarrier", which achieved total order intake of € 162.1 million – of which € 157.1 million came from abroad (previous year: € 81.5 million). Domestic orders increased by € 28.8 million or 12% to € 263.4 million (previous year: € 234.6 million). Despite the difficult market environment, overall order intake for our original service business continued at the previous year's level. "Services" accounted for 38% of all group orders (previous year: 31%).

The **order backlog** as at 31 December amounted to € 158.8 million (previous year: € 149.3 million) – of which the "SunCarrier" accounted for € 36.7 million (previous year: € 74.1 million).

In the reporting year, earnings in the "Services" segment increased following a rise in sales volume. The earnings margins improved further. **EBITDA** increased by € 33.1 million or 37% to € 123.1 million (previous year: € 90.0 million). **EBIT** amounted to € 116.9 million (previous year: € 84.2 million). EBT rose to € 108.6 million (previous year: € 75.8 million).

Investments in the **"Services"** segment amounted to € 10.6 million (previous year: € 10.7 million) and were thus below the planned level of € 11.5 million. Of these, "Solar Technology" division accounted for € 0.8 million. Through the procurement of additional foundation formworks, we were able to speed up the processing of major "SunCarrier" projects. By investing in improvement in the work structures and environment at a+f GmbH in Wurzburg, we have created the preconditions for the sustainable development of the company.

Speeding-up of "SunCarrier" major projects

In re-designing our sales companies in Korea, Singapore and Mexico, we have further invested in the "Services" segment in expanding our business activities in Asia and America. Furthermore, the higher than average growth in recent years of the accompanying need for spare parts has required the establishment of a central spare parts warehouse. For this purpose, we invested € 1.5 million in our Geretsried site in the reporting year. In order to continuously supply our service technicians with modern tools and measuring devices, € 1.6 million were expended. Operational and office equipment for our sales and service companies accounted for € 4.8 million. Of these, € 0.6 million were expended on the continuous implementation of a standardised technology centre concept, including the equipment installed for the presentation of our DMG-ECOLINE. Capitalised development costs in the "Services" segment amounted to € 0.9 million.

The number of **employees** rose by 235 to 2,542 (previous year: 2,307). The increase in personnel took place mainly at the newly-founded company DMG Spare Parts and the "Solar Technology" division of a+f GmbH. Moreover, our regional sales and service capacity in Asia and, in particular, eastern Europe was further enlarged, with the aim of better meeting the increased needs of our customers. The "Services" segment share of employees was 39% (previous year: 39%). Personnel expenditure in this segment amounted to € 178.5 million (previous year: € 165.0 million); the personnel quota decreased to 25.1% (previous year: 34.5%).

"Corporate Services" segment

The "Corporate Services" segment also comprises, in addition to GILDEMEISTER Aktiengesellschaft with its group wide holding functions, GILDEMEISTER Beteiligungen AG, which has a central importance as the parent company of all the production plants. Central functions have been located at GILDEMEISTER Aktiengesellschaft, such as group strategy, development and purchasing coordination, management of overall projects in the production and logistics areas, funding, corporate controlling and corporate personnel management. The group standard IT has been concentrated in GILDEMEISTER Beteiligungen AG.

KEY FIGURES "CORPORATE SERVICES" SEGMENT	2008 € milllion	2007 € milllion	Changes 2008 against 2007 %
Sales revenues	0.2	0.3	-0.1
Order intake	0.2	0.3	-0.1
Investments	5.0	4.1	0.9
Employees*	95	82	13
EBITDA	-39.0	-31.1	-7.9
EBIT	-41.2	-33.1	-8.1
EBT	-52.6	-57.3	4.7

* Reporting date December 31

In the "Corporate Services" segment, **sales revenues** and **order intake** in an amount of € 0.2 million each (previous year: € 0.3 million) consist mainly of rental income. "Corporate Services" again accounted for less than 0.1% of the group sales revenues (previous year: <0.1%). **EBIT** amounted to € -41.2 million (previous year: € -33.1 million). EBT improved by € 4.7 million to € -52.6 million (previous year: € -57.3 million). In the reporting year higher expenses resulted from an increased demand for core functions – this includes, amongst others, an increase in personnel expenditure, the extension of our risk and compliance management as well as one-off expenses for external advisers. Previous year's figures comprised one-off expenses for the premature redemption of the bond amounting to € 11.8 million.

Investments in the reporting year amounted to € 5.0 million (previous year: € 4.1 million) and were thus slightly below the planned level of € 5.3 million. Of these, € 4.0 million were expended within the scope of the Bielefeld site concept. The focus was placed on modernising the production areas for the CTV series over 3,000 square metres, as well as the construction of the new technology centre over an area of 900 square metres. A further € 0.7 million were invested in furniture and office equipment.

New technology centre at the Bielefeld site

As at 31 December 2008, this segment had 95 **employees** (previous year: 82 employees). As in the previous year, this represents a 1% share in the group staff.

General Statement on Business Development

GILDEMEISTER was able to clearly improve in all key performance indicators and has completely met the annual forecasts. At € 1,882.0 million order intake exceeded the previous year's level. Sales revenues, EBT and the annual profit, have grown in double figures as planned. We increased sales revenues to € 1,904.0 million (+22%). EBT rose by 52% to € 126.7 million. The sales profitability – based on EBT – grew to 6.7% (previous year: 5.3%). The group annual profit grew by 62% to € 81.1 million. Earnings per share improved by 61% to € 1.87 (previous year: € 1.16). We will propose to the Annual General Meeting of Shareholders on 15 May 2009 that a higher dividend of € 0.40 per share be distributed for the financial year 2008 (previous year: € 0.35). Free cash flow was at € 60.1 million and thus reached the forecast. Investments amounted to € 50.2 million. We could further increase equity to € 379.7 million and reduce our net financial liabilities once again. Development in our segments was also in line with our forecasts. We have further expanded our market share.

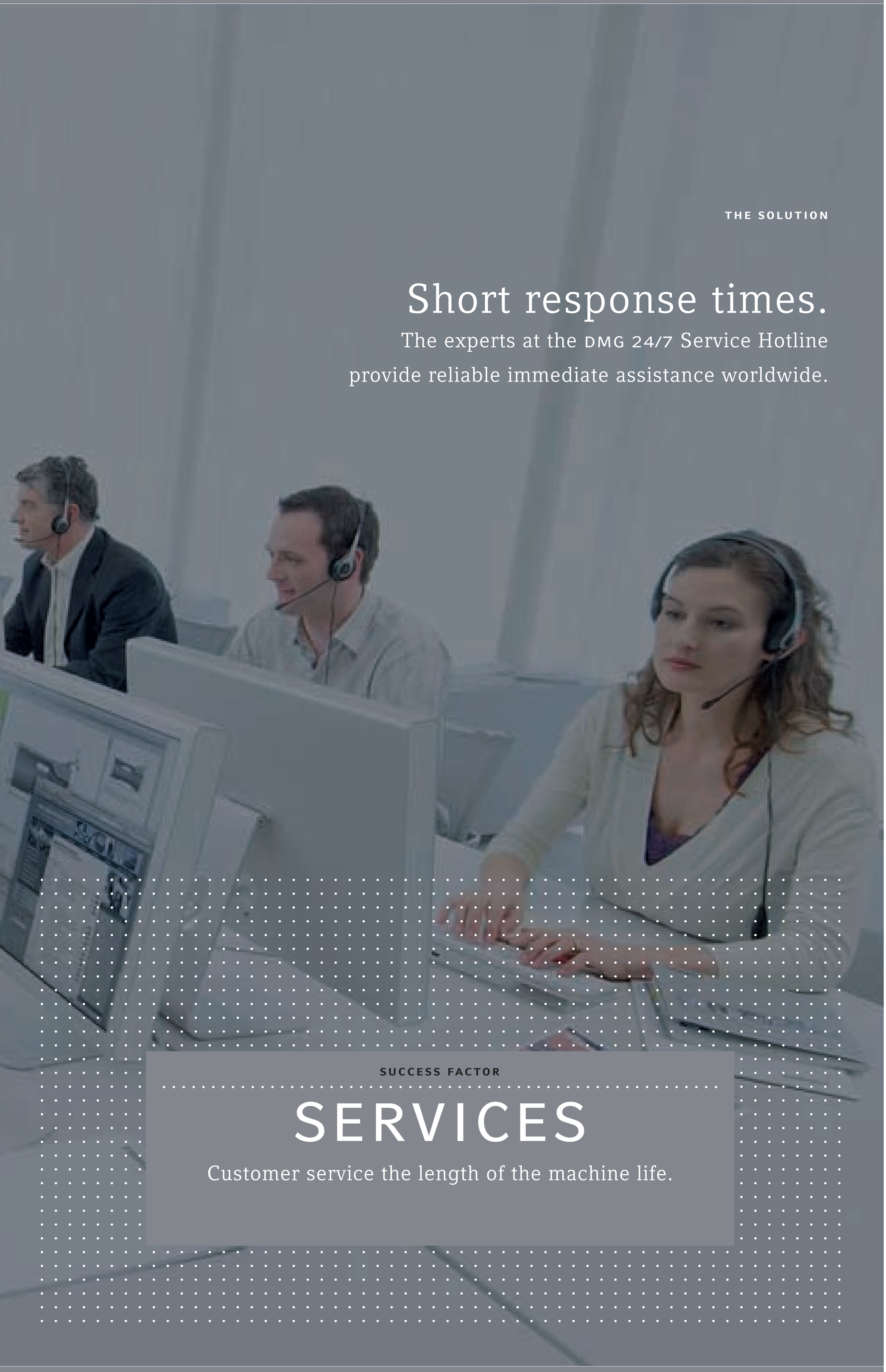
At the start of 2009 even GILDEMEISTER could not avoid the downturn in the economic environment and the fall in demand for machine tools. Further information on the current economic situation can be found in the "Supplementary Report" on page 98 et seq.

BUSINESS REPORT Results of Operations
BUSINESS REPORT Corporate Situation
BUSINESS REPORT Supplementary Report
BUSINESS REPORT Opportunities and Risk Report
BUSINESS REPORT Forecast Report

CALL CENTRE BIELEFELD / GERMANY _ 10:15 CET

Analysing complex problems.

Service quality is constantly gaining in importance.



THE SOLUTION

Short response times.

The experts at the DMG 24/7 Service Hotline provide reliable immediate assistance worldwide.

SUCCESS FACTOR

SERVICES

Customer service the length of the machine life.

SUCCESS FACTOR SERVICES

Reliable partner in service

Maximum machine availability and secure production processes are guarantees for the success of our customers. GILDEMEISTER is a reliable partner worldwide and at any time in matters of service.

Manufacturing companies are dependent upon processing procedures functioning smoothly. If the wheels are not turning, working time and money is lost. In these kinds of situations, a strong partner is necessary, who knows exactly what to do: fast and expert action. The feedback from our customers shows that GILDEMEISTER is a partner by whom, even in critical moments, companies feel that they are well taken care of. **No matter where, what and when – GILDEMEISTER is there for its customers.** Through the DMG 24/7 service hotline, GILDEMEISTER supports its customers worldwide and in the shortest possible time. Our experts, with their highly trained skills in solving problems and their in-depth product experience, are only a telephone call away. They immediately initiate the required repair measures and procure the necessary spares parts at once. A unique network worldwide within the industry of local service companies, as well as inimitable spare parts availability, permit extremely

DR. MAURICE ESCHWEILER, Managing Director of DMG Vertriebs und Service GmbH.

short response times. The results of this unique service infrastructure are maximum machine availability and secure production processes. **Customer loyalty through customer proximity.** For companies, the quality of services is consistently gaining in importance. For this reason, GILDEMEISTER is continuously expanding its services and capabilities worldwide. The result is increased customer loyalty through customer proximity. Our customers also appreciate a further advantage in addition to lightning response times: full service over the entire life cycle of a machine. Preventive maintenance, software upgrades, machine upgrades, individual customer training in the area of programming and use, tool preset devices, bar loaders and maintenance, ensure maximum production security and a long-term preference for GILDEMEISTER machines. Thus true customer benefits. And the best basis for long-term, stable customer relations.

TÜBINGEN / GERMANY _ 10:43 CET

Modern machinery from GILDEMEISTER for the apprentice workshop at the company, Paul Horn GmbH in Tübingen.

SUCCESS FACTOR SERVICES

We make processes secure.

An unparalleled network of local service companies worldwide as well as global availability of spare parts ensure fast response times.

Corporate Situation

GILDEMEISTER follows the concept of market- and value-oriented corporate management in all areas of the company: In the reporting year we extended our technological lead further and presented 17 innovative world premieres. As a building block of our global growth strategy, we opened new sales and service companies. Production, technological and logistics efficiency has been consistently improved. In this way we intend to increase our enterprise value – even under difficult market conditions.

GILDEMEISTER Share

The trading year 2008

2008 felt the influence of the worldwide financial crisis, which intensified dramatically in the second half of the year. The **share markets** were already showing signs of high volatility in the first six months of the year. From September on, the financial crisis had an increasingly strong effect on the real economy. Uncertainty with respect to the stability of the global finance system resulted in panic selling and plunging stock prices. Economic prospects continued to have a dampening effect throughout the second half of the year, the worldwide recession came increasingly to the fore. The effects were first felt in the USA, then also in Western Europe and Asia. The important leading share indices fell significantly during the year and developed as follows: The DAX fell by 40.4%, the MDAX by 43.2%. The European EURO STOXX 50 lost 44.4%, the American DOW JONES 33.8%, and the S&P 500 Index 38.5%. The British FTSE-100 Index had to suffer a drop of 31.3%. The Japanese NIKKEI 225 Index fell by 42.1%.

Stock market listing, trading volume and shareholder base

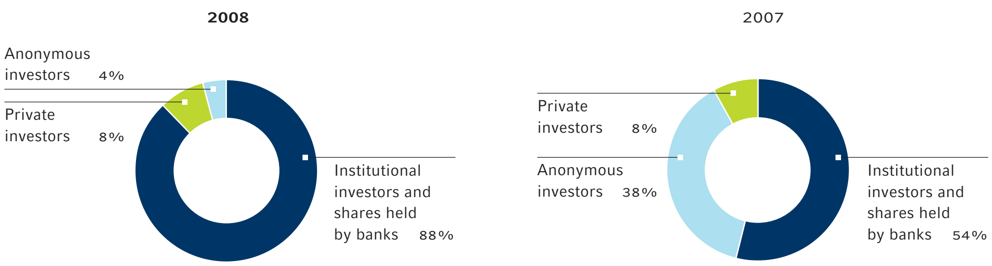
The GILDEMEISTER share is quoted in official trading at the stock exchanges in Frankfurt / Main, Berlin-Bremen and Dusseldorf, as well as on the open market on the stock markets in Hamburg, Munich and Stuttgart. GILDEMEISTER is listed on the **MDAX** and complies with the “Prime Standard” internationally applicable transparency requirements of the German stock market. Inclusion in the MidCap Index led to increased internationalisation in the shareholder base as well as to an increase in trading volume.

The trading volume at year-end was 150.9 million shares (previous year: 94.1 million shares); on the basis of the total share number of 43.3 million shares, this represents an annual turnover of 3.5 (previous year: 2.2). Concurrently, the average **trading volume** rose by 59% (previous year: 104%) to about 592,000 shares per trading day (previous year: 373,000 shares).

The GILDEMEISTER shares continued to be held in the reporting year in wide portfolio investment **(100% free float)**. As at 31 December 2008, GILDEMEISTER Aktiengesellschaft had not received any notification of voting rights pursuant to Section 21, paragraph 1, clause 1 of the German Securities Trading Act (WpHG), stating that the threshold of a 3% share or more of the voting rights had been exceeded. The following changes occurred in the shareholder base: JPMorgan Chase & Co., New York (USA) – assigned through its subsidiaries –,as well as Goldman Sachs Group, Inc., New York (USA), AQR Capital Management, LLC., Greenwich (USA) and M.M. Warburg-LuxInvest S.A., Luxembourg (Luxembourg) have fallen below the threshold of 3% of the voting rights in GILDEMEISTER Aktiengesellschaft.

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

SHAREHOLDER COMPOSITION OF THE GILDEMEISTER GROUP
in %

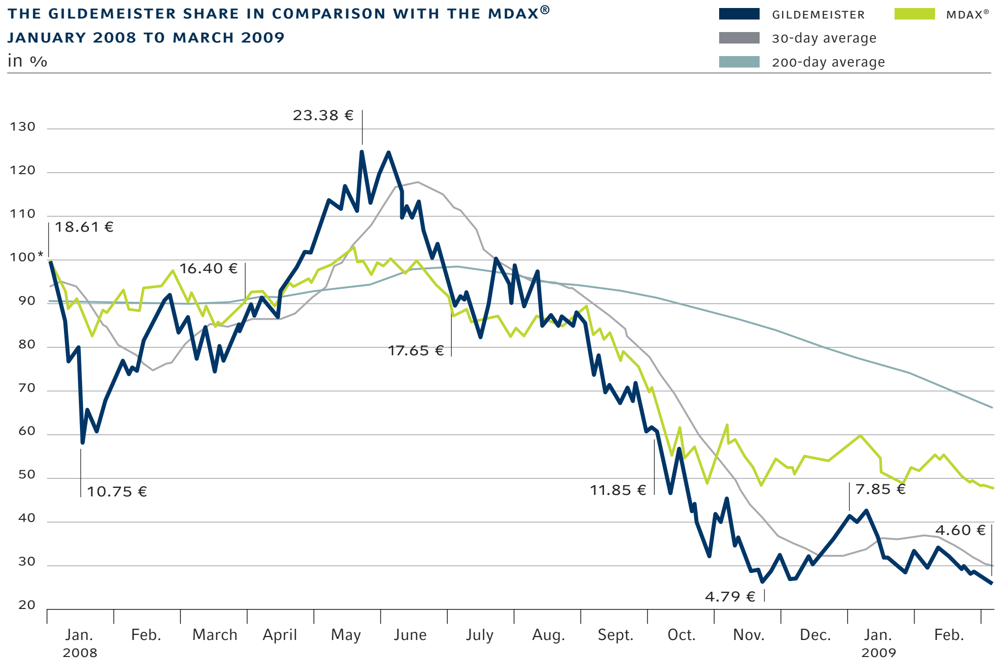


Performance of the GILDEMEISTER share

The GILDEMEISTER share showed a volatile trend in 2008. The share started the stock market year at a price of € 18.61 (2 Jan.2008) and reached its highest value of the year of € 23.38 on 22 May 2008. The international financial crisis and the ensuing economic crisis had an influence in the second half of the year on the financial markets and also on the performance of the GILDEMEISTER share. The lowest value for the year was € 4.79 (21 Nov. 2008). The share closed on 30 December 2008 at € 7.85. The share is currently quoted at 4.60 € (11 March 2009).

An analysis of the company is carried out by various banks. The latest assessments are as follows: “Buy” (UniCredit, 19 Feb. 2009), “Buy” (DZ Bank, 13 Feb. 2009), “Buy” (BHF Bank, 12 Feb. 2009), “Hold” (Bankhaus Lampe, 16 Feb. 2009), “Hold” (Berenberg Bank, 13 Feb. 2009), “Underweight” (HSBC, 13 Feb. 2009), “Reduce” (WestLB, 12 Feb. 2009), “Reduce” (Commerzbank, 12 Feb. 2009).

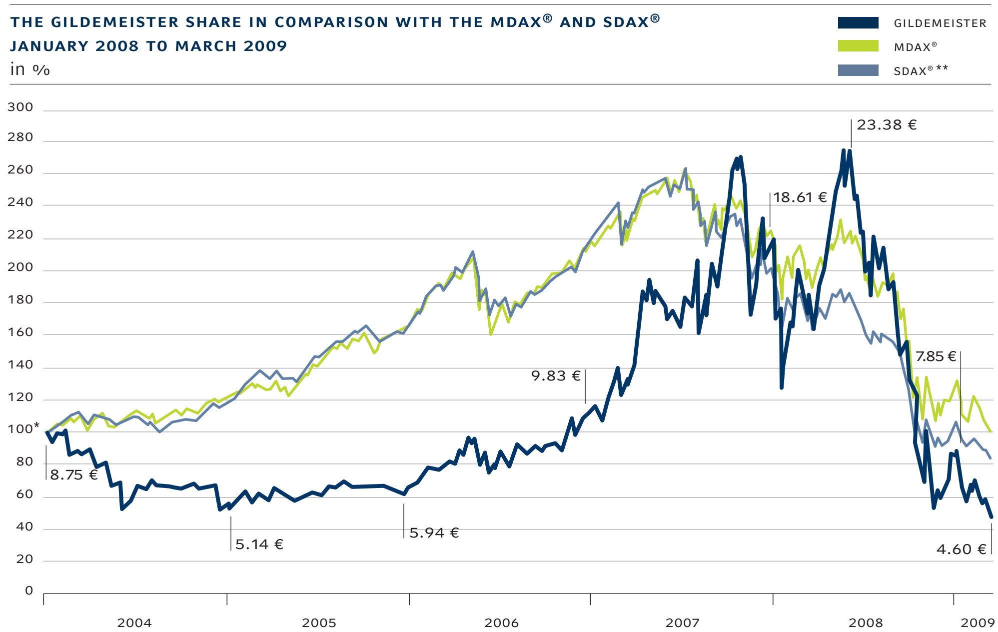
THE GILDEMEISTER SHARE IN COMPARISON WITH THE MDAX®
JANUARY 2008 TO MARCH 2009
in %



*2 January 2008 = 100 stock performances indexed, XETRA stock prices
Source: Deutsche Börse Group

In a multiple year comparison the GILDEMEISTER share has performed as follows:

THE GILDEMEISTER SHARE IN COMPARISON WITH THE MDAX® AND SDAX®
JANUARY 2008 TO MARCH 2009
in %



*2 January 2004 = 100 stock performances indexed, XETRA stock prices
Source: Deutsche Börse Group
** Listing in the SDAX until 11 December 2007

Market capitalisation

Market capitalisation fell in the best business year in the company's 138-year history by 58% or € 461.2 million to € 339.9 million (previous year: € 801.1 million). The development in a multiple year comparison is as follows:

		2008	2007	2006	2005	2004	2003	2002
Market capitalisation*	€ million	339.9	801.1	415.7	255.1	225.2	245.5	112.6

* Basis: XETRA year-end stock prices

Earnings per share

Earnings per share increased by 61% to € 1.87 (previous year: € 1.16). In accordance with IAS 33, earnings per share are determined by dividing the consolidated earnings by the average weighted number of shares as follows:

DETERMINATION OF EARNINGS

	2008	2007
Group result excluding profit share of minory interests	€ 81,052 K	€ 50,087 K
Average weighted number of shares	shares 43,302,503	shares 43,302,503
Earnings per share acc. to IAS 33	€ 1.87	€ 1.16

Earnings result exclusively from continued business. There were no dilution effects in the reporting period.

Dividend

The Executive Board and the Supervisory Board of GILDEMEISTER Aktiengesellschaft will propose to the Annual General Meeting of Shareholders, to be held on 15 May 2009, to distribute an increased **dividend** of € 0.40 per share for the financial year 2008 (previous year: € 0.35). With regard to the 43.3 million shares entitled to a dividend, total distribution amounts to € 17.3 million. The distribution ratio amounts to 39.4% of the annual net income of GILDEMEISTER Aktiengesellschaft or 21.4% of the consolidated net income for the year attributable to the shareholders. Using the annual closing price 2008 as a basis, this results in a dividend yield of 5.1% (previous year: 1.9%)

MASTER DATA OF THE GILDEMEISTER SHARE

Security code number		(ISIN-CODE)	DE0005878003
		(WKN)	587800
Code			
Stock exchange			GIL
Reuters	Frankfurt Stock exchange		GILG.F
	Xetra		GILG.DE
Bloomberg			GIL GR

GILDEMEISTER SHARE KEY FIGURES

		2008	2007	2006	2005	2004	2003	2002
Registered capital	€ million	112.6	112.6	112.6	112.6	112.6	75.1	75.1
Number of shares	million shares	43.3	43.3	43.3	43.3	43.3	28.9	28.9
Year-end price [1]	€	7.85	18.50	9.60	5.89	5.20	8.50	3.90
Annual high [1] [2]	€	23.38	22.80	9.75	6.39	8.98	8.50	12.04
Annual low [1] [2]	€	4.79	9.20	5.86	4.82	4.98	2.96	3.29
Annual average market price [1] [3]	€	14.45	15.30	7.62	5.67	6.52	5.25	8.24
Dividend	€	0.40	0.35	0.20	0.10	-	-	-
Dividend total	€ million	17.3	15.2	8.7	4.3	-	-	-
Dividend yield	%	5.1	1.9	2.1	1.7	-	-	-
Earnings per share [4]	€	1.87	1.16	0.63	0.32	0.15	-0.13	-0.66
Price-to-earnings ratio [5]	€	4.2	15.9	15.2	18.4	34.7	-	-
Cash flow per share [6]	€	2.5	2.9	2.5	0.63	0.30	0.99	1.65
Price-to-cash-flow ratio [6] [7]	€	3.14	6.37	3.84	9.35	17.33	8.59	2.36

1) XETRA-based stock prices
2) Highest / lowest prices based on variable prices
3) Annual average price based on closing prices
4) Pursuant to IAS 33
5) Closing price / Earnings per share
6) Cash flow from current operations / number of shares
7) Year-end price / Cash flow per share

The GILDEMEISTER **corporate rating** developed as follows:

GILDEMEISTER RATING IN MULTIPLE YEAR COMPARISON

	2008	Outlook	2007	Outlook	2006	Outlook	2005	Outlook
Moody's								
Corporate	Ba2	Stable	Ba2	Stable	Ba3	Stable	Ba3	Negative
Standard & Poor's								
Corporate	BB-	Stable	BB-	Stable	BB-	Stable	B+	Stable

Moody's uses figures as an additional notation (A1, A2, A3), whereas Standard & Poor's add a plus and minus sign (B+, B, B-). The letters AAA represent the highest rating and D represents an inability to pay.

GILDEMEISTER Bond

The subordinated bond of GILDEMEISTER Aktiengesellschaft had a volume of € 175 million and, as planned, was prematurely redeemed at the first possible date of 19 July 2008 as to 104.875% and replaced by market standard borrowers' notes of € 200 million.

Investor and Public Relations

GILDEMEISTER has placed a high value for years on communication with institutional and private investors. In our **investor relations** work we maintain a continuous and open exchange of information with all participants in the financial market. The listing on the MDAX and increased compliance requirements have led in the reporting year to a greater need for information and intensified support for investors worldwide. At road shows and capital market conferences both nationally and abroad, in individual interviews and in telephone conferences, the Executive Board presented the company's development and strategy. At our Annual General Meeting of Shareholders in 2008, we were once again able to welcome more than 1,400 shareholders. The Chairman of the Executive Board's speech was presented on our website as a live stream. The Internet has now become a firm part of our financial communications. 27,484 annual and quarterly reports – including 6,609 in English – have been accessed at our website www.gildemeister.com, these are 78% more than in the previous year.

Public relations work is a further important factor in our communications concept. It contributes to maintaining and strengthening GILDEMEISTER's reputation in public. We place a high value on always being competent, fast, open and reliable in providing information on the group's current position and its companies. The resources necessary to accomplish this are used efficiently. They flow into a carefully harmonised and designed catalogue of measures. We place great value on open dialogue with the national and international business press, with capital investors and financial experts, as well as with the associations, institutions and decision-makers who are relevant for our business. The GILDEMEISTER annual report has been considered a model report for years. The high standard of transparency, language quality and innovative design impress experts and jurors of well-known rankings again and again. In the independent competition of "manager magazin", which is unique worldwide, the 2007 annual report won in the MDAX category; once again it took a top place from about 200 annual reports that were evaluated. Spending in the field of investor and public relations amounted to € 3.3 million (previous year: € 2.9 million).

Your contact to the GILDEMEISTER Investor and Public Relations Team:

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Corporate Governance

Complete fulfilment of the Corporate Governance Code

GILDEMEISTER has placed a high value on good corporate governance for years and it is thus a core element of our corporate management. All areas of the company are aligned with these measures. For years GILDEMEISTER has been complying with the recommendations of the German Corporate Governance Code and, even following the amendments resolved by the Commission of the German Corporate Governance Code on 6 June 2008, still complies with all the recommendations. The Executive Board and Supervisory Board issued the following **declaration of compliance in December 2008**. Our shareholders can view the declaration on our website at any time.

"GILDEMEISTER Aktiengesellschaft complies with all recommendations of the "Government Commission of the German Corporate Governance Code", as amended on 6 June 2008, and has complied with these since making the last declaration of compliance on 31 December 2007."

The joint goal of the Executive Board and Supervisory Board is a sustainable increase in enterprise value. The Corporate Governance Code is implemented at GILDEMEISTER by responsible and transparent management, as well as by monitoring of the group. We have amended our internal company guidelines to comply with these rules and principles, and follow them in all areas of the group.

Remuneration of the Executive Board and Supervisory Board

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

Remuneration of the Supervisory Board of GILDEMEISTER Aktiengesellschaft

Breakdown of remuneration

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 non-performance related components. The remuneration components not dependent upon performance include the fixed remuneration that each member of the Supervisory Board receives and remuneration for committee work. The performance-related components comprise a short term incentive (STI) and a long-term incentive (LTI), which support a sustainable value-based management.

In the financial year 2008, the fixed remuneration for each individual member of the Supervisory Board was € 12,000; the chairman received 2.5-times that amount (€ 30,000) and the deputy chairman 1.5-times that amount (€ 18,000). The fixed remuneration therefore totalled € 168,000 (previous year: € 165,403).

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Remuneration for committee work amounted to a total of € 109,877 € (previous year: € 106,586) and took into account the work carried out by the Finance and Auditing Committee, the Personnel, Nominations and Remuneration Committee, and of 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 € 6,000. The chairperson of a committee also receives an additional fixed remuneration of a further € 6,000 and the deputy chairperson € 3,000.

The performance-related remuneration components, STI and LTI, are based on index-oriented target values. The earnings per share (EPS) are used as the performance-related index in both remuneration components.

Performance-related components

The EPS is a fixed index, by which a performance orientation is given considering the respective share capital. It is calculated by dividing the annual profit, less the profit share of minority interests, by the weighted average number of shares. The STI and LTI are variable, which means they are not a secured remuneration. Again the Supervisory Board chairman receives 2.5-times the amount in each component and the deputy chairman 1.5-times the remuneration of the other members of the Supervisory Board. Both the STI and the LTI are capped at the level of the respective fixed remuneration.

The STI is only paid if, in the reporting year, the EPS amounts to at least € 0.15. The performance-based remuneration for the Supervisory Board calculated from the STI totalled € 168,000 (previous year: € 165,403). The LTI takes into account not only the reporting year but also the two previous years. The index is the mean average of the EPS values in the corresponding financial years. The LTI is only paid if the average EPS for the relevant three years amounts to at least € 0.15. The LTI calculated performance-based remuneration for the Supervisory Board totalled € 168,000 (previous year: € 144,727).

In 2008 the Supervisory Board remuneration was made up as follows:

REMUNERATION OF THE SUPERVISORY BOARD OF GILDEMEISTER AKTIENGESELLSCHAFT

	Fixed remuneration in €	Committee remuneration Finance & Auditing (F&A) in €	Committee remuneration Personnel Nomination & Remuneration (PNR) in €	Committee remuneration Technology & Development (T&D) in €	STI in €	LTI in €	Total in €
Hans Henning Offen Chairman SB, Chairman PNR	30,000	6,000	12,000	0	30,000	30,000	108,000
Prof. Dr.-Ing. Uwe Loos Chairman T&D	12,000	0	0	12,000	12,000	12,000	48,000
Günther Berger Chairman F&A	12,000	12,000	0	0	12,000	12,000	48,000
Dr.-Ing. Jürgen Harnisch Deputy Chairman T&D from 16 May 2008	12,000	0	0	7,877	12,000	12,000	43,877
Dr. jur. Klaus Kessler	12,000	6,000	0	0	12,000	12,000	42,000
Prof. Dr.-Ing. Walter Kunerth	12,000	0	6,000	0	12,000	12,000	42,000
Gerhard Dirr Deputy Chairman SB, Deputy Chairman PNR Member T&D until 16 May 2008	18,000	6,000	9,000	2,246	18,000	18,000	71,246
Wulf Bantelmann	12,000	0	0	6,000	12,000	12,000	42,000
Harry Domnik Deputy Chairman F&A	12,000	9,000	6,000	0	12,000	12,000	51,000
Norbert Zweng	12,000	6,000	0	0	12,000	12,000	42,000
Günther Johann Schachner	12,000	0	0	0	12,000	12,000	36,000
Rainer Stritzke Member SB until 16 May 2008	4,492	0	0	0	4,492	4,492	13,475
Matthias Pfuhl Member SB as of 16 May 2008 Member T&D as of 16 May 2008	7,508	0	0	3,754	7,508	7,508	26,279
Total	168,000	45,000	33,000	31,877	168,00	168,000	**613,877**

BUSINESS REPORT Corporate Situation
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BUSINESS REPORT Forecast Report

In the financial year 2008 the total remuneration of the Supervisory Board amounted to € 613,877 (previous year: € 582,119). 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. In the reporting year, we received the following **director's dealings notification**, which has been published on our website:

DIRECTOR'S DEALING 2008

Name	Function	Date	Type and place of transaction	Number of shares	Share price in €	Transaction volume in €
Hans Henning Offen	Chairman SB	30 Oct. 2008	Purchase of shares, Frankfurt	10,000	7.55	75,500

The members of the Supervisory Board together hold less than 1% of the total shares issued; no member of the Executive Board owns any GILDEMEISTER shares.

Insurance for Supervisory and Executive Board members of the GILDEMEISTER group

GILDEMEISTER has D&O insurance (manager liability insurance) and legal costs insurance for all members of the Supervisory and Executive Boards, as well as for managing directors and executive staff. The D&O insurance allows for a reasonable retention amount.

Remuneration of the Executive Board of GILDEMEISTER Aktiengesellschaft

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

Performance-related Executive Board remuneration

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 € 7,441 K (previous year: € 5,407 K). Of this amount, € 1,328 K were attributed to fixed remuneration (previous year: € 1,297 K), € 6,000 K to the STI (previous year: € 4,000 K) and € 113 K as payment in kind (previous year: € 110 K). In 2008 the direct remuneration of the Executive Board was made up as follows:

EXECUTIVE BOARD DIRECT REMUNERATION	Fixed € K	STI € K	Payment in kind € K	Total € K
Dr. Rüdiger Kapitza, Chairman	455	1,500	37	1,992
Michael Welt	345	1,500	21	1,866
Günter Bachmann	252	1,500	30	1,782
Dr. Thorsten Schmidt	276	1,500	25	1,801
Total	1,328	6,000	113	**7,441**

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

The STI is based on index aligned target values. In the reporting year the earnings after taxes (eat) provided the reference value used. The scale of the target values is redefined annually. In addition, this is capped at € 1,500 K, respectively, for 2008. The cap is also fixed anew each year. Should the eat not reach the fixed value that is also set annually, the STI is not paid.

Remuneration components dependent on share price

As a remuneration component with long-term incentive effect, the LTI combines the achievement of fixed targets in relation to the EBIT of the company with the performance of the GILDEMEISTER share. This involves a **performance-units plan** which is comparable to virtual shares and which does not include any dividend payments or voting rights. In addition, the units may not be traded nor sold to third parties. The 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 and, following the Annual General Meeting of Shareholders in 2010, will be paid out on the basis of the EBIT target achieved in the allocation year 2009 and the corresponding share price. 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. 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. The following table shows the number of performance units awarded in 2007 and in 2008 and the amount of the provisions for each executive board member.

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NUMBER OF PERFORMANCE-UNITS

	2008 tranche Number of performance units awarded shares	Amount of provisions at 31 Dec. 2008 € K	2007 tranche Number of performance units awarded shares	Amount of provisions at 31 Dec. 2008 € K
Dr. Rüdiger Kapitza, Chairman	10,422	81	14,401	110
Michael Welt	7,817	61	11.521	88
Günter Bachmann	7,817	61	11,521	88
Dr. Thorsten Schmidt	7,817	61	11,521	88
Total	**33,873**	**264**	**48,964**	**374**

Both the STI and the LTI are variable, which means neither is a secure remuneration.

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

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

INDIRECT REMUNERATION FOR EXECUTIVE BOARD MEMBERS

	€ K
Dr. Rüdiger Kapitza, Chairman	114
Michael Welt	143
Günter Bachmann	60
Dr. Thorsten Schmidt	50
Total	**367**

In accordance with the International Accounting Standards (IAS), provision expenses of € 114 K arose for the defined-benefit contribution commitment in 2008 (previous year: € 119 K) The payments restricted to the contribution-based pension plan amounted to € 253 K (previous year: € 155 K).

Advances and loans to Executive Board members or Supervisory Board members were not granted, nor were any declarations of liability in favour of any of the aforementioned members entered into. 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 € 597 K (previous year: € 587 K). The amount of the pension commitments (cash value of future pension commitments or defined benefit obligations) for former members of the Executive Board and their surviving dependants amounted to € 6,646 K (previous year: € 7,007 K).

Responsible management of opportunities and risks

Good Corporate Governance also includes responsible corporate handling of risks. GILDEMEISTER uses a systematic opportunity and risk management to identify and monitor significant opportunities and risks regularly. In this way we ensure that risks are recognised and assessed timely. The opportunities and risk management is continuously being further developed and is regularly 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 100 et seq.

Cooperation between the Executive Board and Supervisory Board

The Executive Board and Supervisory Board work closely together in the interests of the company. Their joint goal is a sustainable increase in enterprise value. The Executive Board informs the Supervisory Board regularly, timely and comprehensively on current business development and corporate planning, as well as on the risk situation, risk management and compliance. The Executive Board passes the quarterly and six months’ reports to the Supervisory Board, so that the latter can discuss them before publication. In particular, the strategic direction and further development of the group were discussed and any deviation in business development from the targets or budget was explained immediately. The Articles of Association provide for any transactions of fundamental significance to be subject to the agreement of the Supervisory Board.

Avoidance of conflicts of interest

In making decisions and in connection with their functions, the members of the Executive Board and of the Advisory 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. Such transactions or secondary occupations must be immediately reported to, and approved by, the Supervisory Board. 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

GILDEMEISTER demands of itself that it ensures both the highest possible transparency as well as timely communication. 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, press releases, annual and quarterly reports, in both German and English, are published. In addition, a detailed financial calendar can be found there, which is an inherent part of our annual and quarterly reports. All dates are continuously 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. Through an amendment to the Articles of Association of 16 May 2008, we have also made it possible to broadcast the images and sound of the Annual General Meeting, in full or in part, or to record it. In this way, shareholders who are not able to attend the Annual General Meeting in person have an opportunity to receive timely information, for example via the Internet.

Reporting and auditing of annual accounts

In accordance with the regulations of the German Corporate Governance Code, it has been agreed with the auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, to 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 pursuant to Section 161 German Companies Act (AkG).

Suggestions of the German Corporate Governance Code

GILDEMEISTER also complies with the suggestions of the Code to a large extent. Deviations from the Code currently exist in the following areas:

- Annual General Meeting of Shareholders: The Code suggests that the proxy exercising the shareholder’s voting rights at the shareholder’s directive should be contactable during the Annual General Meeting.
- Supervisory Board: In codetermined supervisory boards, the representatives of the shareholders and of the employees should prepare the meetings of the supervisory board separately each time, if necessary with the members of the executive board. This procedure is only followed at GILDEMEISTER in exceptional cases.

Organisation and Legal Corporate Structure

GILDEMEISTER Aktiengesellschaft holds all key functions across all areas and, as controlling company, manages the GILDEMEISTER group centrally. Further holding functions are exercised by GILDEMEISTER Beteiligungen AG as the parent company of all the production plants and by DMG Vertriebs und Service GmbH as the controlling company of all sales and service companies. More detailed information on the business activities is included in the "Segment Report" chapter on page 45 et seq.

All GILDEMEISTER group companies work as profit centres and follow clear guidelines to ensure the best possible performance and results. The management structure is shown in the group structure on page 6 et seq. All operational processes and procedures are standardised by way of a common group IT infrastructure. The IT system therefore acts as an integral link within the group. The organisational expenses of GILDEMEISTER Aktiengesellschaft amounted to € 22.8 million (previous year: € 16.5 million).

Expand world market leadership even under difficult conditions

Changes in the **legal corporate structure** of the GILDEMEISTER group in the financial year 2008 focused mainly on the formation of new sales and service companies – in particular in the Middle East – to expand further our global sales and service networks. It is our goal to further extend our world market leadership even under more difficult market conditions. Establishing new companies is an important building block in our globalisation strategy. Specifically, the following significant changes were made:

- In March 2008, DMG Europe Holding GmbH founded DMG Middle East, with registered office in Dubai, to strengthen its sales and services activities in the United Arab Emirates, in Jordan, Qatar, Yemen and Bahrain.
- In August 2008, DMG America Inc. founded DMG Boston LLC with registered office in Boston, Massachusetts, to strengthen its sales and services activities in the USA. DMG Boston commenced its business activities on 1 September 2008.
- In November 2008, DMG Europe Holding GmbH founded DMG ECOLINE GmbH with registered office in Klaus, Austria. DMG ECOLINE takes over sales and services with respect to the new ECOLINE business.
- In December 2008, GILDEMEISTER Beteiligungen AG founded GILDEMEISTER Finance S.a.r.l. with registered office in Luxembourg. This company will take control of the financing of our European subsidiaries. It will commence its operational activities in the first quarter of 2009.

The GILDEMEISTER structure is organised in such a way that all the companies contribute to extending its position as a worldwide market and innovations leader in cutting machine tools. The group is organised as a **matrix organisation** – production plants on one side and DMG sales and services companies on the other. The product plants are managed as profit centres and specialise in business areas and series. The innovations process is systematically managed by a group wide product development committee and is expedited by strategic partnerships. For the global direction of the group, direct sales are continuously being expanded in those markets in which more than € 20 million is generated in sales revenues. Moreover, our key accounting serves our internationally operating key accounts. Through our subsidiary, a+f GmbH, we have managed to gain a foothold in a new business field – the area of renewable energy – and thus can tap into new markets and customers. A fundamental change in the group structure is not planned for the future.

A detailed overview of the ownership structure within the GILDEMEISTER group as at 31 December 2008 and further explanations of the changes in the legal corporate structure are set out in the Notes to the Consolidated Financial Statements on page 12 et seq. A summary of all current controlling agreements and profit-and-loss transfer agreements is also provided in the Notes to the Consolidated Financial Statements on page 76 et seq.

69 national and international sales and service locations

The GILDEMEISTER group has **no other significant long-term equity investments.** DMG Vertriebs und Service GmbH, Bielefeld, is a 100% subsidiary of GILDEMEISTER Aktiengesellschaft. It controls 69 sales and service locations and sales offices, as well as branch offices abroad that do not constitute a separate legal entity. The sales offices of DMG Vertriebs und Service GmbH in Shanghai, Beijing, Guangdong, Chongqing, Shenyang and Xi'an are certified to market group products in China. Furthermore, the following companies also maintain branch offices that do not constitute a separate legal entity: DMG Italia S.r.l., Bergamo (Italy), DMG Austria GmbH, Klaus (Austria), DMG Czech s.r.o., Brno (Czech Republic), DMG Nippon K.K., Yokohama (Japan) and DMG Asia Pacific Pte. Ltd., Singapore (Singapore).

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

GILDEMEISTER must provide the following supplementary information:

- The registered capital of GILDEMEISTER Aktiengesellschaft amounts to € 112,586,507.80 and is distributed in 43,302,503 individual shares in the name of the holder. Each share has a notional value of € 2.60 of the subscribed capital.
- Pursuant to Section 84 of the German Companies Act (AktG) the Supervisory Board shall appoint and revoke the appointment of members of the Executive Board. This authority was specified to that effect in Section 7 para. 2 of the Articles of Association of GILDEMEISTER Aktiengesellschaft, by which the Supervisory Board appoints the members of the Executive Board, determines their number and assigns their duties.
- Pursuant to Section 119, para. 1.5 of the German Companies Act (AktG), the Annual General Meetings of Shareholders decides any changes to the Articles of Association. The correspondingly defined rules of procedure are contained in Sections 179, 181 of the German Companies Act (AktG) in connection with Section 15 para. 4 of the Articles of Association of GILDEMEISTER Aktiengesellschaft.
- A resolution of the Annual General Meeting passed on 19 May 2006 authorises the Executive Board, with the approval of the Supervisory Board, to increase the registered capital of the company in the period up to 15 May 2010, through a one time only issue or through several issues of new shares for cash or non-cash contributions to a nominal amount of € 56.0 million (authorised stock). This authorisation is set out in Section 5 para. 3 of the Articles of Association. Moreover, the company is authorised

to purchase its own shares up to a pro rata amount of almost 10% of the registered capital, this corresponds to € 11,258,650.00. This authorisation is intended to place the company in a position of having its own shares available at short notice, without having recourse to the stock market, in order to offer these to the seller in return for the acquisition of companies or interests in other companies. Furthermore, there has been a contingent increase in the registered capital up to a further € 37.5 million through the issue of up to 14,423,076 individual shares in the name of the holder (contingent capital I). The conditional capital increase is to be effected only insofar as the options or conversion rights relating to warrant or convertible bonds, issued or guaranteed pursuant to the authorisation resolution of the Annual General Meeting of Shareholders of 14 May 2004, are exercised in the period until 31 March 2009, or any conversion obligation or obligation to exercise an option under the aforementioned bonds are fulfilled.

_ Ultimately, the Executive Board is authorised to issue shares to a value of € 5.0 million to employees of the company and of companies affiliated with the company (cf. Section 5 para. 3 of the Articles of Association).
_ Two significant agreements of GILDEMEISTER Aktiengesellschaft are subject to a **change of control** condition (the acquisition of 50% or more of the voting rights) as a result of a takeover offer within the meaning of Section 315 para. 4, no. 8 German Commercial Code (HGB): a syndicated loan in an amount of € 175 million and the borrowers‘ notes with a total volume of € 200 million.

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

_ As at 31 December, the registered capital of the company amounts to € 112,586,507.80 and is distributed in 43,302,503 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. Pursuant to Section 84 of the Companies Act (AktG) the appointment and revocation of appointment of members of the Executive Board is the responsibility of the Supervisory Board.
_ The most recent amendment to the Articles of Association took place at the 104th Annual General Meeting of Shareholders on 19 May 2006, when Section 12 of the Articles of Association was amended.
_ In the reporting year the Executive Board did not exercise the above-referred authorisation.
_ 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.

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Research and Development

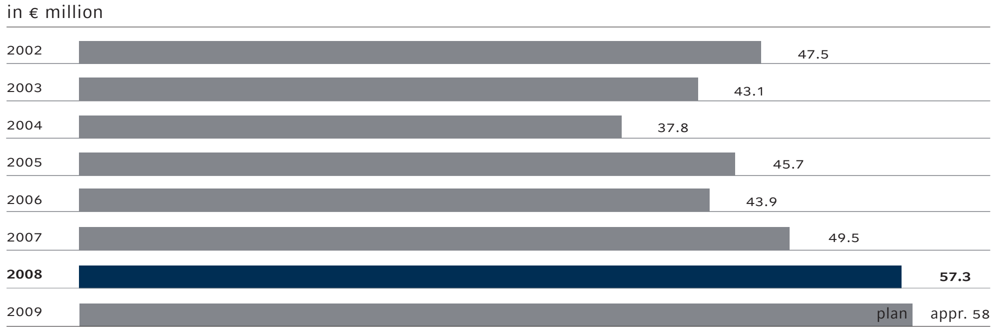
The aim of our development activities is to increase further the added value of our products and services for our customers. Based on the requirements of our worldwide customers, we produce technologically advanced products at a competitive price. We thereby create the pre-requirement to differentiate ourselves sustainably from our competitors. Primary research and development aspects are:

Successful through innovations

1. the complete machining of workpieces in one tooling, for example through the combination of turning and milling operations on one machine,
2. an increase in user friendliness and ergonomics,
3. improved performance of our machines with respect to dynamics and accuracy,
4. the further development of automation solutions,
5. extending the ECOLINE series in the field of entry machines.

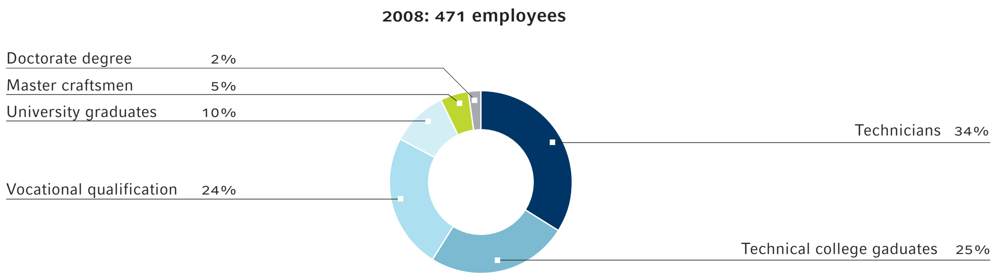
In the reporting year research and development expenditure amounted to € 57.3 million (previous year: € 49.5 million); this represents an increase of about 16% compared to the previous year's figure. Overall we were thus in line with our original budget of € 57 million. The innovations ratio in the "Machine Tools" segment was 4.8% and was thus slightly higher than the previous year's level (4.6%). Investments in new developments are listed in the segment reports as capitalised development costs. As a growth driver, research and development activities make a definite contribution to the group's results. However, it is not possible to quantify the contribution made by individual measures.

EXPENDITURE ON RESEARCH & DEVELOPMENT AT THE GILDEMEISTER GROUP
in € million



A total of 471 employees work on developing our products (previous year: 467 employees); this corresponds to 13% of the workforce at the plants. Development coordination throughout the group synchronises the decentrally organised research and development activities at each site. This allows for all employees involved in the development process to work together optimally. We do not purchase any third party development know-how, nevertheless, we use the strengths of our system suppliers in our joint development. Through this close cooperation, we combine internal and external know-how efficiently and are in a position to optimise our products quickly and cost-effectively. We use the services of third parties primarily in the area of industrial design. Furthermore, we work closely together with national and international universities and research facilities. This allows us to benefit from the latest scientific findings and to use this impulse to further develop our products and services.

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

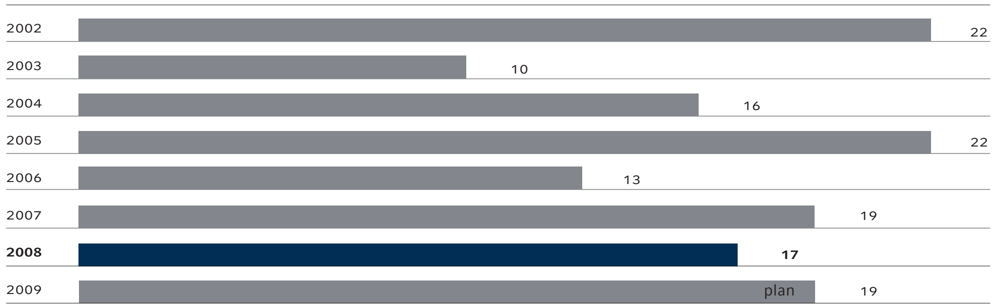


Due to our high innovative strength, we were able to implement all the planned new developments in the reporting year and to launch these successfully on the market. We presented 17 world premieres at 70 national and international trade fairs and exhibitions, including the AMB in Stuttgart, the IMTS in Chicago and the JIMTOF in Tokyo. Around 60% of the products in our current range have been developed in the past three years. In the area of industrial property rights, we were able to register 29 patents, utility and industrial designs, as well as brands and trademarks (previous year: 27 industrial property rights). In total, the value of our portfolio of protected rights, defined by the market value method, amounts to € 340 million (previous year: € 320 million).

Awarded „New Design"

The **"New Design"** was transferred to more machine types in the reporting year. Numerous awards – including the "Universal Design Award 2008" of the International Forum Design – confirm the success of the new colour and shape. Our customers are impressed by the advantages and consider the new design to be a factor when selecting and purchasing a new machine. Greater transparency in the machining process of up to 40% increases, for example, user convenience; larger panes and doors enable an ideal view and access to the work area. In addition, when using a machine, the DMG PlanonLight provides ideal lighting and high acutance. In addition to improvements in transparency and access, our machines are significantly easier to use due to an optimum user interface. Our patented DMG ERGO*line*® Control offers the highest user friendliness in day-to-day production. Freely assignable DMG SOFT*keys*® for frequently selected screen contents or operating sequences enable the machine controls to be tailored to suit the needs of the user. Access rights can now be set up more flexibly through the innovative DMG SMART*key*® system using transponder technology. The angles of the 19" flat screen and the keyboard can be positioned independently of each other and offer the user a high degree of ergonomics.

NUMBER OF INNOVATIONS AT THE GILDEMEISTER GROUP



In the **"Machine Tools" segment** innovative new product developments were decisive in further consolidating our technological lead.

In the **turning division** we presented seven new developments. We have added three machine types to the 5th generation of the modular constructed CTX series. The platform strategy enables clearly improved performance once again at a competitive price. New developments in the CTV series enlarged the area of vertical machining. These machines offer the highest rates of productivity and permanent accuracy in series production. With the 5th generation of the NEF 400 we complete the range of products in the area of universal lathes.

Further extension of the ECOLINE series

In the **milling division**, GILDEMEISTER presented five new developments in the reporting year. The DECKEL MAHO Seebach site concentrated its investments mainly on the further development of the DMF series. The new development of the DMF 180 and of the DMF 260 *linear* heralded the modernisation of the successful travelling column milling machine series. The thermo-symmetrical design makes high precision possible with large travels. At the DECKEL MAHO Pfronten site, we have extended the DMU and DMC machine product portfolio to include three additional models, which have been further improved with respect to their performance capability. Within the DMG ECOLINE, the DMC 55 H eco, the DMC 635 V eco, the DMC 1035 V eco and the CTX 510 eco extend the product range at the entry level. These machines are mainly targeted at the markets of eastern Europe, Asia and South America, and offer proven technology at very favourable conditions.

SAUER GmbH has added the Lasertec 20 in the **ultrasonic / lasering division**, which makes cost-effective machining of the smallest components possible and completes the product range of laser precision machining at the bottom end of the range by workpiece size. DMG Automation complemented its range of products by offering **automation solutions**, which again improve production efficiency significantly. Alongside efficient workpiece and palette handling, our customers can carry out auxiliary processes – such as signing, cleaning and deburring – during primary processing time. A highly-efficient system from one source offers our customers the perfect calibration of our machines and the appropriate automation. We are responding to the growing importance of **electronics and software** by combining these activities within DMG Electronics GmbH. The fields of operation include, amongst others, the standardisation of electronic components, the development of innovative user interfaces, improving co-operation with suppliers and the further development of our service products. In its standardisation activities, DMG Electronics has completed numerous projects successfully, for example in the area of servo motors and gearless drive technology. In the field of control coordination, innovative improvements have been implemented in cooperation with the development departments of our suppliers. These include, amongst others, a new tool input station for the standard administration of different tool types and magazines through the easily operated input panel, as well as the DMG Upper Screen innovative user interface. In addition, DMG Electronics GmbH coordinates the constant further development of our DMG Powertools software products.

In the **"Services" segment** we complete our range through a comprehensive portfolio of modern service products. The newly designed and further developed tooling devices from DMG Microset help our customers to minimise setting up times and machine downtimes. In the technology area of turning, SACO S.p.A. in Castelleone (Italy) offers a comprehensive range of high-tech components – such the DMG Loader 65-1 bar loader, which has been further improved technically and its appearance also changed to the new machine design.

"SunCarrier" receives award

In the **"regenerative energy"** division we have obtained further major orders for our "SunCarrier" system. These solar installations with an area of up to 288 square metres are aimed at industrial customers and can be used both as individual installations and as solar parks. The revolving construction enables the module surfaces to adjust automatically to the sun's position. In this way, an additional output of up to 30% is achievable compared to standard market solutions. The solid construction offers a high degree of weather resistance and reliability, and combines extensive experience in the area of machine and plant construction. Through the low service requirement, low energy consumption and a long lifespan, cost-effectiveness is increased for our customers. The innovative "SunCarrier" won an award in the "Energy" category of the Industry Prize 2008 from an initiative of medium-sized businesses ("Initiative Mittelstand").

Purchasing and Procurement

In the area of **purchasing and procurement**, GILDEMEISTER has consistently pursued a close cooperation and partnership with its suppliers. Expenditure on materials and purchased services amounted to € 1,066.3 million (previous year € 833.9 million). Of this, € 864.6 million (previous year: € 689.0 million) were spent on raw materials and consumables (RHB). The **materials quota** rose due to an increase in business volume of the material-intensive "SunCarrier" to 54.5% (previous year: 52.1%); when adjusted for the solar components, the materials quota amounted to 51.8%. Our real net output ratio was 29.6% (previous year: 31.6%). Cost increases in the reporting year amounted to an

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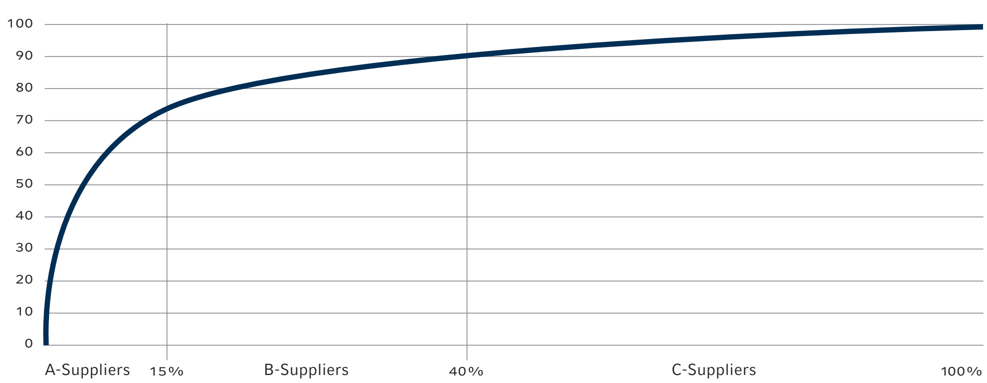
average of 1.7%. We have thus achieved our goal – a cost increase of less than 2%. As we actively include our suppliers in the value creation process, we were able to effectively counteract the price increase, particularly for components, cast steel and in the energy field.

Integrated procurement by coSupply©

Our prize-winning concept of integrated procurement management provides the basis for cooperation with our top suppliers. It is based on three pillars: coSupply® supplier management, materials groups management and integrated global sourcing. This system, which we are continuously developing, gives us the necessary flexibility to meet the changing requirements of a cyclical market. In the reporting year we responded to our suppliers' capacity constraints by using alternative suppliers to cover our requirements for production goods. By doing so, the share of our TOP 50 suppliers in the purchasing volume fell to 75% (previous year: 80%). When selecting a supplier, we focus on the one hand on system partners who can supply fully pre-assembled modules thanks to their vertical range of manufacture. On the other hand we concentrate more strongly on globally operating suppliers, who can make use of local advantages with regard to quality, costs and performance. The success of our global **supplier capital** strategy is also reflected in the eighth supplier day in Pfronten with 250 supply partners in attendance: Among the winners of the prize for the "Supplier of the Year" in the categories quality, supplier performance, innovation and overall winner, a supply partner from Japan won for the second time, the company THK. Our supplier structure is shown in the following graphic.

STRUCTURE ANALYSIS OF SUPPLIERS
Share of suppliers in purchasing volume in %



The structure analysis shows that 15% of our suppliers supply 75% of the total purchasing volume. We call them our A-suppliers. Another 25% of our suppliers account for 20% of the purchasing volume. These are our B-suppliers. Thus 40% of our suppliers cover 95% of our entire purchasing volume. The remaining 5% of the purchasing volume is supplied by 60% of the suppliers, our C-suppliers.

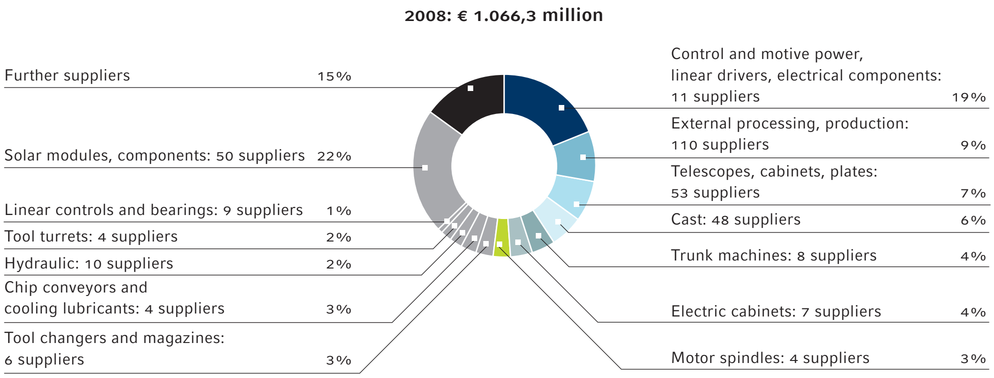
Together with our suppliers, we are continually working on the **security of supply** and an **improvement in the quality** of input parts. As part of the group-wide Front Office workflow system, and thanks to fast and close communication with our suppliers, the supplier cockpit makes it possible to exchange information timely on requirements and stocks. In this way it was also possible for us in the reporting year to inform suppliers in time of short-term increases in the production schedule during the excellent economic development in the first six months and to cope with the planned increase in production and sales revenues through using the maximum capacity at our suppliers. Our suppliers were informed timely of the weaker development of the purchasing volume, caused as of autumn by the declining economy, in order to allow them to adapt their capacity accordingly. As a further element of the Front Office, quality management facilitates an increasingly detailed error analysis and has led to a clear improvement in product and process quality. In order to drive improvements in transport management, we are continuously analysing our current logistics processes. In selecting our logistics partners, we concentrate on globally operating companies, in order to use their know-how in the pertinent shipping regions. Through extremely close cooperation, we were able to reduce delivery times, increase quality and service once again, and counteract rising transport costs worldwide. Our goal is to establish permanent and reliable supply partnerships. In this way we can best use the know-how of our supply partners and, at the same time, increase our innovative strength long-term. With the **www.coSupply.de** communication platform, the coSupply© supplier management system allows us to evaluate our suppliers on the basis of objective key performance indicators. The open and fair evaluation system serves as the basis for discussion with our suppliers and offers an ideal basis for strengthening our supplier relations.

We are optimising our transport management

The **materials groups management** combines strategic purchasing and coordinates the team-oriented cooperation between purchasing and technology. With the specialisation of materials groups throughout the group, on the one hand we improve the technical collaboration with our supply partners, which, on the other hand, we use to standardise and modernise our components and modules further. In the reporting year we have also saved material costs through standardisation, for example through standard tool turrets, measuring systems and feed drives.

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

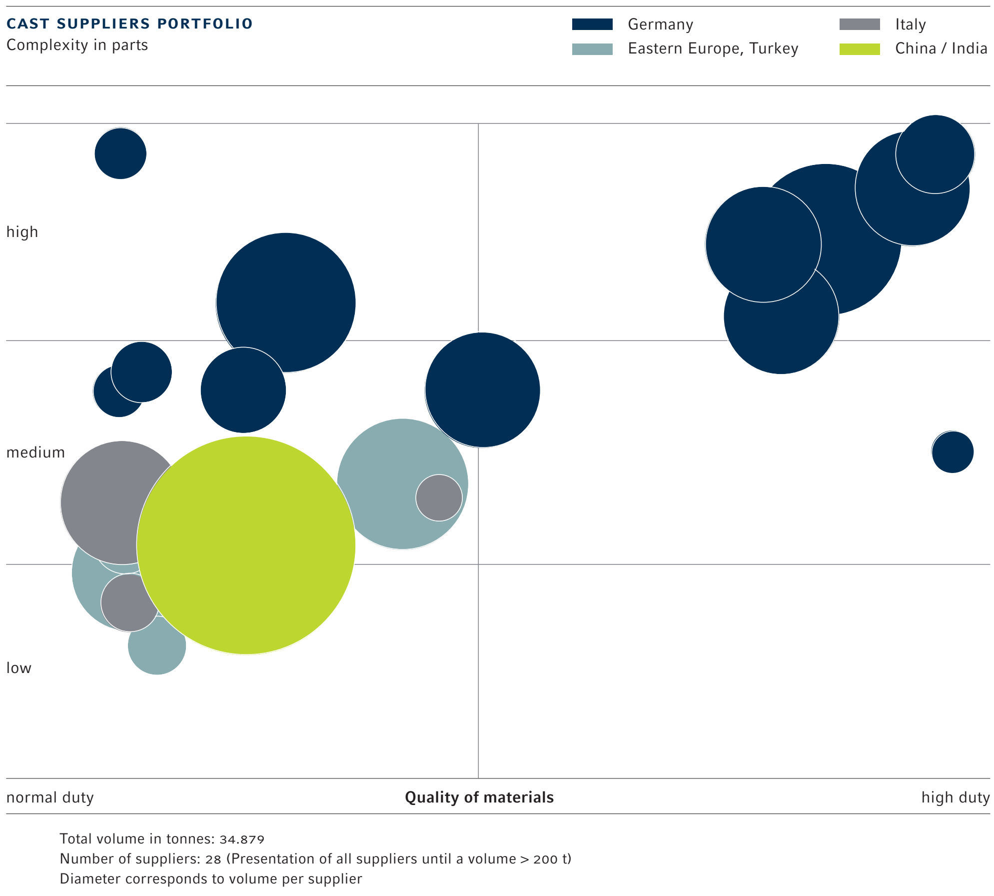
SHARE OF MATERIALS GROUP IN PURCHASING VOLUME
in %



GILDEMEISTER invested additionally in the purchase of assembly services. The integration of suppliers in the value creation process – for example, through in-house assembly of electric cabinets at the Seebach site – makes it possible for us to react swiftly to changes in orders at short notice, which in turn increases our production flexibility.

In the reporting period, GILDEMEISTER procured cast iron components for machine tools from 48 different suppliers amounting to a total weight of 34,879 tonnes; this represents an increase of 7% (previous year: 32,610 tonnes). As a comparison: This amount of cast iron is roughly the equivalent of four times the weight of the Eiffel Tower in Paris. Moreover, a+f procured a further 19,340 tonnes of cast iron, for example for energy components. In the procurement of cast iron components, we follow a **strategy of integrated global sourcing**. It is our aim to further extend our supplier base worldwide and thus to ensure favourable and stable procurement prices, as well as sufficient supply security throughout the group. In the reporting year, we have significantly increased our procurement of cast iron parts from China. Through the intensified use of mineral casts in selected modules, we were able to reduce our dependence on cast iron suppliers and, at the same time, benefit from the more favourable price level of this innovative material.

The following graphic gives an overview of our cast iron supplier portfolios.



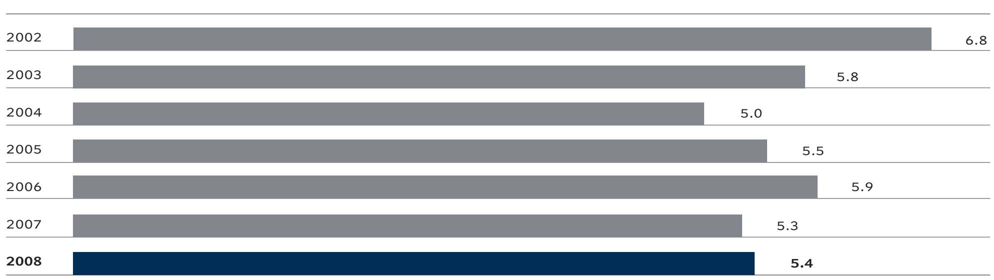
The realignment of central purchasing in the area of non-production materials, which was completed in the previous year, made it possible for us to optimise our structures in the areas of fleet, energy, facility and process management and design the processes more effectively. In the area of fleet management, for example, we were able to reduce leasing costs by 5% through streamlined procedures.

By establishing two decentralised purchasing locations in China and India, we are reacting quickly to the fast-growing and increasingly important markets in Asia for the machine tool industry. Our local presence improves communications and procedures between our Asian supply partners and our European production sites. Through a high share of **local content** – for example at our Shanghai location – we are able to reduce restocking times and stock commitments and increase our flexibility. We want to further increase our purchase volumes in the US dollar region and thus reduce the currency risk of customer payments in US dollars **(natural hedge)**.

From our FAMOT production plant the group procures, cost- and process-oriented, strategic production parts, as well as nearly every second pre-assembled basement. With the commissioning of two new DMC 200 U machines from our product range, we have further expanded the mechanical machining capacity at the Pleszew site in order to safeguard the know-how long-term of our manufactured parts.

In **goods storage**, until the start of the international financial crisis, the excellent economic trend led to tight procurement markets. As temporary supply constraints in material supply for important components became apparent, we specifically increased our safety stocks. By setting up alternative supply sources, through long-term supply agreements and by the anticipatory stocking up of key components, we ensure production flexibility, which is important to us. In addition, the continued rise in demand for complex technology machines led to longer procurement and processing times in materials handling and production. Inventories grew by 18% and at year-end amounted to € 425.9 million (previous year: € 361.0 million). This increase resulted from the higher sales performance as well as from the necessary advance performance for the "SunCarrier" orders. In the reporting year, the record level of sales revenues brought an increase in planned material requirements. Despite an increase in inventories, the turnover rate of raw materials and consumables rose by 2% to 5.4 (previous year: 5.3). The development of the turnover rate in recent years is presented in the following graphic. When compared to the industry, and taking into account the entire spare parts supply and the stocking of solar modules, the average period of storage of raw materials and consumables of 68 days remained at a good level (previous year: 69 days).

RATE OF TURNOVER OF RAW MATERIALS AND CONSUMABLES IN THE GILDEMEISTER GROUP



Production, Technology and Logistics

In the area of **production, technology and logistics** we have continued our activities to increase efficiency and introduced new measures. The investment projects presented on page 44 et seq. are fundamental elements of our futureoriented production strategy and serve to achieve our **production targets**.

PULLplus standardises processes

Through our integral PULLplus value added system, we have managed to further optimise the production and logistics process, and design it more efficiently. This process improvement was made possible by the extensive and intensive use of the tools offered in the PULLplus catalogue, work equipment and guidelines. A valuable instrument in standardisation remains the continuously improved **5-S-Audits**: **S**orting, **S**ystemising, **S**taying clean, **S**tandardising and **S**elf-discipline continue to be driven goal-directed with the aid of the newly-created 5S standard catalogue. Our qualified PULLplus managers are multiplicators at our production plants, who promote and direct the improvement process. At regular PULLplus network meetings, we provide the PULLplus managers with an opportunity to exchange information and to harmonise innovation and optimisation efforts throughout the group. In order to track process improvements long-term, during production and logistics meeting we have developed a key performance indicator system at technical and departmental levels. Clear presentation of the results provides employees with comprehensive information and assists in the long-term implementation of ongoing target agreements.

Line assembly reduces space requirement

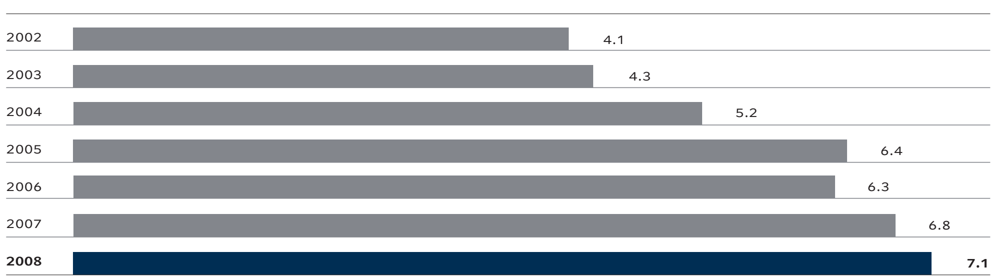
The development of **assembly processing times** is subject to systematic monitoring in rotational production and logistics meetings. The processing times are continuously reduced by suitable activities. From a certain number of production pieces, a clear reduction in assembly processing times can be achieved through reorganisation of the static box assembly into the **line assembly**. For this reason, we have adapted the assembly of our ECO machines at our Shanghai plant to a line assembly each for our ECO universal lathes and our ECO vertical machining centres. By using line assembly, we have reduced the processing time by about 12% and the floor area required by more than 35%.

The assembly times depend on the type of machine and individual customer configurations with special equipment; on average the time taken is between one and sixteen weeks. The Machine Tool Builders' Association (VDW) assessed the extent of order intake and thus the average delivery time in the machine tool industry to be 8.7 months. At five months, GILDEMEISTER is clearly below this level and is thus able to meet its customer requirements faster than the competition. Due to the still high order intake that we received in the first months of the year, we were able to reduce assembly times but were unable to fully compensate for a slight increase in delivery times. As before, maintaining and extending our **customer capital** lies at the heart of all our considerations and measures. We want to continue to increase customer satisfaction long-term. For this reason, we will consistently reduce processing times and, as a flexible, reliable partner when processing orders, we will aim for a high level of adherence to delivery dates. We measure customer satisfaction by carrying out representative customer surveys, for example every two years at the EMO, the industry's leading trade fair. An analysis of the survey permits GILDEMEISTER to see where it is positioned with respect to selected criteria from the point of view of the customer. It provides comparative information both in terms of the absolute importance of individual criterion, such as, for example, machine quality and short delivery deadlines, as well as in terms of the competition. From these surveys we know that our customers place a high value on fast order processing measured by the criterion of "short delivery deadlines".

We are constantly working on improving customer satisfaction and for this reason are shortening our delivery deadlines with targeted measures. Through our flexible production network, we are basically in a position to ease demand peaks by redistributing among our plants and in this way we can actively shorten our delivery times. Furthermore, we are reducing our processing times in production, for example by introducing line assembly or modernising production areas so that they have an optimized layout.

Our employees have also contributed in the reporting year to enhancing and further developing our processes and procedures. The number of **suggestions for improvement** at 26,538 was higher than the previous year's level (24,152). An average 7.1 improvement suggestions per employee has allowed us to increase this figure again (previous year: 6.8). By encouraging qualitatively first-class suggestions for improvement, we are motivating our employees to increase the group's **process capital**. The accumulated net benefit – benefit of the suggestions less cost of implementation – had an above average rise of 27%, compared to the previous year, to a new record value of € 4.7 million (previous year: € 3.7 million). Through our employees' great willingness to take part actively in the improvements process, GILDEMEISTER was once again able to defend its three top places in the industry ranking of the Deutsches Institut für Betriebswirtschaftslehre e.V. (German institute of business administration). Since the start of last year, employees at the German sites have had access to the enhanced ideas management system. The employee suggestion scheme (BVW) and the continuous improvement process (KVP) will be implemented in the system on a workflow basis. Through a roll-out of the system to our foreign plants in Poland and Italy, the employees there will also be able to submit their ideas faster and easier, so that experts can assess their merit efficiently and in a process-oriented manner.

SUGGESTIONS FOR IMPROVEMENT AT PRODUCTION PLANTS
Number per employee



GILDEMEISTER is working continuously on **process improvements** in procurement and production across all plants. Working groups have been drawing up methods and measures to ensure **security of supply**. In order to lessen manual material planning time, we are introducing a system that will automatically generate requirement forecasts and delivery schedules. The system will allow our suppliers to utilise their capacity optimally and for GILDEMEISTER it will mean that inventories are aligned with requirements as a result of the supply of materials to our plants at short notice.

Our DECKEL MAHO plant in Seebach has already started to convert the material flow in pre-assembly from order-related picking to **kanban procurement**. Availability of parts has been increased through the self-regulating kanban loop.

GILDEMEISTER is constantly engaged in increasing resource efficiency. This applies both to production and to improvements in the energy efficiency of our products. In production and administration, we have implemented sustainable measures to optimise energy use, for example automatic light controls, the replacement of inefficient ventilation and air conditioning installations, the renovation of building shells with optimum insulation, and the use of modern lighting technology. At the same time, we are constantly encouraging our employees to be careful in their use of resources, for example through special incentives within the scope of the employee suggestion scheme.

GILDEMEISTER leading in energy efficiency

For years GILDEMEISTER has been setting the benchmark for **energy efficiency in machine tools**. Our activities to improve energy efficiency are integrated throughout electronics, control technology and mechanics. We are consistently driving our own developments and those of our system partners.

In general, GILDEMEISTER – unlike its competitors – has been focusing for years on drives with energy recovery capability, in order to re-use braking energy for subsequent acceleration. In the construction of drives and aggregates, we have always focused on the use of all existing output reserves as well as the avoidance of unnecessary basic loads. Further activities concentrate on thermotechnically optimised electric cabinet construction, so that energy demand in the form of additional cooling capacity is avoided. In the area of control technology, we are also working closely together with manufacturers on the most energy saving joint control and path planning. Intelligent joint controls avoid energy-intensive acceleration and breaking peaks.

GILDEMEISTER has distinctive know-how in the field of machine simulation. This know-how facilitates the optimisation of mechanical machine construction at the development stage. GILDEMEISTER has reduced the mass moved in machine construction to an optimum level. In addition, weight counterbalance at the axes compensates for vertically moved mass. Both measures serve to reduce the acceleration force required and therefore energy demand. Low friction rolling guides are standard in GILDEMEISTER machines. The non-contact direct drive technology of our linear machines enables high machine dynamics and at the same time prevents friction effects and the associated loss of output.

With the DMG Virtual Machine, GILDEMEISTER sets itself apart from its competitors with an additional unique feature. With the DMG Virtual Machine our customers can simulate in advance the behaviour of the machine during machining. The simulation software avoids the need for empty drives for setting up and thus not only saves set-up time but also energy. Furthermore, using the simulation allows optimum cutting positions for work pieces to be determined and thus downtime is shortened.

At the moment there is no internationally comparable, recognised and meaningful test cycle or formula to compare the energy efficiency of machine tools.

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In order to measure ourselves against the best companies in our peer group, we hold regular exchanges of information. By comparing key performance indicators, for example as regards supplier, transport and ideas management, we can identify the best benchmarks. At the same time, we gain an insight into our own strengths and weaknesses, and obtain a starting point for potential improvements.

GILDEMEISTER is working constantly on a steady improvement in **working conditions**. In the reporting year the main focus was placed on organisational and construction measures to prevent draughts, noise pollution and the risk of falling or slipping. These are primarily prevention measures. By investing in climate control and lighting installations, we achieved a long-term improvement in the working conditions at our sites. At the Geretsried plant, we installed climate control throughout the assembly hall for vertical machining centres. In this way, not only do we meet the high quality requirements in the area of precision, but we also do justice to our aim of creating the best possible working conditions for our employees long-term. A continuous striving to improve working conditions applies to all our production plants worldwide. We make the same high demands worldwide of our production plants with respect to cleanliness, safety, product and process quality. In our value added system we have standardised methods and processes worldwide. In doing so, we achieve virtually identical working conditions at all our plants. This also applies to our plant in Shanghai (China), the only GILDEMEISTER production plant in an emerging market.

Investments in improving working conditions

In the **"turning" division**, GILDEMEISTER offers a worldwide unique range of lathes with nine product lines. The financial year of GILDEMEISTER Drehmaschinen GmbH and GRAZIANO Tortona S.r.l. was marked by the production run-up of the 5th generation of our CTX universal lathes. The new CTX **alpha-/ beta-/ gamma-series** has an intelligent modular system, which permits a significantly higher use of common parts. This modular concept enables the flexible machining of workpieces of up to 2,000 millimetres in length. The increased use of common parts simplifies procurement and production processes considerably. This reduction in complexity increases manufacturing efficiency, optimises logistics and further improves product quality. In Bielefeld we have put about 3,000 square metres of new production area into operation for the assembly of the TWIN and CTV series. By updating the production areas, we have formed the basis for the successful production of the CTV series. In Pleszew (Poland), FAMOT has successfully commenced production of the 5th generation of the NEF 400. This compact, space-saving inclined-bed machine will also be produced in the "new design" and is thus also an optical innovation. Alongside the manufacture of the NEF, FAMOT is also taking over a major part of the assembly of our ECOLINE series for Europe.

Modern production areas facilitate efficient production

In the **"milling" division**, we are also setting global benchmarks with our seven product lines. DECKEL MAHO is the technology leader in this area. DECKEL MAHO Seebach focused on improvements in production and logistics in the financial year 2008. Our plant in Seebach extended the supply of system modules – associated with line assembly – to other components. In addition to the expensive electric control cabinets, from now on the complete pneumatics, hydraulics and cooling systems will be furnished and assembled by the supplier. DECKEL MAHO Seebach has increased pre-assembly flexibility in the areas of tool changer construction, table construction and headstock construction by the introduction a kanban system. The company is now in a position to produce any approved version within a day. By changing to a two-shift operation combined with an intelligent frequency rate of the production line assembly, we have doubled the production volume from 10 to 20 machines per week. Within only ten weeks, the "new design" was successfully introduced at DECKEL MAHO for all the products in the DMU, DMC and HSC areas. We also improved mechanical production through the use of a new machining centre from the group. Using the DMU 200 from DECKEL MAHO in Pfronten, we can produce a specific range of parts 25% faster. In close partnership with well-known tool suppliers, we have tested innovative tools and technologies within mechanical production and successfully made use of them. Through this, we have managed to reduce machining times by about 30%.

„New Design" introduced for all products at Seebach

DECKEL MAHO in Pfronten increased its production capacity by putting its new assembly areas of about 2,400 square metres into operation. In the new extension we are assembling our DUOBLOCK® series and large machines. With the targeted extension of the special construction, quality assurance, production scheduling and control areas at our Pfronten plant, we have created ideal working conditions for these areas. Furthermore, we have reorganised the pre-assembly of the DMC 55 H and DMC 65 H horizontal machining centres. Through the new assembly logistics, instead of three machines in this area – which previously were assembled from start to finish – today there is space for eight basic machines. Only when the basic machines have been pre-assembled are they transported to the finally assembly area. By bundling pre-assembly where there is a high rate of repetitive work steps, efficiency increases while the space requirement decreases.

New pre-assembly reduces space requirement in Pfronten

The high level of demand for the **ECOLINE series**, following its launch at the start of 2008, led to an increase in production at our Shanghai plant of +62%. In the reporting year we assembled 755 machines in Shanghai (previous year: 466 machines). Since October, our Shanghai plant is able to assemble more than 100 machines per month. An important pre-condition for this increase in production was the construction of two new assembly lines. The assembly lines for the ECOLINE universal lathes have reduced the surface area requirement by 36% while at the same time increasing productivity by 12%. Assembly line work for our ECOLINE vertical machining centres, DMC 635 V ECO and DMC 1035 V ECO, has actually reduced the surface area requirement by 40% and, at the same time, increased productivity by 12%.

In the **"ultrasonic / lasering" division** at the SAUER GmbH sites in Idar-Oberstein and Kempten, we produce high-tech machines, which, in part, have unique features not found worldwide. When machining particularly hard or brittle materials, so-called "advanced materials" – for example, ceramic, glass and Zerodur® – ULTRASONIC is the ideal technology for this machining. The flexible, vibration assisted drilling, grinding and milling, permits up to three times more productivity in the manufacture of workpieces with qualitatively first-class surface quality when compared with standard machining processes. In this process a vibration is generated in the tool holder, which causes the tool to vibrate up to 30,000 times a second. When this occurs, very small particles are removed from the surface of the workpiece. Typical examples of application are found in the watch industry in the machining of filigree watch faces or in medical technology for producing implants – such as hip or knee joints, for example.

In the field of LASERTEC technology, we offer machines for 3D laser removing, laser fine-edge blanking and laser precision drilling. The flexible integration of different laser sources permits the machining of high precision and highly demanding workpieces, which can be individually tailored to suit the customer's needs. Our LASERTEC machines are used to machine the most accurate edges and sections, for example for the production of embossing stamps, for signing and gravures, and for laser precision drilling of cool air ducts for turbines in the aerospace industry. With the newly presented LASERTEC 20 *FineCutting*, we have confirmed our position as a worldwide leader in innovations in this technology. The LASERTEC 20 *FineCutting* permits fine machining of thin metal sheets and 3D parts, and facilitates die clearance of up to 20μm. As a comparison: Human hair at 60μm is about three times stronger than the fine die clearance of the LASERTEC 20 *FineCutting*.

DMG Electronics bundles our activities in the area of control and software development. Concentration in one company increases efficiency through simplifying alignment processes. Trendsetting control and drive technologies, as well as electronics for top manufacturing productivity, are generated by the DMG Electronics Centre of Competence. Through this concentrated know-how, optimum solutions are developed, coordinated and made available as standard for DMG machines throughout the group.

DMG Automation completes portfolio of products

In the area of automation, the **DMG Automation** solutions complete our portfolio of products. The range of solutions on offer varies from simple mechanical/pneumatic feeding systems to loading gantries and up to 6 / 7 axis robots. DMG Automation solutions are characterised, in particular, by their ease of use, high availability and compatibility.

In the financial year just ended, we have consistently driven the further integration of DMG Automation. Together with the introduction of the employee suggestion scheme, measures to optimise production and logistics long-term formed the main focus. Through the re-organisation of the warehouse area, the introduction of the kanban principle in logistics, and by combining the electrical workshops and final assembly in the assembly halls, we were able to increase productivity at DMG Automation.

GILDEMEISTER successful with the „SunCarrier“

With its **“renewable energy” division** GILDEMEISTER has very successfully established itself in the trendsetting area of solar technology. In the “SunCarrier”, GILDEMEISTER has developed an innovative carrier system for crystalline solar modules, by which solar energy is transformed into electrical power with the aid of photovoltaic. The “SunCarrier” tracks the sun’s position by rotating up to 220 degrees. Adjustment to the sun’s actual position takes place every ten minutes. In order to rotate, a “SunCarrier” only needs 0.4 kWh electricity per day – less than a fridge uses per day. In the reporting year we have not only installed individual plants but also several solar parks. a+f GmbH offers investors turnkey solutions – from setting up the project to its implementation and the commissioning of the plants through to service. In Spain we have put into operation a total of four major projects with 756 “SunCarriers” and handed these over to our customers. The 216 “SunCarriers” at the major project in Alconera (Spain), for example, generate enough output to supply up to 4,300 four-person house-holds with environment-friendly electricity. In total, the 1,445 “SunCarriers” erected so far by us, cover the electricity needs of about 80,000 people.

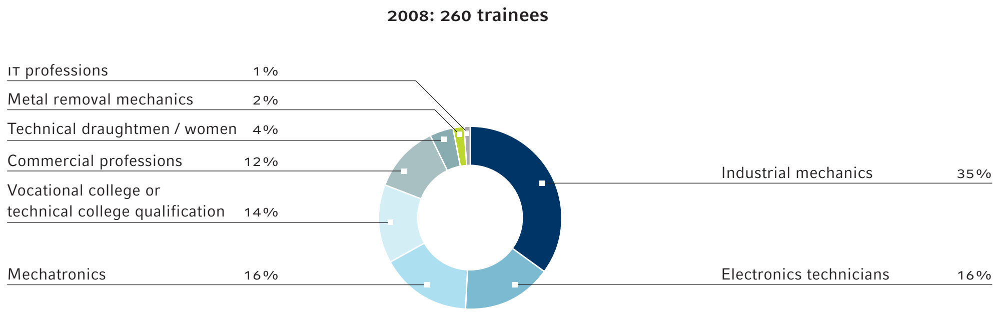
Employees

As at 31 December 2008, GILDEMEISTER had 6,451 employees (previous year: 5,998), of whom 260 were trainees. Over the course of the financial year, the number of employees increased by 453 or 7.6%; this corresponds to our forecast of up to 8%. In the “Services” segment, an increase in personnel occurred at DMG Spare Parts and a+f, as well as in Asia and Europe – in particular in eastern Europe. This enables us to meet the increase in requirements of our customers even better. In the “Machine Tools” segment, additional employees were taken on due to the increased sales performance, in particular at the production plants in Shanghai, Bielefeld and Pleszew.

At year-end, 3,841 employees (60%) worked for our domestic companies and 2,610 employees (40%) for our international companies.

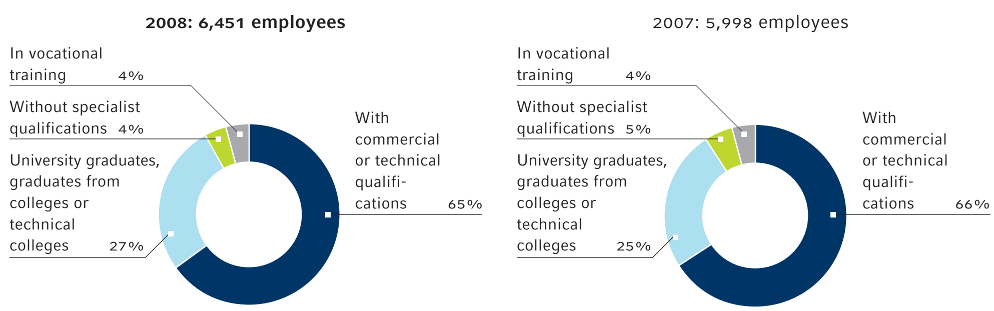
We have increased the number of trainees by 34 to 260 (previous year: 226), to enable us to recruit a large number of our skilled and executive personnel from our own ranks in the future. At the same time, in this way we are supporting regional and other initiatives aimed at providing training for young people. Professional vocational training plays a decisive role in providing young people with an excellent and attractive opportunity to enter our world of work at our production sites. At the start of the new training year, GILDEMEISTER took on 66 trainees (previous year: 71). The vocational training quota in the “Machine Tools” segment at the domestic companies was 9.4% (previous year: 8.9%). Overall, we offer vocational training in ten different trades. In addition, we offer courses of study in association with regional colleges of advanced vocational education and universities of applied sciences. We are continuously expanding and developing these co-operations further.

TRAINING IN THE GILDEMEISTER GROUP
Allocation by fields in %



Our employees' qualifications and skills represent a core element in the non-financial sustainable development key performance indicators **(SD-KPIS)**. The following graphic shows great value is placed on professional training and a qualified workforce at the GILDEMEISTER group and is a core element of our **human capital**.

QUALIFICATIONS STRUCTURE OF EMPLOYEES IN THE GILDEMEISTER GROUP
in %



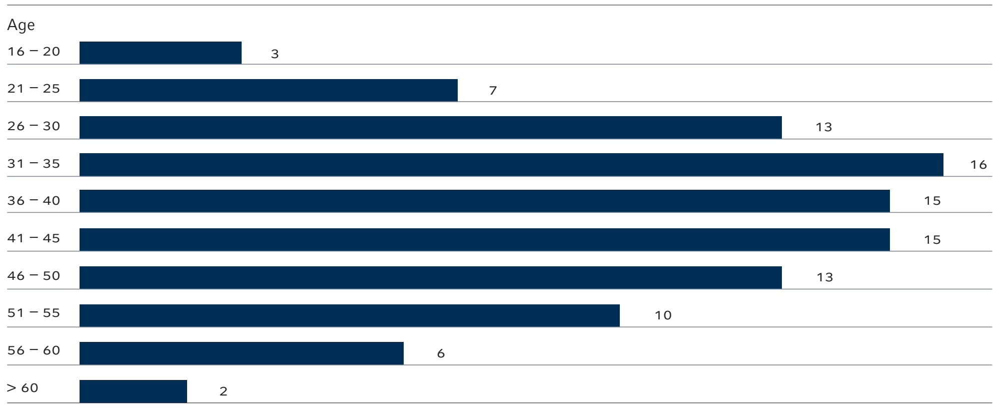
As the figures in the diagram show, the qualifications structure was slightly higher than the previous year's level. In all, 96% of the workforce already has a professional qualification or is currently in training (previous year: 95%). The number of employees taking part in further training has further increased since the previous year and, at 3,995 employees, represents 62% of the workforce (previous year: 3,580 employees or 60%). Our most comprehensive training measures included qualifying our domestic and foreign sales and service employees for the new machine generations and the familiarisation and qualifying of newly appointed staff. Further emphasis was placed on training measures in information technology and in languages. A total of € 5.2 million was spent on further training (previous year: € 4.4 million).

Employee motivation is promoted through an incentive and remuneration arrangement, which rewards target achievements in individual performance through variable, performance-based salary components. Moreover, we have implemented a worldwide bonus plan, which allows employees to share in the company's success in 2008. Further components of employee motivation are occupational safety and health protection, which are a core element in our value creation system both nationally and abroad. Working conditions, both nationally and internationally, are firmly anchored in our certified quality management system. This also takes into account the emerging countries, in which GILDEMEISTER has production plants, as well as sales and service companies.

Employee expenses amounted to € 405.5 million (previous year: € 366.4 million). Of this, wages and salaries accounted for € 344.8 million (previous year: € 308.3 million), social insurance contributions for € 56.7 million (previous year: € 54.4 million) and retirement pension expenses € 4.0 million (previous year: € 3.7 million). The € 39.1 million additional expenses were due primarily to increases in collective pay agreements, a rise in expenses for additional job performance, commissions and bonus payments, as well as to the higher number of employees. The employee expenses quota decreased to 20.7% (previous year: 22.9%).

The part-time retirement plan, for which we use the block model, extended to 130 employment agreements (previous year: 150). Participation in the part-time retirement plan has thus fallen by 13% in comparison with the previous year. The entire period of part-time retirement is divided into active and passive phases of equal length. There were 70 employees in the active phase and 60 in the passive phase. The age structure of our employees is well-balanced and has changed as follows: 39% of our employees are 35 years of age and younger (previous year: 39%), 82% are 50 years of age and younger (previous year: 83%).

AGE STRUCTURE OF EMPLOYEES IN THE GILDEMEISTER GROUP 2008
in %



Additional nonfinancial performance indiators have developed as follows: In the financial year 2008 there were 120 traffic and operational accidents (previous year: 146). In relation to the total number of staff, this represents a reduction to 1.9% (previous year: 2.4%). The level of sickness of an average 3.1% was the same as for the previous year (3.1%) but still below the industry average of 3.7%.

Fluctuation of 7.2% was at the previous year's level (7.1%) and was thus slightly higher than the industry average of 6.5%.

Two employees were acknowledged for their 50 years' employment jubilee. In addition, 29 employees celebrated 40 years', 24 employees 25 years' and 259 employees 10 years' employment at the company. We would like to thank all our employees who are celebrating their jubilee for their loyalty to the company and their unceasing commitment. At this point we would also like to thank all our employees for their highly-motivated performance. We would also like to thank our works councils, whose knowledgeable and constructive work has contributed to the implementation of many decisions.

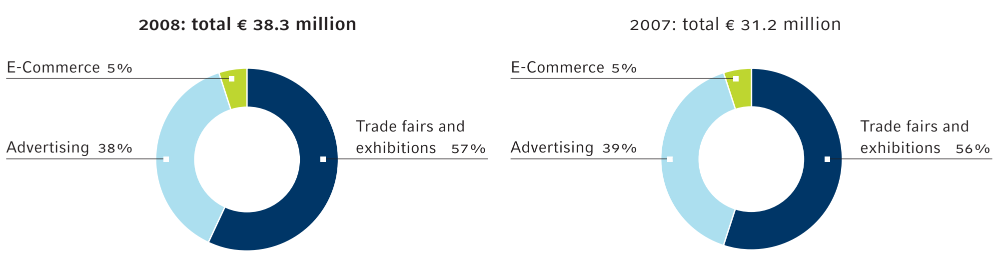
Corporate Communication

GILDEMEISTER continued its commitment to providing multifaceted corporate communications both internally and externally during the reporting year. These support our strong international market presence long-term. Our model of market and value-oriented corporate management serves as a guideline. A very diverse collection of instruments are used to bring vitality to our corporate communications. In the reporting year these included trade fairs and exhibitions, as well as print information, advertising, our internet presence, and investor and public relations activities. These focused particularly on innovations and on the consolidation of our product lines. Activities in corporate design, sales, pricing and innovations policy were closely synchronised with our marketing actions. Overall the corporate communications served to take better advantage of existing market potential and to open up new buyer segments for us. Expenditure in the area of corporate communications amounted to € 38.3 million (previous year: € 31.2 million).

Trade fairs and exhibitions are of decisive importance as marketing instruments for GILDEMEISTER, as this is where people can experience our products first hand. In the reporting year, DMG was represented at 70 trade fairs and exhibitions both nationally and abroad. 664 turning, milling and ultrasonic / laser machines were demonstrated in operation in front of the visitors. The total display area at trade fairs alone amounted to 12,084 square metres. Our presence was popular: At the trade fairs and exhibitions we registered 67,043 visitors, representing 50,753 companies. They ordered a total of 1,890 machines and therefore generated direct order intake of € 432.4 million. The trade fair highlight was the AMB in Stuttgart. At this trade fair we presented 23 exhibits, of which eight were world innovations, over a display area of 1,100 square metres. In the reporting year we spent € 21.7 million on trade fairs and exhibitions (previous year: € 17.4 million). This corresponds to a share of 57% in total marketing and corporate communications expenses (previous year: 56%).

At GILDEMEISTER **advertising** is primarily a way of marketing our products. Our high-quality customer journal, in particular, enjoys a high level of appreciation. It was published twice in the reporting year, each time in 44 versions and 22 languages. Total circulation was 1,200,000 copies; in addition, the journal was viewed 24,481 times at our Internet site. By the way, our diligently updated website is also generally very much in demand. Visitor numbers of 1.95 million exceeded the previous year by 13%. The total number of brochures was 747,050 copies; here, too, the importance of downloads has grown considerably. In 2008, direct marketing was also pushed with innovative product and event mailings. Total worldwide circulation was 3 million items, split among 13 direct mail campaigns with a daily average of 8,232 items. There were 22 different language versions for 60 countries. The ECOLINE mailing addresses totalled 300,000 (21 versions in 16 languages), the DMU mailing was 362,300 addressees (14 versions in 6 languages) and the year-end mailing 134,800 addressees (12 versions in 8 languages). GILDEMEISTER was also able to leave its mark on the trade press: 220 advertisements placed in 112 different trade journals provided information in 32 countries on DMG products. GILDEMEISTER invested a total of € 14,6 million in product marketing (previous year: € 12.1 million). This represents 38% of marketing and corporate communication expenses (previous year: 39%).

MARKETING COSTS DISTRIBUTION AT THE GILDEMEISTER GROUP
in %



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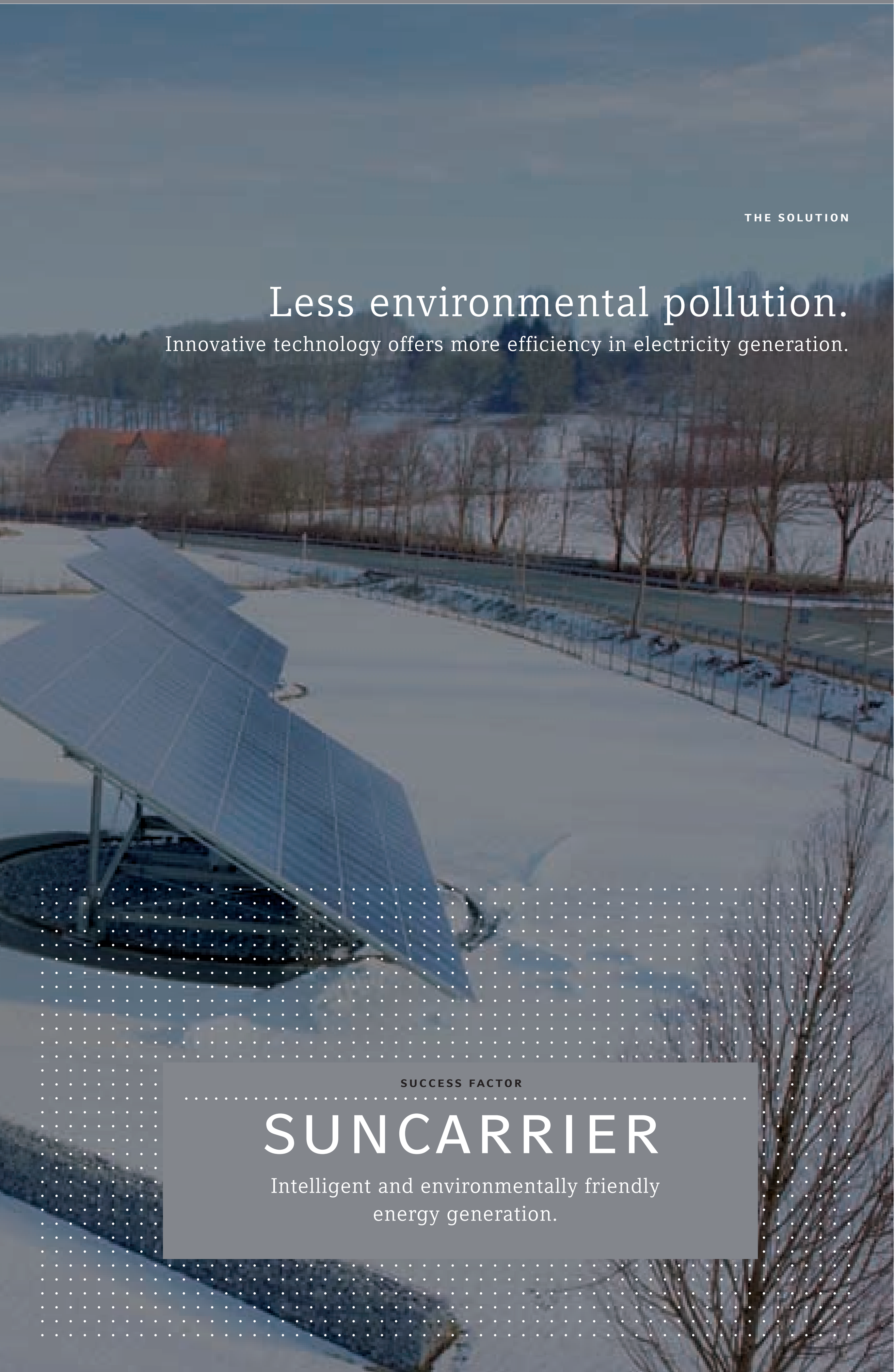
Rising energy requirement.

By the year 2030 the global energy requirement will have risen by up to 45%.

Source: World energy council (WEC), 12 November 2008.



THE SOLUTION

Less environmental pollution.

Innovative technology offers more efficiency in electricity generation.

SUCCESS FACTOR

SUNCARRIER

Intelligent and environmentally friendly energy generation.

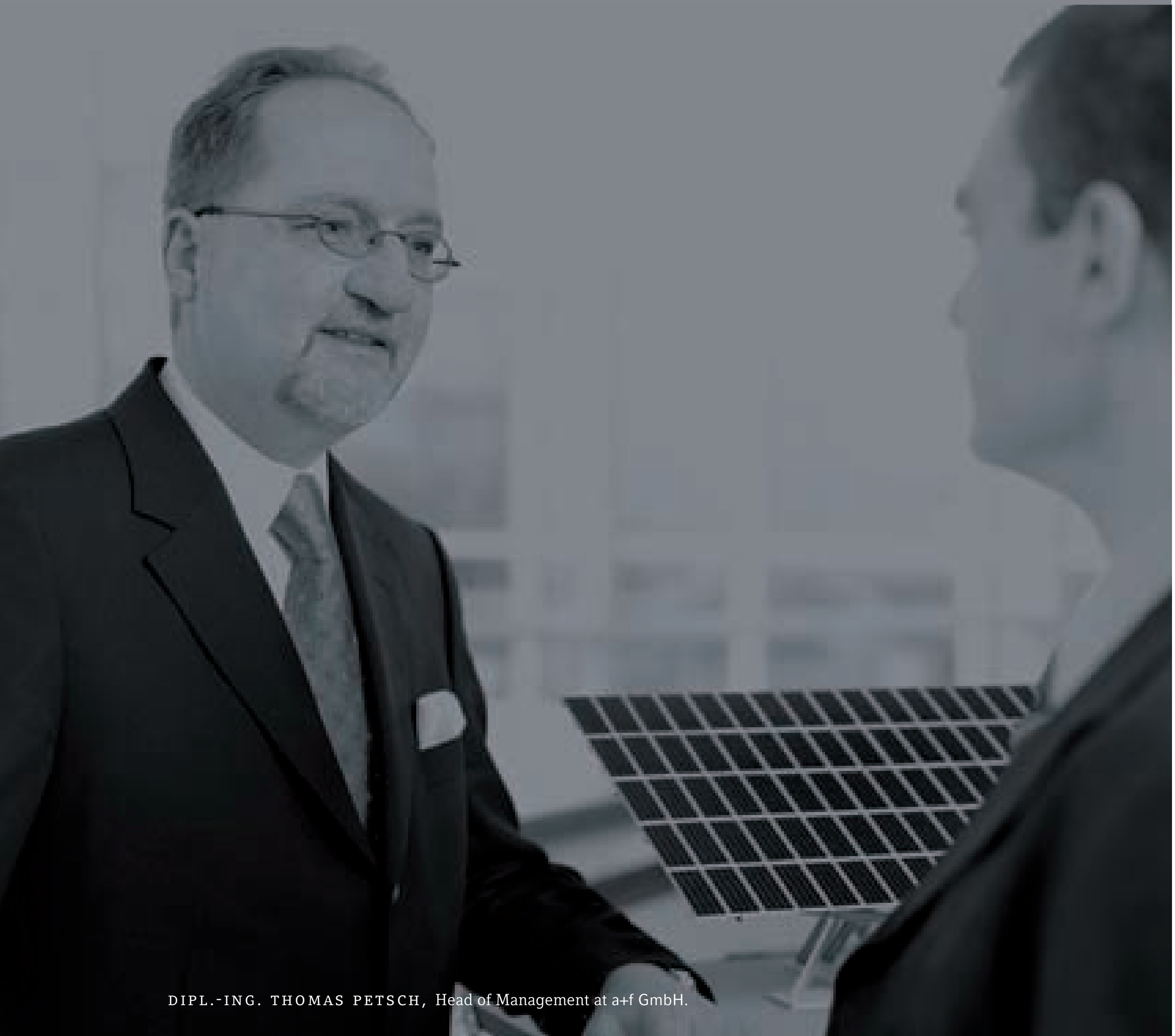
SUCCESS FACTOR SUNCARRIER

The sun system with unlimited potential

Environmentally friendly energy generation numbers among the mega-trends of the 21st century. Whoever can come up with innovative and efficient technology here, the future belongs to him. In the field of photovoltaic, GILDEMEISTER is already successfully paving the way as a trendsetter.

The advantages of renewable energy are without question. With intelligent development, access is opened up to practically inexhaustible and, moreover, environmentally friendly reserves. Furthermore, deposits of fossil fuels will be exhausted within a few decades. A swift and complete conversion to renewable energy resources is therefore unavoidable. What stands more to reason, than to use the 150 million kilometres distant and yet at the same time largest source of energy: the sun. It provides the earth with ten thousand more times than the global primary energy requirement. And free-of-charge and without any detriment to the environment. Here slumbers not only a large ecological but also an enormous economic potential.

SunCarrier – unique efficient technology for tomorrow's energy. *However, how does one use the enormous energy source of the sun and the opportunities for the "energy supply" market of the future optimally?* GILDEMEISTER has the right answers to these basic questions: the SunCarrier. The as yet unparalleled photovoltaic construction can be equipped with solar modules of various manufacturers. The in-house developed programmable tracking system automatically ensures that the module is aligned at an optimum angle to



DIPL.-ING. THOMAS PETSCH, Head of Management at a+f GmbH.

the sun. At the same time, SunCarrier systems are extremely robust and wind-resistant, so they can even be used in sandy areas for several decades. The result of this highly-developed technology is excellent efficiency values in the conversion of sun energy into useful electricity. With a minimum service cost, in comparison with fixed base installations increased output of up to about 30% is possible.

The best future prospects for industry and investors. Its technical and economic advantages make the SunCarrier an attractive system for industrial customers but also for insurers and investors, who are active in the solar energy sector. The combination of long-lasting technology and minimum service requirements present an especially decisive advantage for investors. Today the SunCarrier is already providing the electricity needs of about 80,000 people. At the same time GILDEMEISTER is quickly exploring other potential markets. For example with the SkyCarrier, a new development specially conceived for countries close to the equator. Sunny outlooks thus for our future, our environment and, not forgetting, for our company.


BÜREN / GERMANY _ 23:00 CET
21% of energy consumption is covered by the Büren Maschinenfabrik GmbH in Büren with the SunCarrier from GILDEMEISTER.

SUCCESS FACTOR SUNCARRIER

We bring light into the darkness.

With a module surface of up to 287.5 square metres
a SunCarrier supplies up to 20 households with power.

Supplementary Report

Overall economic development in the first months of this year – caused by the complete change in global economic conditions – followed a decidedly downwards trend. Business activity in the German machine tool industry at the start of the year showed itself to be very much in decline.

Economic Development 2009

Overall economic development in the first months of the current year followed on from the negative trend in the second half of the year 2008. The Organisation for Economic Cooperation and Development (OECD) assumes that the cyclical momentum will decline further over the whole of 2009. A positive boost is still expected from China, whilst the driving motors in the USA will for the most part come to a standstill.

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

The economic trend of the **German machine tool industry** also remained markedly weaker at the start of the year; the industry's sales were correspondingly restrained. The German Machine Tool Builders' Association (VDW) estimates order backlog to be 6.0 months.

Source: VDW (German Machine tool builders' association)

Corporate situation at the end of the reporting year

Even GILDEMEISTER could not avoid the downturn in the economic environment and the fall in demand for machine tools at the start of year 2009. With respect to order intake, we have made a restrained start to the new financial year. Sales revenues will develop satisfactory in the first quarter. The operating profit will be positive. The extent and duration of the worldwide economic crisis and its effects on GILDEMEISTER cannot yet be planned for with sufficient certainty at the present time. Further information is given in the "Forecast report" on page 106.

a+f presents the "SkyCarrier" at the Grand Opening

At a Grand Opening on 23 January 2009, a+f GmbH presented its trendsetting solar Centre of Competence and thereby stays abreast of the dynamic changes at its Wurzburg site. It offers workspace for up to 100 employees and offers the latest in climate control technology. The modern building is a reflection of the ecological corporate focus of a+f. As zero energy building, it completely does without primary energy resources. On the occasion of the Grand Opening, a+f presented the **"SkyCarrier"** for the first time – an innovative solar tracking system for countries in the equatorial region. With the "SkyCarrier" GILDEMEISTER is planning to expand its activities in the fast-growing business area of regenerative energies.

The highlight of our **marketing activities** was the traditional inhouse exhibition at our Pfronten plant at the start of the year. Over a total surface area of more than 3,600 square metres, DECKEL MAHO presented the latest developments in turning and milling technology. Industry-relevant manufacturing solutions, with up-to-date control technology, for energy technology and the medical and aerospace industries, as well as new automation solutions, all shared the limelight with the new DMG ECOLINE. Among the 54 machines on display there were three world premieres, including the DMC 210 U mega-milling centre in an attractive new design and the LASERTEC 40 for 3D laser machining, which is used, for example, for gravures. A total of 3,571 trade visitors took the opportunity to obtain information on our DMG products. With 147 machines sold, we were able to achieve order intake of € 32.5 million. At a total of five national and international trade fairs and inhouse exhibitions – including the important DIE & MOULD trade fair for the future Indian market – GILDEMEISTER presented its product portfolio to a wide range of trade experts.

The GILDEMEISTER **Suppliers' Day** took place on 12 February 2009 during the inhouse exhibition in Pfronten. The "Supplier of the Year Award" was presented for the ninth time before the invited TOP suppliers in the categories quality, supply performance, innovation and overall winner.

We have kept the **selling prices** steady in "Machine Tools" and "Services" in view of the current market situation.

In the first two months there were no changes to the organisational structure or to the **legal corporate structure**. Neither were there any acquisitions of **shareholdings**.

The investigations of the Public Prosecutor's Office, having started in January 2008, have not yet been finished.

In the first two months of the year we did not make any significant **investments**.

General statement: The financial year 2009 started with restraint. The effects of the worldwide economic crisis could be clearly felt. At the moment, GILDEMEISTER is preparing for the minor willingness on the part of its domestic and international customers to invest.

BUSINESS REPORT
Supplementary Report

BUSINESS REPORT
Opportunities and Risk Report

BUSINESS REPORT
Forecast Report

Opportunities and Risk Report

For GILDEMEISTER, risk management is a fundamental building block in its management system, which plays a decisive role in the early recognition of any possible deviations from the defined target values and which enables appropriate action to be taken. These deviations can be both positive (opportunities) and negative (risks). The Executive Board has defined the opportunities and risk management in general principles and guidelines, and specific codes of behaviour, which are supported by control measures, ensure that the risk management system is active in the current structures.

GILDEMEISTER is globally positioned and operates worldwide: For this reason, the expected returns as well as opportunities and risks must be constantly weighed. Opportunities and risks are evaluated and the expected returns are weighed against them. Should the returns appear to be unfavourable and certain limits appear to be threatened, the related activity will not be approved. Our group wide risk management system allows us to identify and classify opportunities and risks at an early stage. In principle, our system accesses the group's existing organisational, reporting and management structures, and supplements these with specific elements. 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 the value-at-risk as a measure of risk,
4. the general internal divisional and cross-divisional reporting structure of the group, which is governed by thresholds and 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 management system: Even opportunities, such as positive deviations from budget, are identified and analysed within the opportunities and risk management system. Changes in the price of materials, for example, are simulated in various scenarios as an increase or reduction. The marketing information system (MIS) identifies significant individual opportunities, by collecting all customer data worldwide and evaluates market and competitor data. We co-ordinate our sales and service activities and interactive marketing measures with market-specific segmentation of the MIS data in such a way that our intended market penetration and the targeted deployment of our sales force are ensured. 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.

Overall economic opportunities arise for GILDEMEISTER, in particular, from the growing legal certainty and stability in the growth markets in Asia and eastern Europe; this increases opportunities to extend market shares in these markets. In this respect, GILDEMEISTER's global presence, especially, is a contributory factor. Moreover, opportunities arise out of a further stabilisation of materials and energy prices achieved through our global sourcing. In the event of the economy rallying again, GILDEMEISTER is well prepared.

Grasping chances in the growing solar market

Industry-specific opportunities: With the "SunCarrier" from a+f GmbH, GILDEMEISTER is operating in a new business area, by which the group intends to participate in the growing solar market. The growth of this market results, on the one hand, from a growing demand for energy and, on the other, from the challenges posed by climate change. Both factors together suggest that in the medium to long-term the global energy policy will turn towards renewable energy. We use the ECO series to take advantage of market opportunities in the eastern European, Asian and South American regions. Furthermore, opportunities for GILDEMEISTER have been growing since mid-2007 from integration solutions with robots for machine tool automation.

Recognizing of chances by operative early indicators

Strategic corporate opportunities present themselves to GILDEMEISTER through a sustained leadership in innovations and technology, as well as through leading product quality in the market. In order to further extend our leadership in innovations, new products are being developed all the time. In this way we create the potential to consistently extend our lead in markets. The MIS data also serves this purpose and provides us with a variety of **operative early indicators**, such as market potential or order intake. These indicators form the basis of our business policy decisions so that we can take advantage of our opportunities and avoid possible misguided developments. As a leading and integral part of the GILDEMEISTER IT system environment, the MIS determines and ensures the consistency and integrity of customer data. As a full-liner, we are continuously diversifying our services and extending our advanced technologies. In addition to ultrasonic and laser technologies, we are becoming more active in the field of renewable energy sources. As we are increasingly making our production more regional, we are opening up opportunities with respect to cost and value added structures.

Performance effective opportunities arise by our actively involving our suppliers in the value added process. The optimisation arising from this enables us to benefit from favourable prices, in particular in the area of cast iron and steel. Our worldwide sales and service network helps us gaining further market shares.

BUSINESS REPORT Opportunities and Risk Report

BUSINESS REPORT Forecast Report

Risk management system: 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. If it is possible to offset a risk reliably using effective countermeasures, only the residual risk is presented following the measures introduced ("net risk"). We pay special attention to risks that could endanger the future of an individual company or the group – that is, if the possible amount of loss exceeds equity by 50% or more. The Executive Board and Supervisory Board are regularly informed of the current risk position of the group; any substantial risks are notified immediately, independently of the regular reports. 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. Such risks are to be documented, assessed, monitored and reported by each group company in the form of risk schedules.
- 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 that have to be adjusted accordingly.

Actual crisis represents risk

General economic risks: The economic slump on the world markets, as well as possible financing constraints on customer investment projects, lead to a clear decline in order intake in machine tool building, as is shown by the estimates of the VDW and of the ifo Institute, which are quoted in the forecast report. The current crisis will have a noticeable effect on business development at GILDEMEISTER in the financial year 2009. Planning has been adjusted to the change in the general economic situation. Changes in energy and raw materials prices, as well as delays in supplier performance, also present risks as well as insolvencies of suppliers. Furthermore, changes in legislation relating to taxes or duties may have a negative impact on business development in individual countries. Finally, changes in currency exchange rates may also have an effect on our future competitive position (economic currency risk). We counteract this risk through international sourcing as well as growing regional production. The predominant risk, however, is the development of the economy. We consider losses arising out of other overall economic risks to be improbable.

Industry-specific risks: We counteracts risks arising out of cyclical trends with technological superiority and focusing on our clients and markets. Although GILDEMEISTER will also clearly feel the effects of demand restraints in the machine tool area. Despite the consistently high competitive pressure from the Asian region, we counteract the price competition of Asian manufacturers by an increasing regionalisation of production.

Early warning system shows risks

Corporate strategic risks: The risk exists of misinterpreting future market development and of misguided developments. In the area of research and development, the risk exists of budget excesses, misguided developments, increased start-up costs for new products as well as a delayed market launch of innovations. We counteract these risks through intensive monitoring of the market and competition, regular strategy discussions with customers and suppliers, a comprehensive trade fair presence in all important markets and also through our MIS early warning system. In the area of research and development, we counteract risks through development partnerships with customers, suppliers and universities. We consider the probability of occurrence of losses from corporate strategic risks to be slight.

We are subject to **procurement and purchasing risks** on the grounds of supplier shortfalls, quality problems and price increases. GILDEMEISTER regards the main risks in price increases in the raw materials and energy sectors, and in the increase in capacity utilisation. We reduce these risks through the standardisation of structural parts and components, the expansion of the production of components and standard machines in Poland and China, and through our international sourcing. We have calculated potential losses from purchasing and procurements risks at about € 10 million with a low probability of occurrence.

Production risk are subject to continuous control by GILDEMEISTER through key figures on assembly and manufacturing progress, process time and continuity. In principle, as we avoid incalculable projects, we consider these risks to be manageable and controllable. Moreover, GILDEMEISTER uses numerous other quality and product-related indicators to monitor potential risks. These include, for example, the contribution margin per machine type and the turnover rate of raw materials and consumables, as well as of inventories. We strive to counteract plagiarism with our innovations-focused product strategy, by which we ensure a technological lead through our high speed of development. We have calculated any possible losses arising from production risks at about € 15 million with a low probability of occurrence.

Personnel risks arise mainly from the fluctuation of employees in key positions. GILDEMEISTER limits these risks through intensive further training and management trainee programmes to increase employee qualifications and skills, as well as through performance-oriented remuneration with a performance-based incentive system, substitution arrangements, which should cushion any loss of key employees, and early succession planning. Moreover, we offer excellent career prospects both nationally and abroad. We counteract risks of dismissal by preventive forms of contract as well preferably through settlement with those making claims. On the basis of the above-mentioned measures, we consider the probability of occurrence of estimated damages in an amount of about € 7 million as slight.

IT risks exist due to the increasing networking of our systems, some of which are highly complex. IT risks may arise from network failure or from data being falsified or destroyed through user and program errors or through external influences. We counteract these information technology risks through regular investment in our hardware and software, by the use of virus scanning programs, firewall systems, and by controlling access and authorisations. Continuous monitoring of these measures is carried out by the data protection representative and by the IT Security department. Possible damages arising out of this area amount to about € 1 million and are controllable. We consider the probability of occurrence to be slight.

Risks from operative tasks: As before, our products continue to be subjected to constant price competition in the international markets, which we are counteracting through cost reductions, improved manufacturing and procurement processes, and by optimising production start-ups. The realisability of loss carryforwards on deferred tax assets may be adversely impacted by changes in national rates of tax affecting the companies in the corresponding countries.

Financial risks: Limiting risks arising out of financing and valuation is one of the core tasks of GILDEMEISTER Aktiengesellschaft. Currency-related risks arise out of our international activities, which we safeguard within the scope of our currency strategy. For this purpose the hedging instruments permitted are specified in a currency guideline. These hedging instruments are used exclusively to safeguard underlying transactions but not for trading or speculative purposes. More detailed information in this respect is given in the Notes to the Consolidated Financial Statements on page 61. According to our evaluations, currency-related risks are low. Our outside financing is secured long-term through the issue of borrowers' notes with a term of five and seven years, thus until 2013 and 2015, respectively. There is no risk of interest rate changes from this financing as a fixed interest rate has been agreed by means of a hedging instrument (swap). In addition, we have a syndicated loan facility with a total volume of € 175 million, which will mature in June 2011. For the syndicated loan there is a bank risk on the part of the financing that is not used. All financing contracts include the agreement to stick to covenants customary in the market. 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 banks. The risks from financing are controllable. In theory possible damages amount to about € 14 million. The probability of occurrence of damages is slight. GILDEMEISTER has not registered any direct losses caused by the financial crisis.

Our outside financing is secured long-term

Other risks: Legal risks may arise from the operational business, particularly possible warranty and third party liability claims of our customers with respect to the sale of machine tools and services. GILDEMEISTER strives to monitor these risks through efficient quality management; nevertheless, such claims of our customers cannot always be avoided. To maintain the resulting risks at a manageable and calculable level, GILDEMEISTER follows a policy of limiting the time period of our warranties and liabilities. This is achieved by our general terms and conditions, which we are continuously reviewing and adapting according to requirements. Moreover, depending on the situation, we enter into individual arrangements that take into account the specific circumstances. Through consistent warranty and liability arrangements we are in a position to reduce risks that arise out of the operative business to a large extent. GILDEMEISTER has an up-do-date contract management system and regularly trains its employees in drawing up contracts effectively and the minimisation of risks. Furthermore, tax risks exist. In particular, the realisability of loss carryforwards on deferred tax assets may be adversely impacted by changes in national rates of tax affecting the companies in the corresponding countries. Overall, we have calculated any possible losses arising out of this at about € 2 million with a low probability of occurrence.

Rise of overall risk by economic downturn

Overall risk: Compared to the last report, due to the strong economic downturn, there has been a rise in risks. A summary addition of the main individual risks is not appropriate in our opinion as a simultaneous occurrence of all hypothetical losses is highly improbable. Reciprocal effects, thus diversification or correlation effects of individual risks, are therefore taken into account through a risk simulation process ("Monte Carlo simulation"). Using this method, possible effects of individual risks on items in the income statement or balance sheet are calculated in simulation procedures. In doing so, the time structure of the risks is observed. With the overall risk position determined, the equity requirement is calculated, which, with a pre-defined probability (confidence level), can bear any possible losses related to risk. With a probability rate of 97.5%, the calculated equity requirement can bear risk-related losses. Overall, the risks can be controlled and from today's perspective do not endanger the future of the GILDEMEISTER group as a going concern. In view of the continuing negative economic outlook, however, an increase in risks cannot be excluded.

Forecast Report

According to economics experts, the global economy will weaken considerably over the current financial year due to the general economic crisis. The German Engineering Federation (VDMA) assumes a clear decline in the market in its forecast and the German Association of Machine Tool Builders (VDW) also expects a global decline in the machine tool business.

Future Business Environment

The **overall economic development** will clearly lose pace in 2009, as the global financial crisis has spread to all areas of the economy. Many countries are even showing signs of a trend towards recession. The Institute for the World Economy (IfW) only predicts an increase in global gross domestic product of 0.4% with 1.9% predicted for 2010. In the **USA**, where the crisis began, the economy is expected to shrink, as neither private consumption nor corporate investment is providing sufficient stimulus. According to estimates of the Institute for the World Economy (IfW), gross domestic product in the USA will decrease by 1.5% in the current year, in 2010 the change could be positive again (+1%). In **Asia**, the economic climate is likewise cooling, according to economic researchers. In **China**, although comparatively clear growth remains, negative effects are probably also being felt there. It is predicted that there will be a rise in gross domestic product of 5.8% (2009) and 6.5% (2010). **Japan** is also expected to slide into recession. The forecast for 2009 is -1.5% and for 2010 0.6%. In **Europe** there will also be strong adverse effects in all probability. For the euro area, economic researchers estimate that gross domestic product will sink by 2.7% in 2009. Slight growth of +0.1% could follow in 2010. The corresponding estimates for the European Union amount to -2.3% and +0.2%.

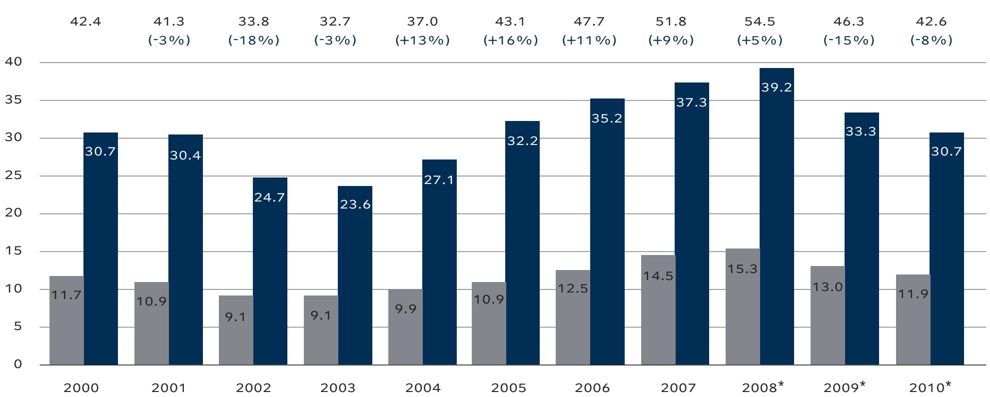
In **Germany**, as a result of the tense overall situation, initially a shrinking economy can likewise be expected. The Institute for the World Economy (IfW) anticipates a decrease in gross domestic product by 2.7% in the current year and a slight rise by 0.3% in the coming year. The latest ifo forecasts are -2.2% (2009) and -0.2% (2010). The German federal government recently also adjusted its growth forecast downwards and gave -2.3% as the probable figure for the current year. The German Council of Economic Experts on the Assessment of Economic Trends in its autumn report 2008 / 2009 predicted zero growth. In 2010, growth of +0.7% is expected. A negative trend is also expected in 2009 on the job market. Due to the declining economy and the rescue packages announced, national debt will probably grow. The budget deficit threshold will therefore be exceeded in all likelihood.

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

The **worldwide market for machine tools** in 2009 will not reach the previous year's level. Current forecasts of the ifo Institute and of the German machine tool builders' association (VDW) expect a decrease in value of the production output and market volume by 15%. We are therefore expecting a decline in **sales revenues in the industry** of 15%. This estimate is based on the weak demand worldwide and the continuing uncertainty as to whether and when the economic upturn will start. In 2010, the German Machine Tool Builders' Association (VDW) expects a decline in consumption of 8%. At present no current statements on the **market potential** for machine tools are available. Nor are there any available on the development of the **industry's profitability**, or on **price and wage** trends.

GLOBAL CONUSMPTION OF MACHINE TOOLS (2000 – 2010)
in € billion

Cutting machine tools (comparable to GILDEMEISTER)
Non-cutting machine tools



Source: World machine tools statistics of the VDW (without parts and accessories)
* estimate of the VDW

In its expectations for the **sector's economy**, the **German machine tool industry** is assuming that 2009 will be a difficult year. The VDW and the ifo Institute expect a decline of 15% in production and in consumption. On a medium-term basis, forecasts for the years 2009 to 2012 anticipate average decline in consumption of about -6.7% annually. Risk factors for these assumptions exist in the continuing uncertainty about economic development, in price development for raw materials and energy, in the exchange rate changes and in the political environment.

Source: "The German Machine Tool Industry in 2008", VDW (German Machine tool builders' association)

The **consolidation process** in the machine tool industry will continue even in 2009. As a result of this development, increasingly globally active producers will be present on the world markets. The market entry of significant competitors and the introduction of fundamentally new **replacement products and services** are not expected.

General Statement on the Future Business Environment

Current 2009 forecasts for the machine tool industry expect a distinct slowing down in the market. The extent and duration of the worldwide economic crisis and its effects on GILDEMEISTER cannot yet be planned for with sufficient certainty for the financial year 2009 at the present time.

Future Development of the GILDEMEISTER Group

GILDEMEISTER will further extend its world market leadership and will operate aggressively in the market with powerful sales and marketing. In the declining market worldwide for machine tools, we intend to win market shares from our competitors and to close the year with better results in comparison with the rest of the industry. With our newly designed products, which are completely tailored to meet the needs of our customers, we feel that we are well prepared to cope with the coming challenges. In the ECOLINE series we will continue to add to the bottom range of the product portfolio and thus decisively strengthen our activities at the entry level.

As before, we see Asia and eastern Europe as the **future sales markets**. In the medium-term we will tap into these sales markets through expanding our direct sales and will further consolidate our leading competitive position. Medium-term we aim at a world-market share of 10%. We will combine our strengths and focus on stable sales segments, such as aerospace, medical technology and renewable energy.

Order intake development will continue to be influenced by the ongoing uncertainty of our customers and the resulting strong declining trend in demand. For the first quarter of 2009, we expect order intake to be noticeable below the high level of the previous year’s quarter (€ 591.9 million). The first quarter 2008 was the most successful quarter in the company’s history ; it was especially marked by the good result of our traditional in-house-exhibition in Pfronten as well as the contribution of the “SunCarrier”. The machine tools business will decline in 2009, the service business will be almost stable and we expect positive development in the solar business under the precondition of secured project financing. We are expecting a boost to come from the industry trade fairs worldwide. At the most important machine trade fair in Asia, the CIMT in Beijing, GILDEMEISTER will present 25 product exhibits from 6 to 11 April. The EMO will take place in Milan from 5 to 10 October, where GILDEMEISTER will present 40 exhibits, of which 9 are world innovations.

Sales revenues will be below the previous year's level (€ 392.0 million) in the first quarter 2009 due to the difficult market situation. As a consequence of the international economic crisis even GILDEMEISTER will more intensively experience the buying reluctance of our domestic and international customers. We are assuming that the worldwide economic crisis will effect our development of sales revenues significantly in the cause of the year. It is not yet possible to give more detailed statements for the current financial year at the current time.

In the first quarter the **order backlog** will be below the previous year's figure of € 949.3 million). We are assuming that the order backlog in the financial year 2009 will decline significantly.

For the first quarter we plan a positive **EBT** (previous year: € 18.1 million). Further statements for the current financial year are not possible at the moment, as the extent and duration of the economic crisis cannot yet be predicted. Neither are predictions as to the amount of **dividend**, nor on the **free cash flow** possible at the moment. Our measures aim at maintaining the **financial structure** and the gearing at a stable level in the financial year 2009. We are focusing on reducing our working capital.

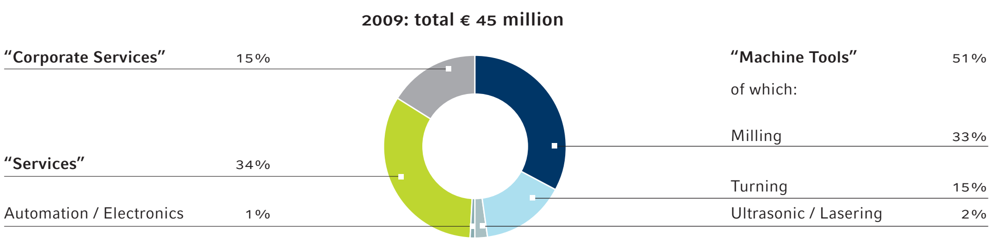
With respect to current financing, we are not expecting an increase in **the cost of capital** at the present time. The sound financial framework enables us, from today's estimates, to make the necessary **liquidity** for business development in 2009 available at any time and to have sufficient leeway within the financing lines

We will intensify our **value reporting** further in 2009. It is not possible to give statements on roce and on the development of the cost of capital at the present time.

In the financial year 2009, GILDEMEISTER will follow its investment strategy adjusted to economic development. At the moment we are planning reduced **investments** of about € 45 million in our group companies. Taking into consideration the future overall economic development we will eventually make further reductions. The planned investment volume comprises capitalised development costs of about € 7 million. The planned investment volume will be higher than the level of anticipated depreciation of about € 33 million. In the **"Machine Tools"** segment we will invest about € 22.8 million in fixed assets and intangible assets. The focus will be placed on the new development of machine types, with the associated models and fittings, for the EMO in Milan in October 2009. Furthermore, by April 2009 we will finalize the modernizing of the assembly areas at GRAZIANO in Tortona (Italy), which was started in 2008. The extension at DMG Electronics GmbH at our Pfronten site will be put into operation in March 2009. In the **"Services"** segment we are planning investments of about € 15.2 million. By concentrating our spare parts logistics in Geretsried, we want to ensure even better supply of our customers with spare parts and components well into the future. To ensure our service quality, we will continue to equip our service technicians with the most up-to-date tools and measuring devices. We will also continue to invest in the modernisation of office equipment at our sales and service companies commensurate with their needs. Investments of about € 1.5 million are planned for the "solar technology" division. The focus lies on the further development of country-specific diversification of our "SunCarrier". Simultaneously, we will invest in the development of prototypes as well as in the procurement of models and fittings. We have planned investments of about € 7.0 million in the **"Corporate Services"** segment. The main focus lies on the final extension with the opening of the "DMG Experience Centre Turn & Mill" at the Bielefeld site on 24 March 2009. In the future, we will – together with partners – conduct free programming and live demonstrations for our customers on their specific workpieces. Within the scope of application support and advice, thus customer requirements will be solved promptly by our specialists.

The **investment structure** remains well-balanced. Both the production plants and the sales and services companies will be taken into account in investments. When investing, GILDEMEISTER pays attention to a timely and appropriate balance in relation to business development over the course of the year. At the moment there are no identifiable risks arising out of planned investments.

SHARE OF THE INDIVIDUAL SEGMENTS IN PLANNED INVESTMENTS IN TANGIBLE FIXED ASSETS AND IN INTANGIBLE ASSETS
in %



In the financial year 2009 we will continue to pursue our innovations-oriented strategy in **Research and Development**. The continued further development and enhancement of the product portfolio in all divisions, we are laying the basis for our sustainable corporate development. The volume of expenditure for research and development is anticipated to be about € 58 million. Overall, even in years of crisis, about 13% of our employees will continue to work in research and development in extending our lead in innovation. By building upon the module principle, we will further reduce internal complexity. In addition to positive internal effects, the intelligent modular construction offers advantages in the available machine options. In this way, GILDEMEISTER is meeting the growing requirements of customers for individuality. Through a consistent focus of our products on the requirements of specific industries we will further improve our proximity to market. Our activities in this respect are directed at the high-tech industries, such as the aerospace industry, medical technology or regenerative energies. Alongside the consistent enhancement of our successful high-tech products, in the financial year 2009 GILDEMEISTER will also work on extending the ECOLINE series and thereby further consolidate our market position in the entry level area. The business area of regenerative energies will be further expanded through a targeted development of future-oriented concepts. The related expenses and the number of employees working in Research and Development will be based on the strategic goals mentioned above. Therefore, we will continually develop the expertise of our employees through training measures in order to protect the pre-conditions for further extending our technological superiority.

In the area of **procurement** we will expand and reinforce our integrated procurement concept. With the three **coSupply®** pillars of supplier management, materials groups management and international sourcing, we facilitate further development for our suppliers through clearly defined goals, methods and procedures. We will further expand our global sourcing activities and will intensify procurement from suppliers operating worldwide using regional site advantages with respect to quality, costs and performance. In the area of chip conveyors, for example, we are pursuing the goal of increasing our supply partners in China and India, in order to optimise supply at our production plants. We will again increase the share of our TOP suppliers in the purchasing volume.

We are continually seeking opportunities to reduce costs

Our materials groups management follows a strategy of value added optimisation and combines group wide sourcing activities. Together with our suppliers, we are extending our systems partnerships and are driving standardisation activities and subassembly supplies constantly. We plan sustainable savings in **procurement costs** primarily in motor spindles, in hydraulics / pneumatics and in ball screws. In close partnership and cooperation with selected suppliers, we will work to reduce inventories and thus to increase the group's liquidity. In addition, together with our suppliers, we will design the procurement process to be more flexible in order to deal with short-term fluctuations in requirements and to ensure timely delivery.

Stable and reliable **supply** for our production is safeguarded through framework agreements that are coordinated throughout the group, especially for the A-component range of aggregates, modules and subassemblies. Due to the global economic development, the focus in the current financial year is being placed, in particular, on realizing potential cost reductions. Through a reduction in **raw materials costs** on the world markets, we want to realise savings for the year 2009 of up to 5% with respect to the total purchasing volume of the group.

In cooperation with selected suppliers, we are continually seeking solutions to ensure stable product and supply quality. The early-supplier-involvement process assists early identification of causes of defect and their correction. In this way we use the innovation strength of our supply partners and can prevent follow-up costs in development. Alongside innovative strength and product quality, we also evaluate our suppliers on their delivery performance. This year very high flexibility and close harmonisation with our supply partners will be necessary in order to ensure production satisfied order requirements.

An important goal for this year is achieving a further increase in data transparency through enhancing our reporting tools. The automated master data maintenance also minimises sources of error and thereby opens up new savings potential. Furthermore, processes will be simplified within the scope of IT projects and will increase efficiency in our joint working together with our supply partners. Internal and external procurement and settlement processes in the area of C-goods will be standardised by way of an electronic order and settlement procedure and will thus cleary reduce the processing costs.

Introduction of digital assembly box

In **production, technology and logistics** in the current financial year, the optimisation of production and logistics processes will be consistently driven. Moreover, in doing so, we will specifically use **new procedures**. A focal point will be placed on improving visualisation of production processes. GILDEMEISTER Drehmaschinen GmbH will introduce a digital assembly box. At the shop floor level, it will make it possible to supply digital information for the production as well as an interactive exchange of the assembly status of machines. At our Bielefeld site, we also want to improve significantly the exact time and quantity of material supply of C-parts for production by introducing a new procedural organisation. For this purpose, the current consignment warehouse will be equipped with the latest technology in controlling consumption, so that a high level of supply with corresponding cost-effectiveness is ensured.

Optimisation of pre-assembly

Our Seebach and Pfronten plants will further improve materials flow by extending the kanban supply system in assembly. By specifically **decoupling pre-assembly** from final assembly, we will achieve further potential for optimisation. The procedure will take place alongside the pre-assembly reorganisation of our DMC 55 H and DMC 65 H horizontal machining centres at the Pfronten plant, which has already been successfully implemented. With our enhancements, we are steadily following the goal of increasing our worldwide **production flexibility**. Increased flexibility ensures and facilitates the best possible **capacity utilisation** at our production plants, irrespective of geographical or cyclical developments.

In the current financial year, by April 2009, we will complete the restruction of the assembly areas that we have started in the year 2008 at our plant in Tortona (Italy). The Bielefeld site is also being enhanced long-term through putting into operation ideal office, customer and training space. Following GILDEMEISTER's successful establishment in the business area of regenerative energies, business activities involving solar plants will be intensified. For the first time, a+f GmbH will also supply the "SunCarrier" to Italy. In southern Italy, namely in the Apulia region, a solar park will be set up with total output of about two megawatts. Just one of the project's "SunCarrier" can supply 18 four-person households with electricity. So that the internal processes of a+f GmbH can keep up with the fast-paced development of the business activities, we will optimise the internal process by introducing a new ERP system. A uniform IT infrastructure throughout the group replaces the former ERP system and in future will map all the administrative and operational task areas along the entire value-added chain. Further emphasis in the "renewable energy" division will be placed on expanding our service business in Spain and launching our "SkyCarrier" on the market.

In logistics we will further extend the electronic link to our suppliers. The seamless and, to a large extent, automated connection of selected suppliers to our production scheduling minimises the time and effort required for coordination and thus leads to synchronisation between GILDEMEISTER procurement and our suppliers' production. By doing this, we create the pre-conditions throughout the group for a sustainable improvement in communication with our suppliers and will be able to tap into further efficiency potential. GILDEMEISTER benefits from short-term deliveries commensurate with its requirements through the possible minimisation of its stocks.

The basis for the continuous rise in production efficiency continues to be formed by our PULLplus value added system. Our PULLplus activities are focused on intensifying the use of selected best practice methods from the PULLplus method lexicon. These are intended to lead to constant improvement in current processes and become more firmly established through an even greater number of workshops in the company. In addition to the introduction of the enhanced ideas management tool at all production plants, a further focal point will be a pilot project for the application of a value-flow analysis.

We will add 19 new developments to the **"Machine Tools" segment** and thereby prove our innovation strength once more.

GILDEMEISTER presents 19 new developments

In the **turning division**, GILDEMEISTER Drehmaschinen GmbH and FAMOT Pleszew S.A. are extending their product range in the field of universal turning machines and production-turning / milling centres. GILDEMEISTER Italiana will complete its product portfolio in the area of CNC automated lathes.

In the **milling division** the DECKEL MAHO Pfronten site is focusing with the DMC- and DMU series on expanding universal milling machines and machining centres. DECKEL MAHO Seebach is adding to its range of second generation DMF travelling column machines with linear technology.

We will extend the **ECO series** by a new development in the milling technology area.

The **ultrasonic / lasers** division will be strengthened by new developments in ultrasonic and laser technology. DMG Automation will meet the high degree of importance placed on **automation solutions** by continuously enhancing its products. The focus of activities will continue to be placed on the development of solutions aimed at further increasing customer benefits from our turning and milling machines.

In the **"Services" segment** we will work on the targeted enhancement of our software and service solutions. DMG Electronics GmbH is focusing on extending its standardisation activities, further improvements in energy efficiency, the networking of machine controls with our automation solutions and the design of user interfaces with innovative design and function elements. In the area of powertools, existing software products will be further enhanced and innovative new solutions created in order to facilitate increases in efficiency for our customers along the entire length of the value added chain. We will consistently optimise our central spare parts supply through DMG Spare Parts at the Geretsried site so that we can offer our customers the fastest possible availability of spare parts. Furthermore, we will expand our product-related range of training and user-focused services.

SkyCarrier extends product range

In the **"regenerative energy" division** we are directing our product policy at the quickly changing market requirements. In doing so, the focus of our efforts is an increase in energy yields per SunCarrier and further cost reductions in the solar tracking system. The newly-designed "SkyCarrier" will extend the product range of a+f GmbH to additional areas of application. The horizontal tracking of the module surfaces by up to 30 degrees facilitates particularly efficient use near the equator.

In the financial year 2009, the **legal corporate structure** (in future group structure) of the group is not expected to change significantly.

We will continue to compete strongly for good **employees** in the future. In the financial year 2009, the number of employees will fall due to the change in economic conditions in dependence of the business development. Due to the salary and wage increases under collective pay agreements, personnel expenses will undergo a slight change. As in previous years, a high value is placed on vocational training and further training, as we also want to recruit skilled and executive personnel in the future from our own ranks. Moreover, the best practice exchange between trainees and other group company employees will continue to be encouraged. This gives both young and experienced employees the opportunity to work in other countries throughout the world.

General statement of the future business development

We have prepared our company for the developments to be expected in the **financial year 2009** and will readjust continuously according to the requirements resulting from the economic crisis. With our innovative products and the global presence, we are prepared for the coming changes in the machine tool business. GILDEMEISTER has a good financial basis, solid foundations and a clear corporate strategy. The machine tools business will decline in 2009, the service business will be almost stable and we expect positive development in the solar business under the precondition of secured project financing. A high degree of flexibility allows GILDEMEISTER to react appropriately to the changing market conditions. GILDEMEISTER remains well positioned in the important markets and due to the measures consequently initiated, we are convinced to emerge from the crisis stronger than before.

Commercial Glossary

ABS transaction
The asset backed securities (ABS) convert previously non-liquid assets into negotiable securities. Specific financial assets of the company are bought, usually by a special-entity company, and placed in a 'pool of receivables'. The special-entity company refinances the sales price via the capital market by issuing securities.

Borrower's note loan (Schuldscheindarlehen)
Usually medium to long-term loans, which are guaranteed on delivery of a certificate (note). Borrower's note loans (or promissory notes) are mainly used by corporations and public authorities to obtain funds. They are not traded on the stock markets.

Cash flow
Changes in liquid funds in a reporting period.

Cashflow statement
View of liquidity development/payment flows taking into account the sources and application of funds effects.

Cash Pooling
Cash pooling describes a liquidity balance within the group managed by central finance management, which withdraws surplus liquidity from group companies or, in the event of insufficient liquidity, offsets this through credit.

Corporate bond
A bond issued by a company with a fixed term and usually fixed regular coupon for the purpose of procuring a large volume of long-term external capital on the domestic and foreign markets.

Corporate Governance
The responsible management and control of companies geared towards the creation of long-term value.

Covenants
Additional or supplementary stipulations in credit agreements. The borrower agrees to observe specific indices. If these are breached the agreement may be terminated.

Deferred taxes
Inter-period differences between calculated taxes on profit or loss from a commercial and tax balance sheet, with the object of showing tax expenditure in accordance with the correct commercial result.

D&O insurance
The Directors' and Officers' insurance insures the risk arising from liability of executive board members, supervisory board members and managers.

Earnings per share
Earnings per share is a financial ratio pursuant to IAS 33.

EBITDA
Earnings before interest, taxes, depreciation and amortisation.

EBIT
Earnings before interest and taxes.

EBT
Earnings before taxes

Free Cash flow
Free funds that are available to the company, arising from the cash flow balance from current operations and investment activity. Investments in the financial assets are not taken into account in this respect.

Free Float
Part of the share capital in portfolio investments

Goodwill
Percentage of the purchase price of a company which exceeds the value of the assets calculated as fractional values

Hedging Transactions
Safeguarding or hedging interest or currency risks of one or more underlying transactions; derivative financial instruments may be used.

IFRS / IAS
International Financial Reporting Standards. Internationally applicable accounting standards to ensure international comparability of group accounts and to meet the information requirements of investors and other readers of annual accounts by providing a high degree of transparency. The individual sections of the IFRS are called IAS (International Accounting Standards).

Key Account Management
Key account management is a customer-focused organisation and action plan, which helps in systematically identifying, acquiring and retaining particularly important customers and intermediaries.

Local Content
Percentage of goods purchased in the country of the production plant (in contrast to imported components) in the value of a product

LTI
Long-term, variable remuneration component for members of the Execution Board and Supervisory Board. It is performance-related and based on different parameters for the Execution Board and the Supervisory Board(Long Term Incentive).

Market capitalisation
This is the current price of a listed company. It is determined by the share's market value multiplied by the total number of shares

Monte Carlo Simulation
A simulation model on the basis of random figures. In risk management it enables the determination of random combinations of risks to the balance sheet and income statement. A financial year is simulated several thousand times using different risk combinations and thus a representative sample of possible future risk-related scenarios can be analysed.

Rating
A periodic standardised assessment of risk and credit standing of issuers and the securities issued by them. Ratings are performed by specialised, generally approved agencies.

ROCE
Return on capital employed: EBIT to equity, provisions and net indebtedness.

SD-KPIS
Sustainable Development Key Performance Indicators).

STI
Short-term, variable remuneration component for members of the Execution Board and Supervisory Board. It is performance-related and based on different parameters for the Execution Board and the Supervisory Board(Short Term Incentive).

Syndicated loan
A loan granted by several banks (syndicate), where the total risk (e.g. from credit standing, capital tie-up) is distributed among the banks and the credit limit applicable to each bank is not exceeded.

Value added statement

The value added statement presents the difference between the company's output and the consumption of products and services in terms of value. The contribution statement shows the contribution of those participating in the value-added processes – employees, companies, lenders, shareholders / minority interests and government.

Value-at-Risk (VaR)

A risk measurement, which indicates the expected threshold value that a loss might occur at in a certain risk position with a determined probability and within a defined period of time.

WACC / Cost of capital

The WACC (weighted average cost of capital) is calculated as weighted average of the cost of equity and the cost of debt. The cost of equity is initially calculated after taxes. For 2008 we used a risk-free interest rate of 4.2%, a market risk premium of 5.0% ad a beta coefficient of 1.0. The cost of debt amounted to 6.1% after taxes. The tax rate in the pretax approach employed was applied at a flat rate of 28.8%. The equity/debt ratio is 31:69.

Technical Glossary

Advanced Materials (engl.)

Materials with special characteristics, such as abrasion resistance, resistance to heat or chemicals etc., which makes them suitable for the use in a wide variety of applications. Advanced materials include technical ceramics (zirconium oxide, silicon carbide, aluminium oxide), glass (quartz glass, Zerodur, Macor), composites (carbon or mineral fibre), metal carbide, hardened steel (hardness > 53 / 54 HRC) or precious stones such as ruby or sapphire. However, the economic machining of these materials usually requires the use of special technologies, e.g. ultrasonic or laser technology.

Ball screw

A ball screw serves to convert the circular motion into a linear movement. In doing so, a threaded nut with ball bearings is moved by the rotation of a threaded spindle in the longitudinal direction. The system is used to position workpieces and tool holders accurately within the machine tool.

coSupply®

coSupply® represents the comprehensive partnership approach for powerful supply partnerships at GILDEMEISTER, characterised by the three functions: "communication", "cooperation" and "competence" and a striving for enhanced competitiveness.

CTV

The CTV product line includes universally arranged lathes with a vertically placed head spindle, which permits both highly-productive processing in serial production as well as flexible use in made-to-order production.

CTX

The CTX product line provides a differentiated programme of CNC universal lathes with a variety of innovative options for numerous machining tasks.

DMC H

The DMC H product line provides horizontal machining centres with high dynamics and precision for a wide range of uses, from fast serial production to heavy cutting with highest precision.

DMC U
The DMC U product line provides universal CNC machining centres equipped with a pallet switching system for 5-sided / 5-axis machining in fully automated serial production of complex parts.

DMC V
The DMC V product line has vertical machining centres with high dynamics and precision for high demands in both the tools manufacture and mould making industries and for small-lot and medium-sized serial production.

DMF
The DMF product range offers travelling column milling machines with high power and precision for demanding production. The thermo symmetrical travelling column construction allows precise machining with large travels.

DMG ERGO*line*®-Control
Up-to-date ergonomic user control panel with adjustable screen and keyboard angle, personal configuration of user interface, Assignment of user rights per transponder technology and integrated seating for the user.

DMG SMART*key*®-System
Individual assignment of access rights to the controls and the machine by way of an innovative key using transponder technology.

DMG SOFT*keys*®
Freely assignable hotkeys for frequently selected screen content or operating sequences in the machine controls.

DMG UPPERSCREEN
Upper screen area for machines with an ERGO*line*® control stand, which allows user to visualise machine-specific information via a horizontal icon bar, and an information window, which provides the user with an intuitive survey of machine stages.

DMU
This product line with its well developed programme of CNC universal milling machines for 5-sided machining offers a good starting point for modern milling.

DMU eVolution / DMU P
This product line includes CNC universal milling machines for integrated 5-sided / 5-axis machining in one setting. The machines combine precision with high productivity and offer a wide range of installation sizes and innovative options including combined milling and turning machining.

duoBLOCK®
The patent-registered duoBLOCK® construction combines the advantages of a travelling column construction with those of a portal construction and guarantees you thermo symmetrical setup with maximum accuracy, rigidity and dynamics.

ECOLINE series
ECOLINE machines offer reasonably priced net technologically first-rate entry to CNC turning or milling. The universal lathing and milling machines are characterised by their low acquisition cost, their cost-effectiveness and their flexibility and are primarily intended for the Asian, American and eastern European markets.

Entry machines
In turning and milling, the entry machines market segment is served primarily by high precision robust machine tools for small and medium batch production. Entry machines stand out because of their economic efficiency, flexibility and low purchase price.

ERP-System BaaN
Standard application software for Enterprise Resource Planning (for example SAP / R3, BaaN). It is intended to be used in, and adapted to, a variety of organisational conditions and business processes in various industries and companies. It continuously supports processes, for example in materials and merchandise management or finances.

Foundation mould
A re-usable resource for moulding liquid concrete during hardening.

GMC / GM
The GMC / GM product line includes CNC multispindle turning centres and multispindle automatic lathes.

GMX
The turning and milling centres of the GMX product line integrate state-of-the-art milling and turning technology into high-precision 6-sided integrated machining of complex workpieces.

Cavity
A cavity is a small hollow mould.

Crystalline
Crystalline solar cells use silicon crystals to convert sunlight into electrical power. In connection with other components, a solar module can be constructed, which can be used to generate power.

Laser technology
Laser technology or laser beam machining is an eroding process for machining metallic materials and materials that are not easily machinable, such as high-tech ceramics, silicon or metal carbide. It uses a spot-beam with a high energy level. With this process it is possible to create filigree contours and the finest cavities, and to perform laser fine cutting or drilling tasks in the 2D and 3D areas.

Laser technology
Machines in the Lasertec series permit the fast and economic machining of filigree workpieces and the finest cavities even in workpieces that are difficult to chip. The modular design of this line allows for a wide variety of applications for 3D laser erosion, laser fine cutting and laser drilling and for a combined production with high-speed milling machining.

Linear motor
Instead of the conventional rotary method of operation, the linear motor generates direct movement in the machine direction. Through a lack of mechanical intermediate elements and non-contact mounting, the motor can move the machine axes with high precision and acceleration practically free from wear.

monoBLOCK®
Contrary to conventional construction, in which the machine frame comprises several elements (bed, column etc.), in the monoBLOCK construction, a rigid, compact base frame forms the core of the machine.

NEF
The NEF product line offers an operator-friendly entry-level CNC universal lathe to be used in using modern turning technology at an affordable price. Thanks to their universal design, the machines are suitable for piece part manufacture and small-lot production.

Planon Light
The Planon light offers improved view when installing, operating and retooling the machine and is distinctive in its high luminosity and acutance.

PULL
PULL stands for Produktions- und Logistik-Leistung (performance of production and logistics) and has represented GILDEMEISTER production system since June 1998. In line with examples from the motor industry (Toyota production system, TPS) it combines different components and individual measures with the aim of increasing efficiency in production and in the production-related areas, such as materials planning, receipt of goods and stock of goods, in one continual improvement process.

PULLplus
The GILDEMEISTER value-added system PULLplus is the improvement of the production system PULL. It combines the idea of waste minimisation with a value-added based approach to all areas of the company. The adaptation to best-practice methods is carried out in a continuous improvement process.

Servomotor
A servomotor is an electric motor, which can be controlled through the compilation and feedback of information with respect to various parameters.

SkyCarrier
The SkyCarrier is a photovoltaic tracking system, which is particularly suited to use in equatorial regions due to the horizontal movement of the module surfaces.

SPEED
The SPEED line offers CNC Swiss type automatic lathes equipped with linear drive technology for highly productive machining of long lathe work with highest precision, as used in medical technology or the clock-and-watch-making industry.

SPRINT
This product line provides machines for CNC automatic turning for the flexible economic and integrated machining of short lathe work.

SunCarrier
The SunCarrier is a photovoltaic tracking system for industrial use. The rotating system automatically tracks the sun’s position and leads to increased output of up to 30% compared to standard fixed solar plants with a south-facing position.

Thermo symmetrical construction
The thermo symmetrical construction compensates for heating effects in the machine and permits constant high accuracy in machining despite changes in the ambient air temperature.

Transponder technology
Transponder technology describes a technique for the non-contact identification of objects and items by radio signals. The DMG SMART*key*® uses this technology to transfer user-specific information to the machine controls.

TWIN
The TWIN product line provides two-spindle turning centres with independent turning spindles for demanding integrated machining of chuck, shaft and rod parts

Ultrasonic
The Ultrasonic product line offers machines for ultrasound-supported, economic machining of 'advanced materials'. The ultrasonic assisted main spindles interfere with the traditional machining process (for example milling) through a high-frequency oscillating motion. Compared with traditional machining processes, this machine design results in a productivity that is up to five times higher, longer tool life and, at the same time, better surface quality and, with regard to the processed workpiece geometries, substantially higher flexibility.

Value stream mapping
Value stream mapping is a method of visualising processes along the entire value added chain from the supplier to the final customer. The aim of the mapping is to identify activities that do not contribute to value added.

Workflow
Work flows are organisation-wide processes based on a division of labour, where the required tasks are coordinated by either people or software systems.

Zerodur®
Zerodur® is a glass ceramic material with high chemical consistency, long-term stability and low thermal expansion.

Statements relating to the future

This report contains statements relating to the future, which are based on current estimates by the management regarding future developments. Such statements are subject to risks and uncertainties and as such it is impracticable for GILDEMEISTER to carry out a check or make a precise estimate, such as for example for the future market environment and the general economic conditions, the conduct of the market participants, the successful integration of new acquisitions and the realization of expected synergy effects as well as measures by state agencies. Should one of these uncertainty factors or incalculabilities occur, or should the assumptions on which these statements are based turn out to be incorrect, the actual results may deviate significantly from the results explicitly stated or implicitly included in these statements. GILDEMEISTER neither intends nor assumes a separate obligation to update forward-looking statements in order to adapt them to events or developments after the reporting period. Forward-looking statements must not be understood as a guarantee or assurance of the future developments or events contained therein.

This Report is available in German and in English; both versions can be downloaded from the Internet at www.gildemeister.com. Further copies of this Report and additional Information on GILDEMEISTER can be obtained free of charge on request.

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ANNUAL REPORT 2008

CONSOLIDATED FINANCIAL STATEMENT

Grasping chances. Showing strengths.

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GILDEMEISTER

Financial Calendar

12 March 2009	Press Conference on the balance sheet, Bielefeld
12 March 2009	Publication of Annual Report 2008
13 March 2009	Society of Investment Professionals in Germany (DVFA) Analysts' Conference, Frankfurt
05 May 2009	First Quarterly Report 2009 (1 January to 31 March)
15 May 2009	Annual General Meeting of Shareholders at 10 a.m. in the Town Hall Bielefeld
18 May 2009	Distribution of Dividend
04 August 2009	Second Quarterly Report 2009 (1 April to 30 June)
22 September 2009	German Investment Conference, Munich
05 November 2009	Third Quarterly Report 2009 (1 July to 30 September)
16 February 2010	Press release on provisional figures for the financial year 2009
14 May 2010	Annual General Meeting of Shareholders at 10 a.m. in the Town Hall Bielefeld

Subject to alteration

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Consolidated Income Statement
for the period 1 January to 31 December 2008
of GILDEMEISTER Aktiengesellschaft

	Notes	2008 € K	2007 € K
Sales revenues	6	1,903,964	1,562,037
Changes in finished goods and work in progress		44,188	30,399
Capitalised payments	7	6,704	7,165
Total work done		**1,954,856**	**1,599,601**
Other operating revenues	8	58,437	30,862
		2,013,293	1,630,463
Cost of materials	9		
Cost of raw materials, consumables and goods for resale		864,604	689,013
Cost of purchased services		201,692	144,935
		1,066,296	833,948
Personnel costs	10		
Wages and salaries		344,750	308,335
Social security contributions, pensions and other benefits		60,747	58,076
		405,497	366,411
Depreciation	11	30,663	32,311
Other operating expenses	12	352,648	271,886
Operating result		158,189	125,907
Financial income	13		
Interest receivables		2,157	1,860
Other income		514	376
		2,671	2,236
Financial expenses	14		
Interest payable		29,913	29,578
Interest expense from pension provisions		1,692	1,540
Revaluation expense of bond		0	11,774
Other financial expenses		2,510	1,802
		34,115	44,694
Financial result		-31,444	-42,458
Profit on ordinary activities		126,745	83,449
Income taxes	15	45,626	33,312
Annual profit		81,119	50,137
Profit share attributed to minority interests	16	67	50
Profit share of shareholders of GILDEMEISTER Aktiengesellschaft		81,052	50,087
Earnings per share pursuant to IAS 33 in €	17		
Undiluted		1.87	1.16
Diluted		1.87	1.16

Consolidated Balance Sheet as at 31 December 2008 of GILDEMEISTER Aktiengesellschaft

ASSETS	Notes	31 Dec. 2008 € K	31 Dec. 2007 € K
Long-term assets			
Goodwill	18	75,723	75,759
Other intangible assets	18	23,645	24,298
Tangible assets	19	201,606	184,848
Financial assets	20	356	357
Trade debtors	21	603	258
Other long-term assets	21	18,170	15,522
Deferred taxes	25	27,857	27,364
		347,960	**328,406**
Short-term assets			
Inventories	22	425,858	361,044
Trade debtors	23	285,381	292,249
Other short-term assets	23	73,237	72,874
Cash and cash equivalents	24	257,922	95,552
		1,042,398	**821,719**
		1,390,358	**1,150,125**

EQUITY AND LIABILITIES	Notes	31 Dec. 2008 € K	31 Dec. 2007 € K
Equity			
Subscribed capital	26	112,587	112,587
Capital provision		68,319	68,319
Revenue provisions		199,067	148,958
Total equity of shareholders of GILDEMEISTER Aktiengesellschaft		379,973	329,864
Minority interests' share of equity		-283	-351
Total equity		**379,690**	**329,513**
Long-term liabilities			
Long-term financial liabilities	29	240,249	42,341
Pensions and other post-employment benefits	27	27,125	27,771
Other long-term provisions	28	47,108	31,314
Trade creditors	30	442	850
Other long-term liabilities	30	23,645	9,996
Deferred taxes	25	3,586	2,950
		342,155	**115,222**
Short-term liabilities			
Short-term financial liabilities	29	138,023	218,075
Tax provisions	28	19,043	23,018
Other short-term provisions	28	159,400	131,938
Payments received on account		96,437	112,078
Trade creditors	31	198,554	142,427
Other short-term liabilities	31	57,056	77,854
		668,513	**705,390**
		1,390,358	**1,150,125**

Consolidated Cash Flow Statement of GILDEMEISTER Aktiengesellschaft

CASH FLOW FROM OERATING ACTIVITIES	2008 € K	2007 € K	Changes against previous year € K
Earnings before taxes (EBT)	126,745	83,449	43,296
Depreciation	30,663	32,311	-1,648
Financial result	31,444	42,458	-11,014
Change in long-term provisions	14,864	7,736	7,128
Other expense / income not affecting payments	771	243	528
Change in short-term provisions	17,138	32,703	-15,565
Income from the disposal of fixed assets	191	-91	282
Income tax refunds	3,399	292	3,107
Income taxes paid	-37,696	-27,839	-9,857
Interest received	2,118	1,688	430
Interest paid	-34,695	-28,066	-6,629
Changes in asset and liabilities items			
Inventories	-65,194	-66,519	1,325
Trade debtors	6,024	-37,800	43,824
Other assets not from investments or financing activity	-2,362	-12,922	10,560
Trade creditors	55,343	11,722	43,621
Other liabilities not from investment or financing activity	-40,177	88,854	-129,031
	108,576	**128,219**	**-19,643**
CASH FLOW FROM INVESTMENT ACTIVITY			
Amounts received from the disposal of tangible assets and intangible assets	1,783	2,270	-487
Amounts paid out for investments in tangible assets	-41,892	-36,097	-5,795
Amounts paid out for investments in intangible assets	-8,323	-9,628	1,305
Amounts received from the disposal of financial assets	-971	-3,205	2,234
	-49,403	**-46,660**	**-2,743**
CASH FLOW FROM FINANCING ACTIVITY			
Dividends paid	-15,156	-8,661	-6,495
Payment received / made for drawing / repaying financial debts	104,221	-19,064	123,285
Payment received from the issue of the borrowers' notes	200,000	0	200,000
Payment made for costs of borrowers' notes	-1,525	0	-1,525
Payment made for the redemption of the bond	-183,531	0	-183,531
	104,009	**-27,725**	**131,734**
Changes affecting payments	163,182	53,834	109,348
Effects of exchange rate changes on financial securities	-812	-463	-349
Cash and cash equivalents as at January 1	95,552	42,181	53,371
Cash and cash equivalents as at December 31	**257,922**	**95,552**	**162,370**

See explanatory notes included to the Consolidated Financial Statements

Development of Group Equity of GILDEMEISTER Aktiengesellschaft for the period 1 January 2008 to 31 December 2008

	Subscribed capital € K	Capital provison € K	Revenue provisions: Revenue provisions € K	Revenue provisions: Difference from currency translation € K	Revenue provisions: Market valuation of financial derivates € K	Shareholders equity of GILDEMEISTER Aktiengesellschaft € K	Minority interest share of equity € K	Total € K
As at 01 Jan. 2007	112,587	68,319	110,300	-2,797	567	288,976	-402	288,574
Change in market valuation of derivative financial instruments					-899	-899		-899
Consolidation transactions / other changes							1	1
Changes in currency				361		361		361
Net income recognised directly in equity				**361**	**-899**	**-538**	**1**	**-537**
Annual profit			50,087			50,087	50	50,137
Total recognised income and expense			**50,087**	**361**	**-899**	**49,549**	**51**	**49,600**
Dividend			-8,661			-8,661		-8,661
As at 31 Dec. 2007	**112,587**	**68,319**	**151,726**	**-2,436**	**-332**	**329,864**	**-351**	**329,513**

	Subscribed capital € K	Capital provison € K	Revenue provisions: Revenue provisions € K	Revenue provisions: Difference from currency translation € K	Revenue provisions: Market valuation of financial derivates € K	Shareholders equity of GILDEMEISTER Aktiengesellschaft € K	Minority interest share of equity € K	Total € K
As at 01 Jan. 2008	112,587	68,319	151,726	-2,436	-332	329,864	-351	329,513
Change in market valuation of derivative financial instruments					-11,046	-11,046	0	-11,046
Consolidation transactions / other changes							1	1
Changes in currency				-4,741		-4,741	0	-4,741
Net income recognised directly in equity				**-4,741**	**-11,046**	**-15,787**	**1**	**-15,786**
Annual profit			81,052			81,052	67	81,119
Total recognised income and expense			**81,052**	**-4,741**	**-11,046**	**65,265**	**68**	**65,333**
Dividend			-15,156			-15,156		-15,156
As at 31 Dec. 2008	**112,587**	**68,319**	**217,622**	**-7,177**	**-11,378**	**379,973**	**-283**	**379,690**

See explanatory notes included in the Consolidated Financial Statements page 46 et seq.

Fixed Asset Movement Schedule
as at 31 December 2008 of GILDEMEISTER Aktiengesellschaft
(Part of the notes)

ACQUISITION AND PRODUCTION COSTS

Intangible assets
Goodwill
Assets arising from development
Industrial property and similar rights
Payments on account
Tangible assets
Land and buildings
Technical equipment and machinery
Other equipment, factory and office equipment
Payments on account and construction in progress
Financial assets
Shares in affiliated companies
Securities
Total fixed assets

DEPRECIATION

	As at 01 Jan. 2008 € K	Other changes € K
Intangible assets		
Goodwill	0	0
Assets arising from development	38,929	-16
Industrial property and similar rights	46,226	-108
Payments on account	608	0
	85,763	**-124**
Tangible assets		
Land and buildings	64,283	-148
Technical equipment and machinery	49,236	-1,402
Other equipment, factory and office equipment	82,143	-328
Payments on account and construction in progress	52	-8
	195,714	**-1,886**
Financial assets		
Shares in affiliated companies	118	0
Securities	0	0
	118	**0**
Total fixed assets	**281,595**	**-2,010**

As at 01 Jan. 2008 € K	Other changes € K	Additions € K	Disposals € K	Book transfers € K	As at 31 Dec. 2008 € K
75,759	-36	0	0	0	75,723
59,572	-16	6,857	-1,700	197	64,910
49,576	-78	1,293	-43	98	50,846
913	1	173	0	-197	890
185,820	**-129**	**8,323**	**-1,743**	**98**	**192,369**
200,946	-908	7,006	-995	2,201	208,250
62,033	-1,815	5,037	-1,790	897	64,362
113,102	-545	17,017	-4,049	609	126,134
4,481	-92	12,800	-204	-3,804	13,181
380,562	**-3,360**	**41,860**	**-7,038**	**-97**	**411,927**
473	0	0	0	0	473
2	0	0	0	-1	1
475	**0**	**0**	**0**	**-1**	**474**
566,857	**-3,489**	**50,183**	**-8,781**	**0**	**604,770**

				NET BOOK VALUE	
Additions € K	Disposals € K	Book transfers € K	As at 31 Dec. 2008 € K	As at 31 Dec. 2008 € K	As at 31 Dec. 2007 € K
0	0	0	0	75,723	75,759
6,855	-1,700	0	44,068	20,842	20,643
2,249	-42	0	48,325	2,521	3,350
0	0	0	608	282	305
9,104	**-1,742**	**0**	**93,001**	**99,368**	**100,057**
6,578	-282	35	70,466	137,784	136,663
3,533	-1,154	-122	50,090	14,272	12,797
11,444	-3,629	87	89,717	36,417	30,959
4	0	0	48	13,133	4,429
21,559	**-5,065**	**0**	**210,321**	**201,606**	**184,848**
0	0	0	118	355	355
0	0	0	0	1	2
0	**0**	**0**	**118**	**356**	**357**
30,663	**-6,807**	**0**	**303,440**	**301,330**	**285,262**

Fixed Asset Movement Schedule
as at 31 December 2007 of GILDEMEISTER Aktiengesellschaft
(Part of the notes)

ACQUISITION AND PRODUCTION COSTS

Intangible assets
Goodwill
Assets arising from development
Industrial property and similar rights
Payments on account
Tangible assets
Land and buildings
Technical equipment and machinery
Other equipment, factory and office equipment
Payments on account and construction in progress
Financial assets
Shares in affiliated companies
Securities
Total fixed assets

DEPRECIATION

	As at 01 Jan. 2007 € K	Other changes € K
Intangible assets		
Goodwill	0	0
Assets arising from development	31,193	8
Industrial property and similar rights	43,262	50
Payments on account	607	1
	75,062	**59**
Tangible assets		
Land and buildings	59,073	-28
Technical equipment and machinery	46,318	564
Other equipment, factory and office equipment	75,047	-238
Payments on account and construction in progress	49	3
	180,487	**301**
Financial assets		
Shares in affiliated companies	21	1
Securities	0	0
	21	**1**
Total fixed assets	**255,570**	**361**

As at 01 Jan. 2007 € K	Other changes € K	Additions € K	Disposals € K	Book transfers € K	As at 31 Dec. 2007 € K
70,551	-11	5,239	-20	0	75,759
53,453	9	7,349	-1,628	389	59,572
47,580	56	2,238	0	-298	49,576
865	2	46	0	0	913
172,449	**56**	**14,872**	**-1,648**	**91**	**185,820**
176,745	945	15,346	-668	8,578	200,946
58,884	742	2,980	-1,184	611	62,033
100,739	-198	15,245	-3,812	1,128	113,102
11,969	79	4,355	-1,514	-10,408	4,481
348,337	**1,568**	**37,926**	**-7,178**	**-91**	**380,562**
202	1	270	0	0	473
2	0	0	0	0	2
204	**1**	**270**	**0**	**0**	**475**
520,990	**1,625**	**53,068**	**-8,826**	**0**	**566,857**

				NET BOOK VALUE	
Additions € K	Disposals € K	Book transfers € K	As at 31 Dec. 2007 € K	As at 31 Dec. 2007 € K	As at 31 Dec. 2006 € K
0	0	0	0	75,759	70,551
9,038	-1,521	211	38,929	20,643	22,260
3,125	0	-211	46,226	3,350	4,318
0	0	0	608	305	258
12,163	**-1,521**	**0**	**85,763**	**100,057**	**97,387**
5,616	-426	48	64,283	136,663	117,672
3,420	-1,069	3	49,236	12,797	12,566
11,016	-3,631	-51	82,143	30,959	25,692
0	0	0	52	4,429	11,920
20,052	**-5,126**	**0**	**195,714**	**184,848**	**167,850**
96	0	0	118	355	181
0	0	0	0	2	2
96	**0**	**0**	**118**	**357**	**183**
32,311	**-6,647**	**0**	**281,595**	**285,262**	**265,420**

Segmental Reporting in the Consolidated Financial Statements as at 31 December 2008 for GILDEMEISTER Aktiengesellschaft

(Part of the notes)

SEGMENTATION BY BUSINESS SEGMENTS	"Machine Tools"		Changes against previous year		"Services"	
	2008	2007			2008	2007
	€ K	€ K	€ K	%	€ K	€ K
Sales revenues with group companies	665,944	646,648	19,296	3.0	82,632	75,978
Sales revenues with third parties	1,192,219	1,082,680	109,539	10.1	711,537	479,058
EBITDA	104,711	99,942	4,769	4.8	123,016	89,978
EBIT	82,462	75,445	7,017	9.3	116,844	84,173
Financial result	-11,724	-9,956	-1,768	17.8	-8,288	-8,334
Profit on ordinary activities	70,738	65,489	5,249	8.0	108,556	75,839
Segment assets	727,207	756,640	-29,433	-3.9	706,069	618,590
Segment liabilities	470,593	476,836	-6,243	-1.3	538,991	460,734
Investments	34,601	38,295	-3,694	-9.6	10,564	10,679
Depreciation	22,249	24,497	-2,248	-9.2	6,172	5,805
Employees	3,814	3,609	205	5.7	2,542	2,307

SEGMENTATION BY GEOGRAPHICAL REGIONS	Germany		Changes against previous year		Rest of Europe		Changes against previous year		North America		Changes against previous year	
	2008	2007			2008	2007			2008	2007		
	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	%
Sales revenues with group companies	396,691	360,112	36,579	10.2	166,211	156,305	9,906	6.3	8,917	7,401	1,516	20.5
Sales revenues with third parties	1,191,143	885,944	305,199	34.4	519,510	503,369	16,141	3.2	80,187	71,106	9,081	12.8
Segment assets	1,149,232	972,719	176,513	18.1	457,883	471,067	-13,184	-2.8	42,748	36,130	6,618	18.3
Investments	37,549	37,935	-386	-1.0	9,545	10,743	-1,198	-11.2	212	856	-644	-75.2

Changes against previous year		"Corporate Services"		Changes against previous year		Transition		Group		Changes against previous year	
		2008	2007			2008	2007	2008	2007		
€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	€ K	€ K	%
-6,654	8.8	33,686	26,486	7,200	27.2	-782,262	-749,112	0	0	0	0.0
232,479	48.5	208	299	-91	-30.4	0	0	1,903,964	1,562,037	341,927	21.9
33,038	36.7	-38,968	-31,123	-7,845	25.2	93	-579	188,852	158,212	30,640	19.4
32,671	38.8	-41,210	-33,132	-8,078	24.4	93	-579	158,189	125,901	32,288	25.6
46	-0.6	-11,432	-24,167	12,735	-52.7	0	-1	-31,444	-42,458	11,014	-25.9
32,717	43.1	-52,642	-57,299	4,657	-8.1	93	-580	126,745	83,449	43,296	51.9
87,479	14.1	947,674	782,496	165,178	21.1	-1,028,053	-1,007,644	1,352,897	1,150,125	202,772	17.6
78,257	17.0	585,318	431,790	153,528	35.6	-603,800	-570,242	991,102	799,118	191,984	24.0
-115	-1.1	5,018	4,094	924	22.6	0	0	50,183	53,068	-2,885	-5.4
367	6.3	2,242	2,009	233	11.6	0	0	30,663	32,311	-1,648	-5.1
235	10.2	95	82	13	15.9	0	0	6,451	5,998	453	7.6

Asia		Changes against previous year		Other		Changes against previous year		Transition		Group		Changes against previous year	
2008	2007			2008	2007			2008	2007	2008	2007		
€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	€ K	€ K	%
34,426	22,700	11,726	51.7	1,964	883	1,081	122.4	-608,209	-547,401	0	0	0	0.0
95,015	92,669	2,346	2.5	18,109	8,949	9,160	102.4	0	0	1,903,964	1,562,037	341,927	21.9
116,232	108,885	7,347	6.7	10,378	8,694	1,684	19.4	-423,576	-447,370	1,352,897	1,150,125	202,772	17.6
2,639	3,173	-534	-16.8	238	361	-123	-34.1	0	0	50,183	53,068	-2,885	-5.4

Notes to the Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft

1 APPLICATION OF REGULATIONS

The Consolidated Annual Financial Statements for GILDEMEISTER Aktiengesellschaft effective from 1 January 2008 until 31 December 2008 were prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union and their interpretation by the International Accounting Standards Board (IASB), London, Great Britain, applicable on the reporting date. The Notes to the Consolidated Financial Statements include further explanations pursuant to Section 315a of the German Commercial Code (HGB).

The following notes include statements and comments that, pursuant to the IFRS, must be included as Notes to the Consolidated Financial Statements along with the Balance Sheet, the Income Statement, the Statement of Changes in Shareholders' Equity and the Cash Flow Statement.

The income statement is drawn up according to the total cost method of accounting. For a better and clearer representation we have summarised individual items in the Balance Sheet and the Income Statement; these are shown separately in the Notes with further explanatory notes.

The Consolidated Financial Statements are drawn up in euros. The reporting currency is the euro. Unless otherwise specified, all amounts are shown in thousand euro (€ K).

GILDEMEISTER Aktiengesellschaft with its registered place of business in Bielefeld, Gildemeisterstrasse 60, is the parent company of the GILDEMEISTER group and is a listed company under German law. The Consolidated Financial Statements and the Group Management Report of GILDEMEISTER Aktiengesellschaft for the year ending 31 December 2008, will be available through the electronic Federal Gazette (Bundesanzeiger) and the Commercial Register, and are also available from our website www.gildemeister.com.

The Executive Board of GILDEMEISTER Aktiengesellschaft released the Consolidated Financial Statements and the Group Management Report on 4 March 2009 for submission to the Supervisory Board. The Supervisory Board is responsible for inspecting the Consolidated Financial Statements and for stating its approval of the Consolidated Financial Statements.

2 CONSOLIDATED GROUP

NUMBER OF FULLY CONSOLIDATED COMPANIES

	31 Dec. 2008	31 Dec. 2007
National	27	27
International	48	43
Total	**75**	70

At the reporting date the GILDEMEISTER group comprised 75 companies (previous year: 72) including GILDEMEISTER Aktiengesellschaft, 75 of which (previous year: 70) were included in the Consolidated Financial Statements as part of the full consolidation process. GILDEMEISTER Aktiengesellschaft has the direct or indirect majority of voting rights in, or has a dominant influence over, the fully consolidated companies. This includes three lease object companies ("Special Purpose Entities"). Due to the inclusion of the following companies for the first time, the consolidated group has changed since the financial year 2008:

_ DMG Middle East FZE, Dubai,
_ DMG Boston LLC., Burlington,
_ DMG Ecoline GmbH, Klaus,
_ GILDEMEISTER Finance S.à.r.l., Luxembourg,
_ DMG South East Europe E.P.E., Thessaloniki.

To expand and strengthen our sales and service activities the following companies were founded:

On 1 March 2008 DMG Europe Holding GmbH founded DMG Middle East FZE, with registered office in Dubai, to strengthen its sales and services activities in the United Arab Emirates, Jordan, Qatar, Yemen and Bahrain. The share capital of AED 1,000,000 (€ 179 K) has been fully paid up.

On 18 August 2008, DMG America Inc. founded DMG Boston LLC., with registered office in Boston, Massachusetts, to strengthen its sales and services activities in the USA. DMG Boston commenced its business activities on 1 September 2008. The share capital of USD 1,000,000 (€ 715 K) has been fully paid up.

On 3 November 2008, DMG Europe Holding GmbH founded DMG Ecoline GmbH with registered office in Klaus, Austria. DMG Ecoline takes over sales and services relating to the new ECOLINE business. The share capital of € 1,000,000 has been fully paid up.

On 18 December 2008 GILDEMEISTER Beteiligungen AG founded GILDEMEISTER Finance S.à.r.l. with registered office in Luxembourg, Luxembourg. GILDEMEISTER Finance S.à.r.l. has a share capital of € 12,500 and will bundle the financing of foreign subsidiaries in the GILDEMEISTER group. The share capital has been fully paid up.

DMG South East Europe E.P.E. has already been founded in the financial year 2007, but was fully consolidated effective from the financial year 2008.

All group companies founded in 2008 were fully consolidated as of the date of their formation or of their acquisition.

The consolidated group has not changed significantly since the previous year so that comparison with the Consolidated Financial Statements of the previous year with respect to net worth, the financial position and profit situation is not affected.

There were no mergers, disposals or close-downs of enterprises or operating units in the financial year just ended. No pro rata consolidation or inclusion under the equity method was required in the financial year 2008 nor in the previous year.

An overview of all affiliated companies is included on page 76 et seq.

3 CONSOLIDATION PRINCIPLES

Consolidation of investments is carried out in accordance with the acquisition method pursuant to IFRS 3 "Business Combinations". With this method the investment book value of the parent company is set off against the group share in the fully revalued equity of the subsidiary. In the course of the revaluation process all acquired assets and liabilities, contingent liabilities and identifiable intangible assets that must be recognised as assets, are measured at their fair value. Any positive balance remaining after the allocation of the purchase price will be recognised as goodwill.

IFRS 3 "Business Combinations" and IAS 36 "Impairment of Assets" provide for amortisation of goodwill only if a valuation adjustment requirement was determined instead of scheduled amortisation. Any goodwill arising from business combinations is therefore no longer amortised over the period of anticipated use, but will be reviewed annually in terms of impairment and amortised if required. Any shares in the equity of the subsidiaries that the parent company is not entitled to are shown as shares of minority interests within equity.

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

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

4 ACCOUNTING AND VALUATION PRINCIPLES

All annual financial statements of the companies that were included in the Consolidated Financial Statements were prepared at the reporting date of the Consolidated Financial Statements and in accordance with group uniform accounting and valuation principles. For this purpose those accounts that were prepared in accordance with local regulations were adjusted to the group standardised accounting and valuation principles of GILDEMEISTER Aktiengesellschaft to the extent that they do not comply with IFRS and the deviations in the valuation are major.

The accounting and measurement principles applied correspond to those principles applied in the previous year.

Changes in accounting and valuation methods due to new standards

In the financial year 2008, the following new and revised standards, as well as IASB / IFRIC interpretations, had to be applied mandatorily for the first time, however they had no major impact on the Consolidated Financial Statements of GILDEMEISTER:

IAS 39/IFRS 7	Reclassification of non-derivative financial instruments
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

A change in the accounting and valuation method due to the standards newly to be applied, had not been essential at GILDEMEISTER.

New accounting principles

The following standards and interpretations, which have been issued and adopted by the European Union by 31 December 2008 but have not yet entered into force, have not been observed in these financial statements:

IAS 1	Presentation of Financial Statements (revised)
IAS 23	Amendment to IAS 23: Borrowing costs
IAS 32/IAS 1	Amendment to IAS 32 Financial Instruments: Disclosure and Presentation
IFRS 2	Share-based payment, Vesting Conditions and Cancellations
IFRS 8	Segmental reporting
IFRIC 13	Customer Loyalty Programmes

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

IFRS 3	Business combinations (IFRS 3 (2008))
IAS 27	Consolidated Financial Statements and Accounting for Investment in Subsidiaries in separate Financial Statements according to IFRS, (IAS 27 (2008))
IFRIC 12	Service Concession Arrangements
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distribution of Non-cash Assets to Owners
	Improvements to IFRSS

In the following, the major effects on the Consolidated Financial Statements arising from the first-time application of the abovementioned standards and interpretations are set out in detail:

IAS 1 – Presentation of Financial Statements

In September 2007, the International Accounting Standards Board (IASB) published IAS 1, Presentation of Financial Statements (revised). This novation replaces IAS 1, "Presentation of Financial Statements (revised in 2003)", in the version of 2005. The revision aims to improve the ability to analyse and compare the financial statements for the user. IAS 1 sets out the general requirements for the presentation and structure of financial statements. In addition, it states the minimum requirements for the content of financial statements. The new Standard is effective for financial years that commence on or after 1 January 2009; early adoption is permitted. IAS 1 in its first application by GILDEMEISTER AG will lead to a change in the presentation of the financial statements.

IAS 23 – Amendment to IAS 23: Borrowing costs

In March 2007, the IASB published the amended Standard IAS 23 "Borrowing Costs", which prescribes the accounting treatment for interest on borrowing costs in relation to the acquisition, construction or production of a qualifying asset. The former option, of immediately expensing these interest expenses, has been removed. The revised IAS 23 is not expected to have an effect on future Consolidated Financial Statements of GILDEMEISTER AG.

IAS 32 / IAS 1 – Amendment to IAS 32 Financial Instruments: Presentation

In February 2008, the IASB published an amended standard "IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation". The amendments mainly affect the classification of certain types of financial instruments as liability or equity. Furthermore, additional disclosures are required for the financial instruments that are involved. The amendments are effective for financial years beginning on or after 1 January 2009; earlier application is permitted. At the moment, GILDEMEISTER does not expect that the application of the revised version will have any significant effect on future Consolidated Financial Statements of GILDEMEISTER AG.

IFRS 2 – Share-based Payment, Vesting Conditions and Cancellation

In January 2008, IASB adopted IFRS 2, "Share-based payment, Vesting Conditions and Cancellations". The amendment clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The IFRS 2 amendment will apply for financial years beginning on or after 1 January 2009. The IFRS 2 amendment is not expected to have any significant effect on future Consolidated Financial Statements of GILDEMEISTER AG.

IFRS 8 – Segmental Reporting

IFRS 8 changes segment reporting from the so-called "risk and reward approach" of IAS 14 to the "management approach" regarding segment information. The information required in this respect is the information that is regularly available to the so-called "chief operating decision maker" for making management decisions. At the same time the evaluation of segment performance has been changed from the "financial accounting approach" of IAS 14 to the "management approach". IFRS 8 must be applied mandatorily to all financial years that commence on or after 1 January 2009. Earlier application is permitted. The first application of IFRS 8 by GILDEMEISTER Aktiengesellschaft will have no major consequences for the segmental reporting.

IFRIC 13 – Customer Loyalty Programmes

IFRIC 13 "Customer Loyalty Programmes" deals with the accounting of customer loyalty programmes. According to this, benefits, which are granted within the scope of a customer loyalty programme, should be handled separately from the main business (current sales transaction) as a future sales transaction. Overall there is a multiple component agreement corresponding to IAS 18.13. IFRIC 13 applies to financial years beginning on or after 1 January 2009. Earlier application is recommended. IFRIC 13 is not expected to have any effect on future Consolidated Financial Statements of GILDEMEISTER AG.

IFRS 3 – Business Combinations, (IFRS 3 (2008)) und IAS 27, Consolidated and separate Financial Statemtents according to IFRS, (IAS 27 (2008))

In January 2008, the IASB published the revised Standards IFRS 3, "Business Combinations", (IFRS 3 (2008)) and IAS 27, "Consolidated and Separate Financial Statements" according to IFRS, (IAS 27 (2008)).

In IFRS 3 (2008) the application of the acquisition method to business combinations has been revised. Significant changes relate to the measurement of non-controlling interests, disclosure of business combinations achieved in stages and the handling of contingent purchase components and costs associated with the acquisition. According to the new Standard, the measurement of non-controlling interests can either be at fair value (full goodwill method) or at the non-controlling interest's proportionate share of net assets. For business combinations achieved in stages, it provides for remeasurement to be recognised in profit or loss at the date control is obtained of the investment. A remeasurement of contingent price components, which are recognised at the time of acquisition as liabilities, must be recognised in profit and loss in the future. Costs associated with the acquisition are recognised as expenses at the time of their expense.

The main amendments to IAS 27 (2008) affect the recognition of transactions where an enterprise retains control as well as transactions where the control is lost. Transactions that do not lead to a loss of control must be recognised directly in equity. Residual interests must be measured at fair value at the date on which control is lost. The recognition of negative balances is permitted for non-controlling interests, this means that in future losses are attributed that exceed the proportional interest. The revised Standards are to be applied mandatorily to financial years beginning on or after 1 July 2009. The consequences for the future consolidated statements of GILDEMEISTER AG can only be assessed when applying the standards.

IFRIC 12 – Public Infrastructure Spendings from private Companies to the State

IFRIC 12 "Public infrastructure spendings from private companies to the state" clarifies the question of how companies, who offer public services such as the construction of roads, airports, prisons or energy distribution to government or other public bodies, should account for the obligations they undertake and the rights they receive under service concession arrangements. IFRIC 12 applies to financial years beginning on or after 1 January 2008. The consequences for the future consolidated statements of GILDEMEISTER AG can only be assessed when applying the standards.

IFRIC 15 – Agreements for the Construction of Real Estate

IFRIC 15 "Agreements for the Construction of Real Estate" addresses the accounting methods of companies who develop plots of land and who sell units in this development, such as flats or houses, before construction is completed. IFRIC 15 defines the criteria by which the accounting shall take place either in accordance with IAS 11 Construction Contracts or according to IAS 18 Revenue. IFRIC 15 applies to financial years beginning on or after 1 January 2009. Earlier application is recommended. IFRIC 15 is not expected to have any effect on future Consolidated Financial Statements of GILDEMEISTER AG.

IFRIC 16 – Hedges of a Net Investment in a Foreign Operation

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" addresses foreign currency risk hedges (hedge accounting) arising from net investments in foreign operations.

The interpretation clearly states that accounting for hedge risks is only possible between the functional currency of the foreign operation and the functional currency of the parent company. Hedging can be used for the amount of net investments in foreign operations that is included in the consolidated financial statements. The hedging instrument may be held by any group company (with the exception of the one whose currency risk is being hedged). Should the foreign operation leave the consolidated group, the amount of change in value of the hedging instrument and any exchange rate profits or losses in the currency reserves of the foreign operation that are recognised in equity are to be reallocated to the current profit or loss. The amount of the accumulated currency profit or loss attributable to the foreign operation leaving the consolidated group may be determined following the method of proportionate consolidation or following the direct consolidation method. IFRIC 16 applies to financial years beginning on or after 1 October 2008. Earlier application is recommended. IFRIC 16 is not expected to have any impact on future Consolidated Financial Statements of GILDEMEISTER AG.

IFRIC 17 – Distribution of Non-cash Assets to Owners

IFRIC 17 addresses the topic of how an entity is to measure distribution of assets other than cash, which it distributes as profit to the owners. A dividend payable should be recognised if the dividend is appropriately authorised by the responsible body and is no longer at the discretion of the entity. The dividend payable should be measured at the fair value of the net assets to be distributed. The difference between the dividend payable and the carrying amount of the net assets to be distributed should be recognised in profit or loss. Furthermore, additional disclosures must be provided if the net assets being held for distribution meet the definition of a discontinued operation corresponding to IFRIC 17, which enters into force for financial years beginning on or after 1 July 2009. Earlier application is also permitted. IFRIC 17 is not expected to have any impact on future Consolidated Financial Statements of GILDEMEISTER AG.

In May 2008, the IASB published the first collection of amendments, **"Improvements to IFRSs"** as a means of issuing smaller changes to the existing IFRS standards. This standard contains the amendments to 20 IFRS standards in two parts. The first part contains amendments that may have an impact on presentation, recognition or measurement. The second part contains terminology or editorial changes. Unless otherwise specified in the respective standard, the amendments are effective for financial years beginning on or after 1 January 2009; earlier application is permitted. At the moment, GILDEMEISTER does not expect that the application of the revised versions, insofar as they are endorsed in this form by the EU, will have any significant effect on the presentation of financial statements.

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Use of estimates and assumptions

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

When using accounting and valuation methods, the Executive Board made the following discretionary decisions, which significantly influence the amounts in the financial statements:

Premature redemption of the Bond in 2008

On 19 July 2004, GILDEMEISTER issued a subordinated bond with a nominal value of € 175,000 K. The accompanying transaction costs of € 7,819 K were included in the purchase costs resulting in an initial carrying amount of € 167,181 K. GILDEMEISTER evaluates the bond, which matures on 19 July 2011, according to IAS 39.47 et seq. at amortised cost using the effective interest method. The effective interest rate is 10.96%.

In the financial year 2007 GILDEMEISTER changed its assessment with respect to future payment flows and resolved to redeem the bond at the earliest possible redemption date of 19 July 2008. The redemption price amounts to 104.875%. In such event, the new cash flows differ from the originally planned cash flows. Pursuant to IAS 39 AG 8, in such cases the carrying amount of the bond must be recalculated by assessing the cash value of estimated future cash flows using the original effective interest rate. The adjustment is drawn up as an expense in the period profit or loss. The new valuation of the amortised costs is to take place at the time when the company changes its assessment of future cash flows. An expense of € 11,774 K results from the re-assessment of the expected cash flows in 2007, which is recognised in the net financial costs.

Refinancing through taking out borrowers‘ notes

The bond has been replaced by two borrowers‘ notes in a total amount of € 200,000 K. The first borrowers’ note has a volume of € 140,000 K and a term of five years. It is charged interest at Euribor 6-month rates plus a surcharge of 1.80%. The second borrowers' note has a volume of € 60,000 K and a term of seven years. It is charged interest at Euribor 6-month rates plus a surcharge of 2.30%. The borrowers‘ notes are recognised at amortised costs applying the effective interest rate method. At the same time, directly attributable transaction costs of an original € 1,525 K will be deducted from the borrowers’ notes liabilities and spread over the term of the borrowers’ notes, applying the effective interest rate method. The distribution of the transaction costs took place proportionately corresponding to the volumes of the borrowers’ notes. € 1,068 K are attributed to the loan of € 140,000 K and € 457 K are attributable to the loan amount of € 60,000 K.

Impairment of goodwill

The group reviews goodwill at least once a year for impairment. This requires an assessment of the allocation of the value in use of the cash generating units of goodwill to the cash generating units and to which the goodwill is allocated. To assess the value in use, the company management must assess the foreseeable future cash flow of the cash generating unit and, moreover, select an appropriate discount rate in order to determine the cash value of this cash flow. As at 31 December 2008, the carrying amount of goodwill amounted to € 75,723 K (previous year: € 75,759 K). Further information is given on page 38 et seq.

Pension provisions

Expenses from benefit-oriented pension plans are determined on the basis of actuarial calculations. The actuarial calculations take place on the basis of assumptions with respect to discount rates, expected returns on plan assets, future wage and salary increases, the mortality rate and future pension increases. Corresponding to the long-term focus of these plans, such assessments are subject to significant uncertainties. On 31 December 2008 provisions for pension obligations amounted to € 27,125 K (previous year: € 27,771 K). Further information is given on page 49 et seq.

Intangible assets arising from development

Intangible assets arising from development are capitalised according to the accounting and valuation method presented on page 22 et seq. To determine the amounts to be capitalised, the company management must make assumptions as to the amount of expected future cash flow from intangible assets, the interest rates to be applied and the period of accrual of expected future cash flow that the intangible assets generate. On 31 December 2008, intangible assets arising from development had a carrying amount according to the best possible assessment of € 20,842 K (previous year: € 20,643 K).

Assumptions and estimates are additionally required for value adjustments for doubtful debts as well as for contingent liabilities and other provisions; moreover, they are required for determining the fair value of long-lasting fixed assets and intangible assets, determining the net disposal value of inventories, as well as for the assessment of deferred taxes on tax losses carried forward (see page 45 et seq.),

The assumptions on which the respective estimates are based are commented upon for the individual items in the Income Statement and Balance Sheet.

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

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

Intangible and tangible assets

USEFUL ECONOMIC LIFE OF ASSETS

Software and other intangible assets	1 to 5 years
Intangible assets arising from development	2 to 10 years
Office and factory buildings	10 to 50 years
Technical equipment and machines	2 to 30 years
Factory and office equipment	1 to 15 years

Acquired and internally generated intangible assets were capitalised pursuant to IAS 38 “Intangible Assets”, if it is probable that the use of the asset will result in an economic benefit and the costs of the asset can be reliably determined. They were reported at their acquisition or production costs, reduced by scheduled straight-line depreciation in accordance with their useful economic life.

Intangible assets arising from development for machine tool projects, service products and specific software solutions were capitalised at their production costs, insofar as the definite charging to expense requirement pursuant to IAS 38 “Intangible Assets” was possible, the technical feasibility and marketing established, and the anticipated generation of future economic benefit demonstrated. Production costs include those that can be directly and indirectly ascribed to the development process and necessary parts of development-related overheads. Capitalised development costs are written down by scheduled straight-line depreciation from the start of production over the expected product life cycle. Research costs are shown as expense in the period when they were incurred.

Pursuant to IFRS 3 “Business Combinations”, scheduled depreciation is not applied to goodwill with an indefinite useful economic life, rather it is tested for impairment annually. If a value adjustment requirement is determined, goodwill is amortised. Tangible assets were assessed at their acquisition or production costs, reduced by regular depreciation through use. Depreciation was normally carried out by the straight-line method in accordance with the useful life. A revaluation of tangible assets pursuant to IAS 16 “Property, Plant and Equipment” was not carried out. There was no property held as financial investment pursuant to IAS 40 “Investment Property.

The production costs of internally generated assets include those that can be directly attributed to the manufacturing process and necessary parts of product-related overheads.

This includes production-related depreciation, prorated administration costs and prorated costs of social contributions. Borrowing costs are not assessed as part of the acquisition or manufacturing costs. Costs of repair are immediately charged to expenses.

Leases, including sale-and-lease-back arrangements, were recognised as finance leases if all the risks and rewards incidental to ownership are substantially transferred to the lessee. Fixed assets whose leasing agreements meet the criteria of a finance lease pursuant to IAS 17 "Leases" are capitalised at their acquisition costs or at the lower cash value of the minimum lease payments. Depreciation is carried out by scheduled straight-line method over the shorter of the useful economic life of the asset or of the lease term. The related financial obligations arising from future lease payments were carried as liability under other liabilities.

Leasing arrangements, for which the group is the lessor and transfers substantially all benefits and risks that are associated with the property to the lessee, are accounted for by the lessor as sale and financing transactions. A receivable is recognised at an amount equal to the net investment in the lease and includes interest income in the income statement. All other lease agreements entered into by the group as lessor are accounted for as operating leases. In this case, the leased object remains on the consolidated balance sheet and is depreciated. Lease payments are recognised in income on a straight-line basis over the term of the lease agreement.

Impairment

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

Pursuant to IAS 36 "Impairment of Assets", goodwill has to be tested for impairment at least once a year. GILDEMEISTER Aktiengesellschaft carried out an impairment test on 30 September 2008. In the impairment test the carrying amount of a cash-generating unit is compared with the recoverable amount. The recoverable amount of the cash-generating unit is the higher of the asset's fair value less costs to sell and its value in use.

In the GILDEMEISTER group the "Machine Tools" and "Services" segments were defined as cash-generating units. The "Machine Tools" segment was allocated goodwill to the value of € 44,311 K (previous year: € 44,311 K) and the "Services" segment goodwill to the value of € 31,412 K (previous year: € 31,448 K). The recoverable amount equals the value in use and was calculated as the present value of future cash flows. The future cash flows were derived from the planning of the GILDEMEISTER group.

The calculation of cash values for estimated future cash flow is based primarily on assumptions as to future sales prices or volume and costs, taking into account the development of the economic environment. Planning is based on a detailed planning period extending up to the financial year 2011. A growth rate of 1% was assumed for the period following the detailed planning period, which is in line with general expectations of future business development.

The cash flows defined were discounted at a post-tax weighted cost of capital rate of 6.83% (previous year: 6.55%). This represents a pre-tax percentage of 9.60% (previous year: 9.19%).

If the recoverable amount of a cash-generating unit is lower than its book value, the value of goodwill allocated to the cash-generating unit will, initially, be reduced at an amount equal to the remaining balance.

In the financial year there was no evidence of impairment.

Financial assets

The financial assets show investments in enterprises, over which GILDEMEISTER does not exercise any significant influence. These are classified as "available for sale" and are assessed at their amortised cost. There is no active market for these enterprises, therefore it is assumed that the carrying amount corresponds to the fair market value. A reliable evaluation of the fair market value would only be possible within the scope of specific purchase negotiations. At the present time there are no prospects of disposal.

Inventories

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

Lower values at the balance sheet date arising from a reduction in sales revenues were recognised. Raw materials and consumables as well as merchandise were primarily assessed by the average cost method.

There were no orders at the balance sheet date that would have required accounting in accordance with IAS 11 (Construction Contracts).

Receivables and other assets

Receivables and other assets were shown in the balance sheet at their amortised acquisition cost. Long-term non-interest bearing or low-interest bearing receivables have been discounted. Impairments in the form of individual value adjustments make adequate allowance for the expected risk of default. Specific cases of default lead to the derecognition of the respective receivables. Within the scope of individual impairments, receivables, for which there is a potential devaluation requirement, will be tested for impairment and, if necessary, impaired. The calculation of impairment for doubtful receivables is based to a large extent on estimates and assessments of individual receivables, which, in addition to credit worthiness and late payment of the respective customer, also take into account the current cyclical trend and previous cases of deficit. Impairments of trade receivables are recognised in some cases using value adjustment accounts. The decision to account for deficit risks using an allowance account or by directly reducing the receivable will depend on the reliability of the risk assessment. Reclassification among the individual categories of financial assets was not carried out either in the financial year 2008 nor in the previous year.

Within the scope of the asset-backed securities programme (ABS) selected trade receivables were sold on a revolving basis to a special purpose entity, which is not required to be consolidated. The asset-backed security programme (ABS) has a scope of € 100 million. Trade receivables sold under these arrangements are excluded from accounts receivable at the time of sale insofar as all risks and rewards have been substantially transferred to the acquirer and the transmission of the cash flows related to those receivables is assured.

Cash and cash equivalents

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

Deferred tax

Pursuant to IAS 12 “Income Taxes” deferred taxes are assessed in accordance with the balance sheet oriented liability method. For this purpose, deferred tax assets and liabilities were basically recognised for all temporary accounting and valuation differences between the IFRS balance sheet valuations for group purposes and the tax valuations (temporary differences), and with respect to consolidation processes recognised in the income statement. Deferred tax assets for future financial benefits arising from tax-loss credits were also reported in the balance sheet. However, deferred tax assets for all deductible temporary differences and for tax-loss credits were only recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or unused tax losses can be utilised. The deferred taxes were calculated on the basis of income tax rates that, pursuant to IAS 12 “Income Taxes”, apply on the evaluation date or have been enacted in the individual countries in accordance with the legal status on that date. Deferred tax assets and liabilities were balanced out only to the extent that an offset is legally permissible. Deferred tax assets and liabilities were not discounted in accordance with the provisions contained in IAS 12 “Income Taxes”.

Provisions and liabilities

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

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

Financial debt is recognised at amortised costs applying the effective interest rate method. Transaction costs are also taken into account in determining initial costs.

Liabilities were recognised at amortised costs. Liabilities arising from finance leases are shown in other liabilities at the present value of the future lease payments. Customer prepayments were charged to liabilities.

Financial instruments

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

The accounting of financial instruments takes place pursuant to IAS 39 ("Financial Instruments: Recognition and Measurement"). Financial instrument are assessed in principle as soon as GILDEMEISTER becomes a contractual partner in the financial instrument arrangement. Within the group, all dealings for cash are accounted for at the settlement date irrespective of their classification. The settlement date is the date on which an asset is delivered to or through the enterprise. The trading day, on the other hand, is the date on which the enterprise has already entered into the obligation to purchase or sell an asset. Derivative financial instruments are accounted for at the trading date. Financial instruments entered as financial assets and financial liabilities are, as a rule, reported as unbalanced, they are only balanced insofar as a setoff claim exists and it is intended to bring about settlement on a net basis.

Financial assets are measured at fair value on initial recognition. At the same time the directly attributable transaction costs must be taken into account for financial assets, which, as a result of measurement at fair value, do not affect net income. The fair values recognised in the balance sheet generally correspond to the market prices of the financial assets. If these are not immediately available by recourse to an active market, they are calculated using standard valuation models on the basis of interest rates usual in the market. In the financial year 2008 and in the previous year, the terms of financial assets were not renegotiated.

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

Assigned to the category "held to maturity" are non-derivative financial assets with a fixed or defined payment and a fixed term, which GILDEMEISTER intends to and may hold until maturity. GILDEMEISTER has assigned to this category the federal treasury warrants accounted for under other financial assets.

The "available for sale" category represents for GILDEMEISTER the residual amount of original financial assets, which fall under the application of IAS 39 and have not been assigned to any other category. Essentially, this comprises equity securities such as shares in affiliated companies and shares in other investments. Measurement takes place in principle at fair value. The profit or loss resulting from the measurement at fair value is recognised in equity. This does not apply if it involves a permanent or significant impairment, which is recognised in profit or loss. Only upon the divestiture of the financial assets are the accumulated profits and losses in equity recognised from the measurement at fair value in the income statement. The fair value of non-listed equity instruments is assessed in principle according to the discounted cash flow method. If the fair value cannot be sufficiently and reliably measured, the shares are measured at purchase price (if necessary, less impairment). In the financial year 2008 and in the previous year there was no impairment of financial assets available for sale, which were recognised in equity or in the income statement.

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

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

Conversion of financial instruments to other measurement categories did not occur either in the financial year 2008 or in the previous year.

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

Derivative financial instruments

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

Pursuant to IAS 39 “Financial Instruments: Recognition and Measurement”, all derivative financial instruments are recognised at fair value at their initial measurement. Fair value is also relevant for subsequent measurements. Fair value of traded derivative financial instruments corresponds to market value. This value may be positive or negative. If no market values are available, the fair value must be calculated using an accepted economic method. The fair value of derivatives corresponds to the cash value of estimated future cash flows. The fair value of foreign exchange future contracts is calculated on the basis of the foreign exchange reference rate applicable on the balance sheet date, taking into account the forward discounts and mark-ups for the respective residual term of the contract compared to the contracted forward exchange rate. Interest swaps are measured at fair value through the discounting of future expected cash flows. In doing so, the market interest rates applicable for the remaining term of the contract are taken as a basis. Recognised models for determining option prices are applied to currency options. In addition to the residual term of an option, the fair value of an option is additionally influenced by other determining factors, such as, for example, the current amount and volatility of the respective underlying exchange rate or underlying basic interest rate.

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

Fair Value Hedge

Changes in the fair value of hedging instruments that hedge risk arising from changes in the fair value of recognised assets or liabilities are recognised together with the change in fair value of the hedged underlying transaction in the income statement.

Cash flow hedge

Changes in fair value of hedging instruments that have been concluded to hedge cash flow fluctuations are recognised directly in equity for the effective portion of the hedging instrument, taking into account deferred tax effects. The ineffective portion of the change in fair value is recognised in the income statement. Amounts reported in equity are booked to the income statement as soon as the hedged underlying transaction affects profit and loss. The risk of rising expenditure on interest for refinancing is limited by concluding interest rate swaps. In this way GILDEMEISTER receives a variable interest rate and pays a fixed interest rate (payer interest rate swap). The residual term of these interest rate swaps is up to six and a half years. In the reporting year GILDEMEISTER concluded interest rate swaps in order to limit the impact of future interest rate changes on financing costs of the variable interest rate borrowers' notes. Foreign exchange contracts and currency options are used to hedge future cash flows from expected incoming payments on the basis of present order intake. Payment is expected within in a period from one to over five years. Derivative financial instruments are neither held nor issued for speculative or trading purposes. However, derivatives are measured as held for trading if the preconditions for a cash flow hedge are not fulfilled.

Public grants

Investment grants and subsidies are recognised under other liabilities. The retransfer takes place in accordance with the assumed useful life of the asset involved in favour of other operating income.

Borrowing costs

Borrowing costs are shown as expense in the period when they were incurred.

Sales revenues

Pursuant to the criteria laid down in IAS 18 "Revenues", sales revenues arising from the sale of goods are recognised at the time of transfer of the relevant risks and rewards if a price has been agreed or can be determined and it can be assumed that such price will be paid. In the sale of goods this is regularly the time when the delivery takes place and the risk has been transferred to the customer. Moreover, GILDEMEISTER must reliably determine the amount of the sales revenues and be able to assume the collectability of the receivable. Before delivery sales revenues are recognised if the product has not been delivered at the request of the customer, the customer has accepted the invoicing, the delivery is probable, the usual payment terms are applicable and legal ownership has been transferred to the customer ("bill and hold" sales). Sales revenues arising from services are recognised after the services are rendered. Interest income is recognised after expiration of the period taking into account the effective interest rate.Consideration receivable for deliveries and services charged to the customer and reduced by any sales deductions, contract penalties and cash discounts are shown in the sales revenues.

5 FOREIGN CURRENCY TRANSLATION

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

CURRENCIES

		Exchange rate on reporting date = 1 €		Average exchange rate = 1 €	
	ISO-Code	31.12.2008	31.12.2007	2008	2007
British pound	GBP	0.96000	0.73460	0.79851	0.68606
Swiss franc	CHF	1.48600	1.65570	1.58453	1.64320
Polish zloty	PLN	4.18230	3.59280	3.54247	3.78789
Czech crowns	CZK	26.58500	26.57500	25.10577	27.67038
US dollar	USD	1.39770	1.47160	1.47387	1.37430
Canadian dollar	CAD	1.71600	1.44400	1.55615	1.47004
Mexican pesos	MXN	19.35000	16.07000	16.39846	15.00769
Brazilian real	BRL	3.28430	2.62050	2.68288	2.67217
Japanese yen	JPY	126.40000	165.0000	152.52231	161.62846
Singapore dollar	SGD	2.01760	2.11510	2.07777	2.06477
Malaysian ringgit	MYR	4.87000	4.86520	4.90642	4.71312
Indian rupee	INR	68.43000	57.95000	63.88315	56.80615
Chinese Renminbi	CNY	9.60900	10.74000	10.26931	10.43079
Taiwan dollar	TWD	46.24200	47.70300	46.52646	45.03785
Korean Won	KRW	1,775.00000	1,377.00000	1,602.69231	1,274.69231
Australian dollar	AUD	2.02570	1.67750	1.74365	1.77508

Source: Deutsche Bank AG, Frankfurt / Main

Notes to individual items in the Income Statement

6 SALES REVENUES

Sales revenues broken down by distribution are as follows:

	2008 € K	2007 € K
Germany	829,874	730,360
EU (excluding Germany)	684,886	489,630
USA	82,982	72,441
Asia	163,097	158,512
Other countries	143,125	111,094
	1,903,964	**1,562,037**

A breakdown and explanations to the sales revenues from the sale of goods and the provision of services are given in the "Segment Reporting" chapter of the Group Management Report on page 40 et seq.

Sales revenues from "bill and hold" sales were recognised at € 62,172 K (previous year: € 55,769 K).

7 CAPITALISED PAYMENTS

Capitalised payments primarily arise from the capitalisation of development costs of intangible assets for machine tool projects pursuant to IAS 38 "Intangible Assets".

8 OTHER OPERATING INCOME

INCOME UNRELATING TO ACCOUNTING PERIOD	2008 € K	2007 € K
Retransfer of provisions	15,569	6,082
Retransfer of value adjustments	3,905	1,067
Profit on asset disposals	142	331
Receipt of payment for written off delinquent accounts	28	312
Other income unrelated to accounting period	2,498	1,552
	22,142	9,344
OTHER OPERATING INCOME		
Changes in exchange rates	24,296	11,783
Refund of expenses and on-debiting	5,144	4,167
Compensation for damages	1,683	645
Letting and leasing	756	815
Bonuses and allowances	146	392
Other	4,270	3,716
	36,295	21,518
Total	**58,437**	**30,862**

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

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

Income from the refund of expenses and on-debiting mainly include income from the on-debiting of advertising charges in customer journals of € 2,279 K (previous year: € 2,178 K) and refunds of charges from the Unemployment Office for part-time retirement agreements of € 458 K (previous year: € 322 K).

Other income includes € 1,357 K (previous year: € 1,174 K) of accrued earnings from sale-and-lease back transactions that are classified as financial lease arrangements where GILDEMEISTER is the lessee and € 378 K (previous year: € 336 K) income from subletting arrangements where GILDEMEISTER is the lessor.

9 COST OF MATERIALS

Payments received pertain primarily to expenses for external production.

10 PERSONNEL COSTS

In the financial year 2008, direct remuneration of the members of the Executive Board amounted to € 7,441 K (previous year: € 5,407 K). Of this amount, € 1,328 K were attributed to fixed remuneration (previous year: € 1,297 K), € 6,000 K to the STI (previous year: € 4,000 K), and € 113 K as payment in kind (previous year: € 110 K). In addition, an amount of € 367 K (previous year: € 274 K) was spent on pension commitments. Former members of the Executive Board and their surviving dependants received € 597 K (previous year: € 587 K). Pension provisions for former members of the Executive Board and their surviving dependants amounted to € 6,646 K (previous year: € 7,007 K).

The remuneration structure for the Executive Board and the Supervisory Board is explained in the Management Report on page 65 et seq. An individual and detailed presentation of the Executive Board remuneration in the financial year is set out in the Corporate Governance Report page 68 et seq.

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

Personnel expenses include expenses not related to the accounting period in an amount of € 4,680 K (previous year: € 0 K).

Expenses for pension plans including the employer contributions to the statutory pension in the financial year amounted in the group to € 19,442 K (previous year: € 21,368 K).

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

	Average number of persons employed 2008	2007	At the balance sheet date 31 Dec. 2008	31 Dec. 2007
Wage earners	1,906	1,736	1,932	1,775
Salary earners	4,145	3,852	4,259	3,997
Trainees	221	185	260	226
	6,272	**5,773**	**6,451**	**5,998**

11 DEPRECIATION

A distribution of depreciation on intangible assets, tangible assets and financial assets is illustrated in the asset movement schedule on page 6 et seq.

12 OTHER OPERATING EXPENSES

EXPENSES UNRELATED TO ACCOUNTING PERIOD	2008 € K	2007 € K
Losses from the disposal of fixed assets	334	240
Other taxes	38	71
Other expenses unrelated to accounting period	3,208	3,045
	3,580	**3,356**
OTHER OPERATIONAL EXPENSES		
Marketing, trade fairs and other advertising expenses	38,320	31,221
Rental and leases	30,175	26,558
Travelling and entertainment expenses	30,103	27,068
Freight out, packaging	34,353	28,102
Other external services	45,583	33,734
Sales commissions	29,990	23,657
Cost of preparation of accounts, legal and consultancy fees	18,350	9,775
Stationery, post and telecommunication expenses	11,467	10,361
Exchange rate and currency losses	33,086	14,357
Transfer to provisions	21,183	14,648
Other personnel costs	9,829	7,781
Monetary transactions and capital procurement	2,431	2,738
Impairments on receivables	13,776	10,979
Insurance	5,607	4,858
Other taxes	2,300	2,305
Investor and Public Relations	3,317	2,870
Licences and trademarks	1,872	1,672
Other	17,326	15,846
	349,068	268,530
Total	**352,648**	**271,886**

Expenses for marketing, trade fairs and other advertising costs are due to the sales budget and in connection with attendance at trade fairs have risen compared to the previous year.

The increase in outward freight and packaging compared with the previous year is due to the rise in sales and the higher transport costs involved. There are a further two additional reasons: On the one hand, the number of machine transports to the customer – for overseas transport to the port of destination – have grown. On the other hand, in the reporting year the proportion of large machines, which were despatched to the customer, rose significantly. Overall, costs of outward freight and packaging did not rise disproportionately to the rise in sales. This is due primarily to bundling transport services and an increasing standardisation in transport management.

Other external services include expenses for temporary and freelance workers of € 26,229 K (previous year: € 16,882 K). The number of temporary workers was increased to provide flexibility in cyclical downturns.

Exchange rate and currency losses have to be seen in connection with exchange rate and currency gains can be seen in other operational income.

Increases in sales commission expenses are primarily due to increases in sales revenues. The transfer to provisions results primarily from expenses for warranty commitments caused by the increase in sales revenues in the "Solar Technology" area and retrofittings.

Expenses for legal and consultancy fees, and costs for the preparation of end of year accounts, have risen mainly due to one-off expenses. In the reporting year, expenses of € 5.2 million were recognised for external advisors in connection with the public prosecutor's investigations. These result from the investigations commissioned by the Supervisory Board as well as legal and consultancy costs.

In the financial year 2008, € 614 K (previous year: € 582 K) were transferred to provisions for Supervisory Board members' remuneration; these were reported under other external services. Further details on the remuneration of the Supervisory Board are given in the Group Management Report. An individual and detailed presentation of the Executive Board remuneration in the financial year is set out in the Corporate Governance Report page 65 et seq.

13 FINANCIAL INCOME

Interest receivable and similar income of the GILDEMEISTER group amounted to € 2,671 K (previous year: € 2,236 K).

14 FINANCIAL EXPENSES

Financial expenses of € 29,913 K (previous year: € 29,578 K) primarily relates to interest payable for group financial liabilities.

Financial expenses include an interest component of € 1,692 K (previous year: € 1,540 K) of allocations to pension provisions.

In other financial expenses, an amount of € 2,026 K (previous year: € 1,712 K) is recognised for expenses for scheduled depreciation of transaction costs, which arose in connection with the issue of the bond (€ 1,342 K), the syndicated loan facility (€ 671 K) and the taking up of the borrowers' notes (€ 13 K). In the financial year 2008, expenses accrued from the scheduled amortisation of transaction costs for the bond until the date of its redemption.

In the previous year, there were additional one-off expenses included in an amount of € 11,774 K, which resulted from a revaluation of the bond.

15 INCOME TAXES

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

	2008 € K	2007 € K
Current taxes	**42,847**	**35,543**
of which domestic	26,262	21,363
of which foreign	16,585	14,180
Deferred taxes	**2,779**	**-2,231**
of which domestic	3,289	-4,036
of which foreign	-510	1,805
	45,626	**33,312**

At the domestic companies current taxes include corporate income and trade tax, and at the international companies comparable earnings-linked taxes that were determined on the basis of the appropriation of profits. The computation was made on the basis of the tax regulations applicable to the individual companies. In the accounting period 2008, an amount of € 531 K (previous year: € 324 K) resulted from tax income for prior years. An amount of € 3,499 K (previous year: € 1,925 K) is included for tax expenses for prior years.

Deferred tax income unrelated to the accounting period of € 57 K (previous year: € 3,583 K) is set off against deferred tax expenditure unrelated to the accounting period of € 4,470 K (previous year: € 2,183 K).

Tax income of € 97 K (previous year: € 1,606 K) was applied from losses carried forward for which no taxes have accrued so far.

In the reporting year there were no deferred tax assets from temporary differences not yet recognised (previous year: € 1,513 K),

Impairment was carried out on deferred tax assets accumulated in previous years on losses carried forward in an amount of € 4,300 K (previous year: € 296 K). Impairments arose on temporary differences in an amount of € 170 K (previous year: € 1,887 K).

Current taxes in relation to the discontinuance of areas of operation or non-operative activities were not incurred in the reporting year. Due to the continued application of the accounting methods no additional tax expenditure or income arose. There were no material errors in the past so that no consequences arose in this respect.

Deferred taxes are calculated on the basis of income tax rates that at the time of realisation apply or are expected in the individual countries in accordance with the legal status at the time. Taking into account trade earnings tax and the solidarity surcharge, this results in a tax rate applicable to the valuation of deferred taxes of 28.8% (previous year: 28.8%) for domestic companies. International tax rates are between 18% and 41%.

In the financial year 2008, the corporation tax charge comprised corporation tax rate of 15% plus the solidarity surcharge of 5.5%. This results in an effective corporation tax rate of 15.8%. Including the trade earnings tax, which amounted to 13.0%, the total tax rate amounted to 28.8%.

Deferred tax assets were recognised directly in equity and at the balance sheet date amounted to € 4,602 K (previous year: deferred tax liabilities in an amount of € 235 K). In the financial year 2008, the recognised income tax expenditure of € 45,625 K (previous year: € 33,312 K) has increased by € 9,123 K (previous year: € 1,768 K) when compared with the expected income tax expenditure of € 36,502 K (previous year: € 31,544 K), which would arise in theory if the national tax rate of 28.8% (previous year: 37.8%) applicable for the financial year 2008 had been applied at group level. The difference between current and expected income tax expenditure is due to the following:

	2008 € K	2007 € K
Results of ordinary activities before taxes	126,745	83,449
GILDEMEISTER Aktiengesellschaft tax rate in percent	28,8	37,8
Theoretical tax income/expenditure	36,502	31,544
Tax consequences of the following influences		
Adjustment due to differing tax rate	-2,245	-5,019
Effects from changes in tax rate	-65	2,489
Tax reduction due to revenues exempt from taxation	-1,101	-1,412
Deferred taxable losses	4,146	-3,381
Temporary differences	170	374
Tax increase due to non-deductible expenses	5,684	6,881
Tax income or expenditure for prior years	2,969	1,601
Other adjustments	-434	235
Income taxes	**45,626**	**33,312**

Income taxes and tax expenditure and earnings are attributable solely to the operative business activities in the GILDEMEISTER group.

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

16 PROFIT SHARE ATTRIBUTED TO MINORY INTERESTS

An annual profit of € 67 K (previous year: annual profit of € 50 K) is attributed to minority interests.

17 EARNINGS PER SHARE

In accordance with IAS 33 “Earnings per Share”, the basic earnings per share are determined by dividing the consolidated earnings – excluding profit shares by other shareholders – by the average number of shares, as follows:

		2008	2007
Group result excluding profit share of other shareholders	€ K	81,052	50,087
Average weighted number of shares		43,302,503	43,302,503
Earnings per share	€	1.87	1.16

Earnings result exclusively from continued business. There were no diluted earnings per share in the financial year 2008 or in the previous year.

Notes to individual balance sheet items

18 INTANGIBLE ASSETS

The goodwill shown relates as to € 73,451 K (previous year: € 73,451 K) to the assetside difference from the consolidation of investments and as to € 2,272 K (previous year: € 2,308 K) to goodwill from the individual financial statements. The decrease is a result of the foreign currency translation of goodwill in the individual financial statements into the euro, the group’s currency.

Intangible assets arising from development relate to new machine tool projects in the domestic and international product companies, to service products of DMG Vertriebs und Service GmbH and to specific software solutions. Intangible assets arising out of development shown at the end of the accounting period amounted to € 20,842 K (previous year: € 20,643 K). Research and development costs are immediately shown as an expense and amounted to € 41.7 million in the financial year 2008 (previous year: € 35.1 million).

The amount stated for industrial property rights and similar rights includes acquired patents, design patents and trademarks as well as data processing software. Changes and a breakdown of items in the group's intangible assets are illustrated in the consolidated fixed asset movement schedule. Investments are explained in further detail in the Group Management Report on page 44 et seq.

19 TANGIBLE ASSETS

Changes and a breakdown of items in the group's tangible assets are illustrated in the consolidated fixed-asset movement schedule. Investments are explained in further detail in the Group Management Report on page 44 et seq.

The change in currency between the balance sheet dates is shown in the consolidated fixed-asset movement schedule under “Other changes”.

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

Land and buildings are mortgaged for the security of long-term bank loans. Tangible assets include leased assets to the value of € 2,745 K (previous year: € 2,913 K) that must be charged to the respective group company as beneficial owner due to the structuring of the underlying leases ("finance lease").

The carrying amounts of capitalised lease items are divided as follows

	31 Dec. 2008 € K	31 Dec. 2007 € K
Land and buildings	1,155	1,184
Technical equipment and machinery	199	275
Other fixed assets, factory and office equipment	1,391	1,454
	2,745	**2,913**

20 FINANCIAL ASSETS

Changes in the group's financial position are presented in the consolidated fixed assets movement schedule. The recognition of investments involves shares in an amount of € 270 K in VR Leasing Frontania GmbH & Co. KG, shares in an amount of € 80 K in Pro-Micron GmbH & Co. KG Modular System, and shares in an amount of € 3 K in Air+Park Allgäu GmbH & Co. KG. GILDEMEISTER does not exercise any significant control over the companies.

No impairments of financial assets were carried out in the reporting year (previous year: € 96 K),

An overview of affiliated companies and information on registered offices, equity and shares in equity in the financial year 2008 are set out on page 76 et seq.

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

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

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

_ DECKEL MAHO Pfronten GmbH,
_ GILDEMEISTER Drehmaschinen GmbH
_ DECKEL MAHO Seebach GmbH,
_ DMG Spare Parts GmbH,
_ DMG Electronics GmbH,
_ DMG Automation GmbH (with effect from 1 Jan. 2008).

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

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

_ DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
_ DMG Berlin Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
_ DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER,
_ DMG Service Fräsen Pfronten GmbH,
_ DMG Service Fräsen Seebach GmbH,
_ DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER,
_ DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER,
_ a+f GmbH,
_ DMG Microset GmbH (with effect from 1 Jan. 2008).

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

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

21 LONG-TERM RECEIVABLES AND OTHER ASSETS

	31 Dec. 2008 € K	31 Dec. 2007 € K
Trade debtors	603	258
Other long-term financial assets	18,170	15,522
	18,773	**15,780**

Trade receivables are assigned to financial assets.
Other long-term financial assets include the following items:

	31 Dec. 2008 € K	31 Dec. 2007 € K
Discounted customers’ bills	16,045	13,750
Loans to third parties	698	131
Security deposits and other security payments	478	545
Fair market value of derivative financial instruments	221	0
Receivables from employees and former employees	1	16
Creditors with debit balance	0	119
Other assets	33	0
	17,476	**14,561**

Other long-term assets include the following items:

	31 Dec. 2008 € K	31 Dec. 2007 € K
Tax refund claims	541	601
Receivables from compensation claims	0	129
Other assets	153	231
	694	**961**

The tax refund claims of € 428 K result from receivables for value added tax (previous year: € 503 K).

22 INVENTORIES

Inventories are made up as follows:

	31 Dec. 2008 € K	31 Dec. 2007 € K
Raw materials and consumables	160,133	129,538
Work in progress	152,616	131,642
Finished goods and goods for resale	109,583	92,806
Payments on account	3,526	7,058
	425,858	**361,044**

Of inventories recorded on 31 December 2008 € 74,626 K (previous year: € 61,852 K) were recognised at their net realisable value. In the financial year depreciation of inventories in an amount of € 15,275 K (previous year: € 18,659 K) were recognised as expense in the income statement. As in the previous year, there were no reinstatements.

23 SHORT-TERM RECEIVABLES AND OTHER ASSETS

	31 Dec. 2008 € K	31 Dec. 2007 € K
Trade debtors	285,381	292,249
Other short-term assets	73,237	72,874
	358,618	**365,123**

GILDEMEISTER sells revolving trade receivables through asset-backed securities transactions to special purpose entities. ABS transactions reduce the group's receivables portfolio. In total, at the balance sheet date, trade receivables of € 56,925 K (previous year: € 63,825 K) have been disposed of through ABS transactions. Securities granted to third parties in the form of receivables and cash deposits are shown under other short-term financial assets. Trade receivables of € 20,776 K (previous year: € 32,858 K) have been disposed of under factoring.

	Book value	Of which neither impaired nor past due at the closing date	Of which not impaired at the closing date and past due in the following time periods			
			Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	More than 1 year
	€ K	€ K	€ K	€ K	€ K	€ K
Trade receivables						
31 Dec. 2008	285,984	201,007	57,555	9,080	5,608	1,371
Trade receivables						
31 Dec. 2007	292,507	207,432	39,765	7,346	1,607	2,817

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

Trade receivables and accumulated value adjustments have developed as follows:

	2008	2007
	€ K	€ K
Trade receivables not value adjusted	274,621	258,967
Carrying amount of trade receivables before value adjustment	29,743	47,616
Accumulated value adjustments	18,380	14,076
Value adjusted trade receivables	11,363	33,540
Trade receivables	**285,984**	**292,507**

Value adjustments of trade receivables have developed as follows:

	2008 € K	2007 € K
Value adjustments as at January 1	14,076	8,327
Allocations (expenses for impairments)	10,386	8,895
Consumption	-2,177	-2,079
Dissolution	-3,905	-1,067
Value adjustments as at December 31	**18,380**	**14,076**

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

	2008 € K	2007 € K
Expenses for full write-off of receivables	3,390	2,084
Income from recoveries on trade receivables written off	28	312

Expenses relating to impairments and write downs of trade receivables are reported under other operating expenses. They relate to numerous individual cases. Income from recoveries on trade receivables written down are reported under other operating income. Value adjustments or write downs of other financial assets were not carried out in the financial year 2008 or in the previous year.

Other short-term financial assets include the following items:

	31 Dec. 2008 € K	31 Dec. 2007 € K
ABS settlement account	10,086	24,549
Discounted customers' bills	10,139	14,414
Security deposits and other security payments	6,765	1,446
Federal treasury warrants	5,000	0
Fair market value of derivative financial instruments	4,977	2,570
Creditors with debit balance	4,484	4,970
Factoring settlement account	2,044	984
Receivables from employees and former employees	417	356
Loans to third parties	255	296
Purchase price receivables from asset disposal	9	145
Other short-term financial assets	11,220	8,195
	55,396	**57,925**

Receivables in an amount of € 8,267 K (previous year: € 10,397 K) and cash deposits in an amount of € 1,819 K (previous year: € 1,686 K) were made to safeguard viability and warranty risks from ABS transactions. Moreover, in connection with the ABS transactions trade receivables amounting to € 12,466 K were sold in the previous year, for which payment has not yet been received by the special purpose entity.

The federal treasury warrants of € 5,000 K have a term until 13 March 2009 and bear interest of 3.75% p.a.

Moreover, financial assets were not provided as collateral either in the reporting year or in the previous year.

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

	Book value	Of which not impaired nor overdue on the closing date	Of which not impaired at the closing date and past due in the following time periods			
			Up to 3 months	Between 3 and 6 months	Between 6 and 12 months	More than 1 year
	€ K	€ K	€ K	€ K	€ K	€ K
Other financial assets						
31 Dec. 2008	72,872	70,620	1,485	134	450	183
Other financial assets						
31 Dec. 2007	72,486	69,883	2,428	72	89	14

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

Other current assets include the following items:

	31 Dec. 2008 € K	31 Dec. 2007 € K
Tax refund claims	15,825	10,753
Receivables from compensation claims	151	347
Other assets	1,865	3,849
	17,841	**14,949**

Tax refund claims include primarily receivables from value added tax.
The remaining other assets include refund claims of € 646 K (previous year: € 891 K) with respect to additional compensation paid from part-time retirement agreements against the Federal Labour Office (Bundesanstalt für Arbeit).

24 CASH AND CASH EQUIVALENTS

At the balance sheet date bank credit balances amounted to € 257,922 K (previous year: € 95,552 K). The movement of cash and cash equivalents constituting the financial resources pursuant to IAS 7 "Cash Flow Statements" is illustrated in the Cash Flow Statement on page 4.

25 DEFERRED TAXES

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

	31 Dec. 2008		31 Dec. 2007	
	Assets € K	Liabilities € K	Assets € K	Liabilities € K
Intangible assets	1,785	4,934	2,025	4,429
Tangible assets	3,474	2,636	3,915	6,132
Financial assets	4	32	427	30
Inventories	10,234	1,573	7,677	1,685
Receivables and other assets	7,736	2,704	3,824	614
Provisions	7,182	5,759	6,483	3,130
Liabilities	10,490	3,689	6,335	1,426
Tax loss carried forward	4,693	-	11,174	-
	45,598	21,327	41,860	17,446
Balancing	-17,741	-17,741	-14,496	-14,496
Total	**27,857**	**3,586**	**27,364**	**2,950**

A determining factor for the valuation of the recoverability of deferred tax assets is the evaluation of the probability of the reversal of the valuation differences and the usefulness of tax loss carried forward, which have led to the deferred tax assets. This is dependent upon future taxable profits arising during the periods in which tax valuation differences reverse and tax loss carry forwards can be utilised. Based on our past experience and the expected taxable income situation, it is assumed that the corresponding advantages from the deferred tax assets can be realised. As at 31 December 2008 tax loss asset carry forwards amount to € 4,693 K (previous year: € 11,174 K); as in the previous year, they are attributed as to 100% to foreign subsidiaries. Loss carry forwards may either be carried without time limit or may be carried up to 20 years. GILDEMEISTER assumes that on the basis of future business activities there will be sufficient positive taxable income to realise the tax asset claims.

The tax losses carried forward amount to € 27,446 K (previous year: € 42,944 K), of which € 11,596 K (previous year: 5,287 K) have not been taken into account. The theoretically possible deferred tax demand on tax loss carry forwards amounts to € 3,670 K (previous year: € 1,647 K). There were no deductible temporary differences (previous year: € 1,887 K). There are no domestic corporate income tax and trade tax loss carry forwards. Interest carry forwards on the basis of the German interest ceiling rule did not arise.

Deferred taxes are calculated on the basis of income tax rates that at the time of realisation apply or are expected in the individual countries in accordance with the legal status at the time.

Taking into account trade earnings tax and the solidarity surcharge, this results in a tax rate of 28.8% (previous year: 28.8%) for domestic companies. International tax rates are between 18% and 41%.

26 EQUITY

The movement of individual components in group equity for the financial years 2008 and 2007 is illustrated in the Development of Group Equity on page 5 et seq.

Subscribed capital

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

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital by up to € 56,000,000.00 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 business persons affiliated with the company with respect to a partial amount of € 5,000,000.00. The shareholders' statutory subscription rights are excluded to this extent.

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

a) capital increases through non-cash capital contribution so as to acquire, in applicable cases, companies, sections of the company or participating interests in companies for the transfer of shares,

b) to the extent required for dilution protection purposes, in order to grant the holders of warrants or the creditors of convertible bonds issued by the company or its associated companies as part of an authorisation of the Board by the general meeting of shareholders, a subscription right to new shares to the extent they would be entitled to following the exercising of the option or conversion right or the fulfilment of conversion obligations,

c) to exclude any residual amounts from the subscription right, and

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

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

Capital provision

The capital provision of the group include the share premium from the issue of shares of € 71,297,862. In the financial year 2004, transaction costs of € 4,788,596 that can be allocated directly to the capital procurement, reduced by related benefits arising from tax on income of € 1,810,089, were deducted from the capital provision in accordance with SIC 17. The capital provision of € 68,319,355 has not changed since the previous year.

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Revenue provisions

Statutory provisions

The information shown relates unchanged to the statutory reserves of GILDEMEISTER Aktiengesellschaft amounting to € 680,530.

Other revenue provisions

Revenue provisions include prior-period profits generated by the companies included in the Consolidated Financial Statements as far as they were not distributed. Revenue provisions also include the offset of liabilities-side differences from the consolidation of investments of those subsidiaries that were consolidated before 1 January 1995, and the adjustments directly in equity in accordance with the first application of IFRS rules. Finally, they show the differences arising from foreign currency translation not reported in profit or loss in the financial statements of international subsidiaries and the post-tax effects from the valuation of financial instruments in equity. Deferred taxes recognised directly in equity amount to € 4,602 K (previous year: € 28 K).

A detailed overview on the composition of, or changes in, other revenue provisions in the financial year 2008 and in the previous year is included in the Development of Group Equity.

Proposed appropriation of profits

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

The financial year 2008 of GILDEMEISTER Aktiengesellschaft closes with a profit for the year of € 44,010,236.48. It will be proposed to the Annual General Meeting of Shareholders on 15 May 2009 that following the transfer of € 22,000,000.00 to other revenue provisions, and taking into account the profit carry forward of the previous year of € 3,506,170.60 the remaining profit of € 25,516,407.08 be appropriated as follows:

- to distribute € 17,321,001.20 to the shareholders by payment of a dividend of € 0.40 per share.
- to carry the remaining profit of € 8,195,405.88 forward to new account.

A dividend of € 0.35 per share was distributed for the financial year 2007.

Minority interest in equity

Minority interest in equity includes minority interests in the consolidated equity of the companies included and, in the financial year 2008, amounts to € -283 K (previous year: € -351 K).

Capital management disclosure

A strong equity capital base is an important precondition for GILDEMEISTER in order to ensure the ongoing existence of the company. The capital is regularly monitored on the basis of various key indicators. The ratio of net financial liabilities to minority interest in equity (gearing) and the equity share are key indicators for this. Net financial liabilities are determined as the sum of financial liabilities and bills payable less cash and cash equivalents

The medium-term goal is to achieve gearing of less than 50% and an equity ratio of more than 30%.

	31 Dec. 2008	31 Dec. 2007
Cash and cash equivalents	€ 257,922 K	€ 95,552 K
Financial liabilities	€ 378,272 K	€ 260,554 K
Net financial liabilities	€ 120,350 K	€ 165,002 K
Total equity of shareholders in GILDEMEISTER AG	€ 379,973 K	€ 329,864 K
Total equity	€ 379,690 K	€ 329,513 K
Equity ratio	27.3%	28.7%
Gearing	31.7%	50.0%

Total equity has risen absolute by € 50,177 K. The equity ratio fell to 27.3% (previous year: 28.7%) due to the increase of the balance sheet total. This results primarily from a higher amount of funds tied up in inventories as well as an increase in liquid funds from nearly taking up completely the syndicated loan in the fourth quarter of 2008. Gearing could be improved with a decline in net financial liabilities and simultaneous rise in equity to 31.7% (previous year: 50.0%).

27 PROVISIONS FOR PENSIONS AND OTHER POST-EMPLOYMENT BENEFITS

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

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

In the case of contribution-oriented pension plans (“defined contribution plans”) the respective company does not assume any further obligations which go beyond the payment of contributions into an earmarked reserve fund. In the financial year 2008, the related expenses amounted to € 23,017 K (previous year: € 20,669 K). The company’s contributions to the statutory pension insurance amounting to € 19,442 K (previous year: € 17,700 K) are included.

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

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

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

	Germany		Other countries	
	2008	2007	2008	2007
	%	%	%	%
Interest rate	6.10	5.40	2.50 – 3.25	3.50
Salary trend	0.00	0.00	1.00 – 3.00	1.00 – 3.00
Pension trend	2.00	1.75	0.00	0.00

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

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

		31 Dec. 2008	31 Dec. 2007
		€ K	€ K
	Cash value of unfunded pension commitments	30,310	32,275
+	Cash value of funded pension commitments	6,298	5,541
–	Current value of the pension plan assets	-5,172	-4,999
=	Cash value of the pension commitments (after deduction of the plan assets)	31,436	32,817
	Balance of actuarial profits/losses not yet recognised in the balance sheet	-4,311	-5,046
=	Net value of amounts shown in the balance sheet on the reporting date	27,125	27,771
	of which pensions and other post-employment benefits	27,125	27,771

The pension plan assets comprise shares in an amount of € 1,038 K or 20.06% (previous year: € 1,292 K or 25.85%), obligations in an amount of € 2,290 K or 44.28% (previous year: € 2,463 K or 49.27%), real estate in an amount of € 391 K or 7.56% and other assets in an amount of € 1,453 K or 28.10% (previous year: € 809 K or 16.16%). When assessing the plan assets, an expected interest rate of 4.0% is applied (previous year: 4.0%).

The current value of the pension plan assets can be derived from the following:

		31 Dec. 2008 € K	31 Dec. 2007 € K
	Fair value of the assets at the start of the year	4,999	4,704
+/-	Exchange rate changes	571	-135
+	Expected revenues from the plan assets	226	190
+/-	Actuarial profits (-) and losses (+)	-792	-122
+	Employer contributions	259	176
+	Pension plan participant contributions	219	137
–	Benefits paid	-310	49
=	Fair value of the assets at the end of the year	5,172	4,999

Of the company pension provisions in an amount of € 27,125 K (previous year: € 27,771 K), € 26,318 K (previous year: € 26,851 K) are attributable to domestic group companies; this corresponds, as in the previous year, to about 97% of the total amount.

The changes in the cash value compared to the previous year are due to an adjustment of the underlying interest rate from 5.40% to 6.10% and to the change in the number of pensioners included in the calculations.

In the financial year 2008, total expenditure amounted to € 2,111 K (previous year: € 2,239 K), which breaks down into the following components:

		2008 € K	2007 € K
	Current length of service expense	435	350
+	Interest expense	1,692	1,540
–	Expected revenues from the plan assets	-226	-190
+/-	Actuarial profits (-) and losses (+)	210	539
=	Total expense of defined benefit pension plans	2,111	2,239

		2008 € K	2007 € K
	Balance sheet value as at January 1	27,771	27,971
+	Personnel costs	2,111	2,239
–	Pension payments made	-2,757	-2,439
=	Balance sheet value as at December 31	27,125	27,771

In the past five years, the funding status, comprising the cash value of all pension commitments and the present value of the plan assets, has developed as follows:

	2008 € K	2007 € K	2006 € K	2005 € K	2004 € K
Cash value of all pension commitments	36,608	37,816	41,349	43,514	34,902
Current value of the pension plan assets of all funds	-5,172	-4,999	-4,704	-5,008	-1,176
Funding status	31,436	32,817	36,645	38,506	33,726

Payments to beneficiaries from unfunded pension plans next year are expected to amount to about € 2,506 K (previous year: € 2,385 K), while payments to funded pension plans in the financial year 2009 are estimated to amount to about € 81 K (previous year: € 114 K).

28 OTHER PROVISIONS

The following lists the major contents of provisions:

	31 Dec. 2008 Total € K	31 Dec. 2008 Of which short-term € K	31 Dec. 2007 Total € K	31 Dec. 2007 Of which short-term € K
Tax provisions	19,043	19,043	23,018	23,018
Obligations arising from personnel	87,153	60,697	72,107	47,796
Risks arising from warranties and retrofitting	59,444	39,795	43,498	37,280
Obligations arising from sales	36,645	35,988	30,436	29,767
Legal and consultancy fees and costs of preparation of accounts	4,870	4,870	3,758	3,758
Other	18,396	18,050	13,453	13,337
	206,508	159,400	163,252	131,938
Total	**225,551**	**178,443**	**186,270**	**154,956**

Tax provisions include current taxes on income of € 16,017 K (previous year: € 18,542 K) and other operating taxes, which have been accumulated for the reporting year and for previous years.

Provisions for group personnel expenses include profit-sharing bonuses and bonuses of € 23,511 K (previous year: € 19,007 K), part-time retirement of € 12,934 K (previous year: € 13,141 K), holiday pay of € 11,447 K (previous year: € 10,660 K) and payments for anniversaries of € 5,263 K (previous year: € 5,062 K).

The provisions for anniversary bonuses and part-time retirement will be discounted and carried as liability at their present value. Obligations arising from part-time retirement are secured against potential insolvency through a mutual trust relationship. To secure the pension plan, cash equivalents are transferred into a trust property. The members of this trust property are domestic group companies.

The assets are defined as "plan assets" in accordance with IAS 19.7 and balanced against the related provision. Any proceeds arising from the pension plan assets are balanced against the related expenses. On 31 December 2008 cash equivalents of € 4,128 K (previous year: € 3,749 K) were transferred to the trust property.

Risks arising from warranties and retrofitting relate to present obligations to third parties, the use of which is probable and the anticipated amount of which can be reliably estimated. On the basis of previous experience, valuations of provisions were carried out taking into consideration potential increases in costs and the conditions on the balance sheet date.

The other obligations primarily include provisions for installations to be carried out, invoiced sales and other various services.

The movement in the other provisions is illustrated in the Analysis of Provisions:

	01 Jan. 2008 € K	Transfers € K	Used € K	Retransfers € K	Other changes € K	31 Dec. 2008 € K
Tax provisions	23,018	16,086	17,917	1,829	-315	19,043
Obligations arising from personnel	72,107	53,723	35,161	3,072	-444	87,153
Risks arising from warranties and retrofitting	43,498	44,039	21,145	4,621	-2,327	59,444
Obligations arising from sales	30,436	34,414	25,218	4,865	1,878	36,645
Legal and consultancy fees and costs of preparation of accounts	3,758	4,626	3,103	423	12	4,870
Other	13,453	16,257	9,276	2,588	550	18,396
	163,252	153,059	93,903	15,569	-331	206,508
Total	**186,270**	**169,145**	**111,820**	**17,398**	**-646**	**225,551**

The other changes include foreign currency adjustments and book transfers.

29 FINANCIAL LIABILITIES

Details of short-term and long-term financial liabilities are listed in the following tables:

	31 Dec. 2008 € K	Of which due within 1 year € K	Of which due within 1 to 5 years € K	Of which due after 5 years € K
Borrowers' notes	198,488	0	138,942	59,546
Bank loans and overdrafts [1]	153,600	127,884	14,929	10,787
Discounted customers' bills	26,184	10,139	16,045	0
	378,272	**138,023**	**169,916**	**70,333**

[1] of which secured by mortgages: € 19,928 K

	31 Dec. 2007 € K	Of which due within 1 year € K	Of which due within 1 to 5 years € K	Of which due after 5 years € K
Bond	182,189	182,189	0	0
Bank loans and overdrafts [1]	50,063	21,472	16,592	11,999
Discounted customers' bills	28,164	14,414	13,750	0
	260,416	**218,075**	**30,342**	**11,999**

[1] of which secured by mortgages: € 25,105 K

The subordinated corporate bond issued in July 2004 with a term until July 2011 was prematurely redeemed, as planned, on 19 July 2008 and replaced by two borrowers' notes in a total amount of € 200,000 K. The first borrowers' note has a volume of € 140,000 K and a term of five years. It is charged interest at Euribor 6-month rate plus a surcharge of 1.80%. The second borrowers' note amounts to € 60,000 K and has a term of seven years.

It is charged interest at Euribor 6-month rate plus a surcharge of 2.30%. In order to hedge variable interests, interest rate swaps have been concluded (see page 64 et seq.).

Set out below are the major liabilities to financial institutions:

	31 Dec. 2008				31 Dec. 2007			
	Currency	Book value € K	Remaining period in years	effective interest rate %	Currency	Book value € K	Remaining period in years	effective interest rate %
Loan	EUR	20,319	up to 10	3.2-6.8	EUR	28,703	up to 10	3.2-6.8
Loan	JPY	1,061	up to 4	0.95-3.0	JPY	1,025	up to 5	0.95-3.0
Loan	CZK	355	up to 3	3.66	CZK	483	up to 4	3.66
Overdrafts	various	131,865	up to 3	3.25-12.5	various	19,852	up to 5	4.0-12.5
		153,600				**50,063**		

Liabilities to banks increased in comparison with the previous year by a total of € 103,537 K. The long-term loan decreased within the scope of the scheduled redemption by € 8,476 K, whilst drawing on overdraft facilities rose by € 112,013 K compared to the previous year. This results mainly from the nearly complete drawing on the syndicated line of credit in the fourth quarter.

The short and medium term resource requirements of GILDEMEISTER Aktiengesellschaft and, as part of the intragroup cash management system, of the majority of domestic subsidiaries are covered by a syndicated loan agreement. The syndicated loan concluded on 30 June 2006 has a term until 30 June 2011 and a volume of € 175.0 million. The lending volume contains two tranches, which differ in terms of amounts, usability, maturity, drawing terms and the agreed interest rates. The syndicated loan is classified as short-term as the drawings can take place fo six months to the maximum.

Open credit lines amount to € 128.3 million (previous year: € 121.6 million). These break down into free cash lines of € 48.9 million (previous year: € 95.1 million) and additional open lines of credit (guaranteed bills outstanding, bills of exchange, ABS, factoring) of € 79.4 million (previous year: € 26.5 million).

As at 31 December 2008, the international share in liabilities to banks amounts overall to approximately 17% (previous year: about 54%). Average costs of borrowing amount to 8.3% (previous year: 8.5%).

Within the scope of the refinancing, the banks issuing credit both for the syndicated credit line and for the borrowers‘ notes waived in full the right to collateral secured by shares in the business. The financing agreements bind GILDEMEISTER to comply with covenants, which were complied with as at 31 December 2008.

In the previous year, for the benefit of the lending banks, the shares of DECKEL MAHO Pfronten GmbH, DECKEL MAHO Seebach GmbH, GILDEMEISTER Drehmaschinen GmbH, DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, GILDEMEISTER Beteiligungen AG, FAMOT Pleszew S.A. and GILDEMEISTER Italiana S.p.A. were pledged as first-ranking collateral to the domestic banking consortium in a nominal amount of € 124,712 K. The above-referred group companies were also guarantors for the loan agreement. Additionally, the business shares of these companies in a nominal amount of € 124,712 K were pledged as lower-ranking to the benefit of the bond creditors.

SAUER GmbH has assigned fixed assets and current assets in an amount of € 2,008 K (previous year: € 2,254 K) to the lending banks by transfer of ownership by way of security.

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For liabilities to banks of € 153,600 K (previous year: € 50,063 K), no significant differences between the carrying amount and fair market value arise due to the mainly short terms.

30 TRADE CREDITORS AND OTHER LONG-TERM LIABILITIES

Long-term financial liabilities are shown as follows:

	31 Dec. 2008 € K	31 Dec. 2007 € K
Trade creditors	442	850
Other long-term liabilities	23,645	9,996
	24,087	**10,846**

Trade creditors are classified as financial liabilities.
Other long-term financial liabilities include the following items:

	31 Dec. 2008 € K	31 Dec. 2007 € K
Liabilities from finance lease arrangements	3,139	4,885
Fair market value of derivative financial instruments	15,538	0
Debtors with credit balance	78	106
Other long-term financial liabilities	1,500	1,607
	20,255	**6,598**

Liabilities arising from finance leases amounted to € 3,139 K (previous year: € 4,885 K) and show the discounted value of future payments from finance leases. These are liabilities arising from finance leases for buildings.

Fair market values of derivative financial instruments comprise the fair market values of interest rate swaps in an amount of € 15,522 K (previous year: € 0 K) and for forwards in an amount of € 16 K (previous year: € 0 K).

In other financial liabilities, the fair market value of long-term liabilities corresponds to the balance sheet values. Payables that, in legal terms, arise after the balance sheet date, only have a minor impact on the company's financial situation.

	31 Dec. 2008 € K	31 Dec. 2007 € K
Accruals	3,390	3,397
Other long-term liabilities	0	1
	3,390	**3,398**

Accruals include the guaranteed investment grants from the funds of the joint aid programme “Improvement of the Regional Economic Structure” and investment subsidies pursuant to the investment subsidy act in an amount of € 3,390 K (previous year: € 3,397 K) as applied under IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”.

In the financial year 2008, investment subsidies of € 107 K (previous year: € 262 K) were paid. The accruals will be dissolved in accordance with the depreciation procedure for tax-privileged capital assets and recognised in the income statement.

31 TRADE CREDITORS AND OTHER SHORT-TERM LIABILITIES

Short-term financial liabilities are shown as follows:

	31 Dec. 2008 € K	31 Dec. 2007 € K
Trade payables	198,554	142,427
Liabilities from ABS transactions	11,429	21,503
Fair market value of derivative financial instruments	5,738	1,597
Debtors with credit balance	4,786	4,085
Liabilities from finance lease arrangements	2,332	3,039
Liabilities from accrued interest paid for the borrowers’ notes	1,302	0
Liabilities from accrued interest paid on the corporate bond	0	7,631
Other short-term financial liabilities	4,592	4,898
	228,733	**185,180**

Liabilities arising from ABS transactions result from payments received from third parties for receivables sold, which payments have not yet been forwarded to the special purpose entity.

The fair market values of derivative financial instruments mainly involves the fair market value for forwards in USD and JPY.

Liabilities arising from current finance leases amounted to € 2,332 K (previous year: € 3,039 K) and show the discounted value of future payments from finance leases. These are mainly liabilities arising from finance leases for buildings.

Short-term liabilities arising from finance leases are recognised without future interest payable. All future payments arising from finance leases total € 6,306 K (previous year: € 8,706 K).

Liabilities from accrued interest paid are due to the accrual-based recognition of interest paid on the borrowers' notes of € 1,302 K for the period 29 November 2008 to 31 December 2008, which will be paid in May 2009. In the previous year, the interest expense in this respect in an amount of € 7,631 K for the corporate bond must be differentiated.

Other financial liabilities include liabilities from bills of € 617 K (previous year: € 138 K), which arise from the acceptance of drafts and the issue of promissory notes.

The minimum lease payments of the respective lease agreements are as follows:

TOTAL FUTURE MINIMUM LEASE PAYMENTS	31 Dec. 2008 € K	31 Dec. 2007 € K
Due within one year	2,933	3,418
Due within one and five years	3,373	5,207
Due in more than five years	0	81
	6,306	**8,706**
INTEREST COMPONENT INCLUDED IN FUTURE MINIMUM LEASE PAYMENTS		
Due within one year	601	379
Due within one and five years	234	400
Due in more than five years	0	3
	835	**782**
NET PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS		
Due within one year	2,332	3,039
Due within one and five years	3,139	4,807
Due in more than five years	0	78
	5,471	**7,924**

The minimum lease payments from subleases, for which GILDEMEISTER is the lessor, in 2009 amount to € 378 K (previous year: € 276 K) and for 2010 to 2013 to € 647 K (previous year: € 897 K). The agreements refer to the leasing of machine tools.

Other short-term liabilities include the following items:

	31 Dec. 2008 € K	31 Dec. 2007 € K
Tax liabilities	13,015	20,757
Liabilities relating to social insurance	3,652	3,046
Payroll account liabilities	2,807	3,062
Deferred income	7,144	6,802
Other liabilities	259	1,434
	26,877	**35,101**

Tax liabilities refer to liabilities arising from value added tax amounting to € 2,376 K (previous year: € 12,346 K) as well as liabilities arising from wage and church tax of € 6,848 K (previous year: € 6,551 K).

Deferred income on the liabilities side of € 2,381 K (previous year: € 972 K) relates to deferred future interest earnings from a specific financing programme of the Italian state (Sabatini funding). It also includes further deferred income from sale-and-lease-back transactions that resulted in finance lease arrangements and for which GILDEMEISTER is the lessee.

32 CONTINGENCIES AND OTHER FINANCIAL OBLIGATIONS

No reserves were set up for the following contingent liabilities, which are assessed at their nominal values, since the risk of usage is deemed as not very probable:

CONTINGENCIES	31 Dec. 2008 € K	31 Dec. 2007 € K
Guarantees	3,758	5,109
Warranties	1,433	2,809
Other contingencies	547	599
	5,738	**8,517**

The guarantees mainly comprise advance payment guarantees for international group companies.

Other financial obligations consist mainly of lease agreements and long-term tenancy agreements. In operating lease agreements, the beneficial owner of the leased items is the lessor, which means risks and rewards are borne by the lessor.

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The total minimum lease payments from permanent tenancy and lease agreements (finance lease arrangements and operating lease arrangements) are as set out below by due dates. The agreements have terms from two to sixteen years and some include options to extend or purchase options.

TOTAL FACE VALUE OF FUTURE MINIMUM LEASE PAYMENTS	31 Dec. 2008 € K	31 Dec. 2007 € K
Due within one year	26,364	25,059
Due within one and five years	34,993	32,499
Due in more than five years	8,656	7,844
	70,013	**65,402**

Of which operating lease arrangements account for:

TOTAL FACE VALUE OF FUTURE MINIMUM LEASE PAYMENTS	31 Dec. 2008 € K	31 Dec. 2007 € K
Due within one year	23,431	21,641
Due within one and five years	31,620	27,292
Due in more than five years	8,656	7,763
	63,707	**56,696**

Operating lease arrangements result in an amount of € 2.7 million from leasing agreements for software at GILDEMEISTER Beteiligungen AG; the agreements have a minimum term of two to five years.

Further operating lease agreements include an operating lease to the value of € 4.2 million entered into in relation to the funding of buildings at DMG Europe Holding GmbH in Klaus, Austria, and of € 3.7 million at DECKEL MAHO Pfronten GmbH. The operating lease agreements for the buildings include a purchase option upon expiration of the basic lease term.

Further operating lease agreements exist at FAMOT Pleszew S.A., Poland, for machines to a value of € 1.7 million as well as at other group companies for machines, fleet vehicles and other equipment, and factory and office equipment. They include, in part, purchase options upon expiry of the basic lease period.

At DECKEL MAHO Pfronten GmbH leasing agreements in connection with the financing of crane installations exist in an amount of € 1.5 million and telephone installations in an amount of € 0.7 million. The agreements contain purchase options upon expiry of the basic lease period.

The operating lease agreements have minimum terms of between two and 11 years.

There are no permanent subtenancy agreements that have to be included in the total of future minimum lease payments. There are no contingent rental payments that are recognised in the Income Statement.

33 DERIVATIVE FINANCIAL INSTRUMENTS

On the balance sheet date, foreign exchange futures contracts were held by the GILDEMEISTER group in USD, CHF, CAD, SGD, AUD, GBP, PLN and JPY, as well as currency options in USD, GBP and interest rate swaps in euros. The face and fair market values of derivative financial instruments existing at the balance sheet date are set out below:

	31 Dec. 2008				31 Dec. 2007	
	Nominal value	Fair market values Asset	Fair market values Debt	Total	Nominal value	Fair market value
	€ K	€ K	€ K	€ K	€ K	€ K
Foreign exchange contracts of which cash flow hedges	55,200	1,709	2,473	-764	42,992	-397
of which USD	52,941	1,541	2,424	-883	37,890	-498
of which CAD	1,302	97	19	78	1,637	-778
of which JPY	0	0	0	0	2,685	160
of which other currencies	957	71	30	41	780	19
Currency options as cash flow hedges	27,152	1,595	0	1,595	9,691	334
Currency options for trading purposes	24,000	0	1	-1	0	0
Interest rate swaps as cash flow hedges	200,000	0	15,522	-15,522	0	0
Foreign exchange contracts for trading purposes	78,274	1,894	3,280	-1,386	58,549	1,036
of which USD	47,338	619	2,034	-1,415	42,957	836
of which GBP	0	0	0	0	4,500	-42
of which JPY	15,040	29	1,226	-1,197	4,883	93
of which HF	11,058	850	0	850	0	0
of which CAD	2,060	111	10	101	1,879	-15
of which other currencies	2,778	285	10	275	4,330	164
	384,626	**5,198**	**21,276**	**-16,078**	**111,233**	**973**

The nominal values correspond to the total of all purchase and sales amounts of derivative financial transactions. The fair market values recognised correspond with the price at which, as a rule, third parties would assume the rights or obligations arising from the financial instruments at the balance sheet date. Given the current financial and banking crisis, it cannot be assumed overall that the assessed value will also be actually realised upon dissolution.

The fair market values are the current values of the derivative financial instruments excluding any adverse trends in value from underlying transactions. The fair market value of currency options is separated into an intrinsic value and a time value, whereby only the intrinsic value of the options is drawn on for hedging purposes. The values are assessed on the basis of an option price model.

The fair market values of interest rate swaps are recognised in the balance sheet under other long-term assets or other long-term financial liabilities.

The fair market values of foreign exchange contracts and currency options are recognised in the balance sheet under other long-term and short-term financial assets or other long-term and short-term financial liabilities.

On the balance sheet date GILDEMEISTER also had foreign exchange future contracts held for trading purposes, which, although they do not fulfil the strict requirements of hedge accounting pursuant to IAS 39, make an effective contribution to the securing of financial risks pursuant to the principles of risk management. For the hedging of currency risks recognised as monetary assets and liabilities, GILDEMEISTER does not use hedge accounting pursuant to IAS 39, as the realised profits and losses from the underlying transactions from the currency translation pursuant to IAS 21 are recognised in the income statement at the same time as the realised profits and losses from the derivatives applied as hedging instruments. In the event that third parties do not fulfil their obligations arising from foreign exchange contracts, as at the balance sheet date GILDEMEISTER had a deficit risk amounting to € 5,198 K (previous year: € 2,570 K).

Interest rate swaps in a nominal amount of € 140,000 K (previous year: € 0 K) have a residual term of up to five years. A nominal amount of € 60,000 K (previous year: € 0 K) has a residual term of more than five years.

Foreign exchange future contracts with a nominal amount of € 16,680 K (previous year: € 4,000 K) have a residual term of more than one year. All other foreign exchange future contracts and currency options as at the balance sheet date have a residual term of up to one year.

In the financial year 2008, expenses arising from the market valuation of financial instruments allocated to cash flow hedges in an amount of € 19,938 K (previous year: € 216 K) were allocated to equity and an amount of € 278 K (previous year: € 872 K) was removed from equity and recognised in profit or loss for the reporting period. It was recognised in the income statement under exchange rate and currency profits or in the exchange rate and currency losses. No ineffectivenesses, resulted either in the financial year or in the previous year.

34 RISKS FROM FINANCIAL INSTRUMENTS

Risks from financial instruments

Currency and interest rate fluctuations can lead to considerable profit and cash flow risks for GILDEMEISTER. For this reason, GILDEMEISTER centralises these risks as far as possible and manages them with a view to the future and by using derivative financial instruments. The controlling of risks is based on regulations that are valid throughout the group and in which the targets, principles, responsibilities and competencies are defined.

Currency risks

In its global business activities GILDEMEISTER is exposed to two types of currency risks. Transaction risks arise through changes in value of future foreign currency payments due to exchange rate fluctuations in individual accounts. In the GILDEMEISTER group both purchases and sales are made in foreign currencies. To hedge currency risks arising from activities within the GILDEMEISTER group, foreign exchange futures contracts and options are used. The conclusion and processing of derivative financial instruments is based on binding internal regulations defining scope, responsibilities, reporting and accounting.

The translation risks describes the risk of a change in the balance sheet and income statement items of a subsidiary due to exchange rate differences in the translation of local individual accounts to the group currency. Any changes in the balance sheet items of these companies caused by currency fluctuations in translation will be recorded in equity. Risks arising from the translation of sales revenues and results in foreign currency from subsidiaries are not hedged.

GILDEMEISTER determines foreign currency sensitivity through aggregating all foreign currency items that are not represented in the functional currency of the respective company and sets these against hedging. The fair market value of the basic items and hedges included are evaluated once at the actual exchange rates and once with the sensitivity rates. The difference between the two values represents the effects on equity and results.

If the euro had been revalued (devalued) by 10% against the US dollar as at 31 December 2008, the reserves for derivatives in equity and the fair value of the forward exchange contracts would have been € 4,697 K higher (less) (31 Dec. 2007: € 5,417 K higher (lower)). If the euro had been revalued (devalued) by 10% against all currencies as at 31 December 2008, the results and the present fair value of forward exchange contracts would have been € 5.225 K lower (higher) (31 Dec. 2007: € 2.948 lower (higher)). A hypothetical impact on profit or loss ensues in the individual case from the currency sensitivities EUR / USD: € 4,488 K; EUR / CHF € 1,082 K; EUR / JPY: € 578 K; EUR / CAD: € 159 K.

The following tables show the transaction-related net currency risk in € K for the most significant currencies as at 31 December 2008 and 2007:

	31 Dec. 2008			31 Dec. 2007		
Currency	USD	JPY	CAD	USD	JPY	CAD
	€ K	€ K	€ K	€ K	€ K	€ K
Currency risk from balance sheet items	48,054	6,397	1,856	62,044	17,738	4,220
Currency risk from pending transactions	53,072	2,112	1,078	9,963	7,789	2,683
Transaction-related currency items	101,126	8,509	2,934	72,007	25,527	6,903
Financially hedged item through derivatives	-109,710	-15,040	-3,102	-52,388	-7,275	-3,601
Open foreign currency item	-8,584	-6,531	-168	19,619	18,252	3,302
Change in foreign currency item through a 10% revaluation of the euro	858	653	17	-1,962	-1,825	-330

Interest rate risks

Interest rate risks include any potential positive or negative impact of interest rate changes on the results, equity or cash flow during the current or future reporting periods. At GILDEMEISTER interest rate risks are essentially in connection with financial liabilities. GILDEMEISTER hedges this risk through concluding interest rate swaps.

Interest hedging instruments in the form of swaps are used to eliminate the effects of future changes in interest rate on the cost of financing loans that are subject to a variable interest rate.

To hedge against future changes in interest rate on the borrowers' notes, GILDEMEISTER has concluded interest rate swaps that shall secure a fixed interest rate up to the end of the term.

Interest rate swaps for a nominal total volume of € 140,000 K were concluded for a hedged interest rate of 4.98% to 5.02% with a term up to 29 May 2013. The interest rate swaps bind GILDEMEISTER to pay a fixed rate interest over the term and for the volume concluded. To offset this, GILDEMEISTER receives a EURIBOR 6-month rate payment from the contractual partner to the interest rate swap.

Furthermore, GILDEMEISTER has concluded a further interest rate swap for a nominal amount of € 60,000 K and a hedged interest rate of 4.79% with a term up to 29 May 2015. The interest rate swaps bind GILDEMEISTER to pay a fixed rate of interest over the term and for the volume concluded. To offset this, GILDEMEISTER receives a EURIBOR 6-month rate payment from the contractual partner to the interest rate swap.

Thus the company is protected against rising short-term interest rates yet, in return, does not benefit from falling short-term interest rates.

If the interest rate at 31 December 2008 had been 1% lower (higher), the reserves for derivatives in equity and the fair value of the interest rate swap would have been € 12,905 K lower (€ 4,461 K higher).

For financial instruments with a variable rate of interest – mainly this refers to the syndicated loan of € 175.0 million – the interest rate risk will be measured with the aid of cash flow sensitivity. Based on the financial instruments with a variable interest rate, existing interest hedges have been deducted. A 1% increase in interest rates pertaining to the non-hedged portfolio on the balance sheet date would result in an increase in interest expense of € 1.6 million (previous year: € 1.2 million).

Fixed interest rates have been predominantly agreed for other financial liabilities bearing interest. Changes in the interest rate would only have an effect if these financial instruments were recognised on the balance sheet at fair value. As this is not the case, financial instruments with a fixed interest rate are not subject to any risks arising out of interest rate changes within the meaning of IFRS 7.

Liquidity risks

Liquidity risks, that is, the risk that GILDEMEISTER cannot meet its financial obligations, are limited by creating the necessary financial flexibility within the scope of existing financing as well as by effective cash management. Liquidity risk at GILDEMEISTER is governed by financial planning over 12 months. This makes it possible to finance predictable deficits under normal market conditions at standard market terms. On the basis of the current liquidity planning, no liquidity risks are identifiable at present. As a liquidity precaution, there is a syndicated loan facility of € 175.0 million with various banks as well as bilateral standby credits of € 29.0 million (previous year: € 29.4 million). Loan facilities have not been cancelled either in the financial year 2008 or in the previous year. Moreover, GILDEMEISTER has borrowers' notes of a total of € 200.0 million. The present financial crisis has so far not led to any negative impact on existing credit lines. Up to now there are no reasons for termination.

As at 31 December 2008, GILDEMEISTER had cash and cash equivalents totalling € 257.9 million (previous year: € 95.5 million), open cash lines in an amount of € 48.9 million (previous year: € 95.1 million) and further open lines (guaranteed bills outstanding, bills of exchange, ABS and factoring) totalling € 79.4 million (previous year: € 26.5 million) available to it.

The following table shows that contractually agreed (nondiscounted) interest and repayments of original financial liabilities as well as of the derivative financial instruments with positive and negative fair values:

		Cash flows 2009		Cash flows 2010 – 2012		Cash flows 2013 et seq.	
	Book value 31 Dec. 2008 € K	Interest € K	Repayment € K	Interest € K	Repayment € K	Interest € K	Repayment € K
Borrowers' notes	198,488	13,785	0	41,355	0	15,401	198,488
Liabilities to banks	153,600	1,088	127,884	1,373	14,560	694	11,156
Liabilities arising from leases	5,471	601	2,332	234	3,139	0	0
Liabilities from ABS transactions	11,429	0	11,429	0	0	0	0
Discounted customers' bills	26,184	0	10,139	0	15,070	0	975
Liabilities from derivatives	21,276	0	5,754	0	10,642	0	4,880
Other financial liabilities	211,254	1,764	206,967	78	3,959	131	328
	627,702	**17,238**	**364,505**	**43,040**	**47,370**	**16,226**	**215,827**

		Cash flows 2008		Cash flows 2009 – 2011		Cash flows 2012 et seq.	
	Book value 31 Dec. 2007 € K	Interest € K	Repayment € K	Interest € K	Repayment € K	Interest € K	Repayment € K
Bond	182,189	17,063	182,189	0	0	0	0
Liabilities to banks	50,063	1,507	19,082	2,854	16,297	549	14,684
Liabilities arising from leases	7,924	379	3,039	400	4,397	3	488
Liabilities from ABS transactions	21,503	0	21,503	0	0	0	0
Discounted customers' bills	28,164	48	24,050	0	3,900	0	214
Liabilities from derivatives	1,597	0	1,597	0	0	0	0
Other financial liabilities	161,604	100	160,073	56	1,175	0	356
	453,044	**19,097**	**411,533**	**3,310**	**25,769**	**552**	**15,742**

This includes all instruments that were held as at 31 December 2008 and 31 December 2007, respectively, and for which payments have been contractually agreed. Forecast figures for future new liabilities have not been included. Amounts in foreign currencies were translated at the balance sheet date exchange rate. The variable interest payments for financial instruments were determined on the basis of the last fixed interest rate before 31 December 2008 and 31 December 2007, respectively. Financial liabilities that can be repaid at any time are always allocated to the earliest possible date.

Credit risks

A credit risk is the unexpected loss of payment funds or income. This occurs if the customer is not able to meet his obligations within the due time. A receivables management with worldwide applicable guidelines and regular analysis of the age structure of trade receivables ensures the continuous monitoring and limiting of risks and, in this way, minimises losses from receivables. Due to the diversified business structure within the GILDEMEISTER group, there are no special concentrations of credit risks, neither with respect to customers nor for individual countries.

Within the scope of financial deposits, financial contracts are only concluded with the Bundesbank and banks that we have carefully selected and are permanently watching. With respect to derivative financial instruments, the GILDEMEISTER group is exposed to a credit risk that arises from the non-performance of contractual agreements by the other party to the agreement. This credit risk is minimised by only entering into transactions with parties of first-class financial credit-worthiness. The carrying amount of the financial assets represents according to IFRS 7.36 the maximum credit risk. From the following table, a maximum credit risk arises of € 617,134 K as at the balance sheet date (previous year: € 460,904 K):

	31 Dec. 2008 € K	31 Dec. 2007 € K
Financial assets held for sale	356	357
Loans and receivables	348,658	362,425
Financial assets held to maturity	5,000	0
Cash and cash equivalents	257,922	95,552
Derivative financial assets		
Derivatives without a hedging relationship	3,256	1,801
Derivatives with a hedging relationship	1,942	769
	617,134	**460,904**

There were no securities received or other credit enhancements neither in the financial year nor in the previous year.

The valuation rates of the financial instruments according to valuation categories are shown as follows:

		Valuation in accordance with IAS 39					
	Book value 31 Dec. 2008	Amortised cost	Cost	Fair value recognised in equity	Fair value through profit or loss	**Valuation in accordance with IAS 17**	**Fair value 31 Dec. 2008**
	€ K	€ K	€ K	€ K	€ K	€ K	€ K
Assets							
Financial assets	356	356				-	356
Cash and cash equivalents	257,922	257,922				-	257,922
Trade receivables	285,984	285,984				-	285,984
Other receivables	62,674	62,674				-	62,674
Other original financial assets in the category							
held to maturity	5,000	5,000				-	5,000
Derivative financial assets							
Derivatives without hedge relationship	3,256	0	0	0	3,256	-	3,256
Derivatives with hedge relationship	1,942			1,942		-	1,942
Liabilities							
Borrowers' notes (previous year: Bond)	198,488	198,488				-	198,488
Liabilities to banks	153,600	153,600				-	153,600
Discounted customers' bills	26,184	26,184				-	26,184
Trade payables	198,996	198,996				-	198,996
Liabilities from ABS transactions	11,429	11,429				-	11,429
Liabilities from finance lease arrangements	5,471	5,471				5,471	5,471
Other liabilities	12,259	12,259				-	12,259
Derivative financial liabilities							
Derivatives without hedge relationship	3,281				3,281	-	3,281
Derivatives with hedge relationship	17,995			17,995		-	17,995
Of which aggregated in measurement categories acc. to IAS 39:							
Loans and receivables	606,580	606,580					606,580
Assets in the category							
held to maturity	5,000	5,000					5,000
available for sale	356	356					356
held for trading	3,256				3,256		3,256
Liabilities in the category							
Measured at amortised cost	606,427	606,427					606,427
held for trading	3,281				3,281		3,281

		Valuation in accordance with IAS 39				
Book value 31 Dec. 2007	Amortised cost	Cost	Fair value recognised in equity	through profit or loss	**Valuation in accordance with IAS 17**	**Fair value 31 Dec. 2007**
€ K	€ K	€ K	€ K	€ K	€ K	€ K
357	357				-	357
95,552	95,552				-	95,552
292,507	292,507				-	292,507
69,916	69,916				-	69,916
1,801				1,801	-	1,801
769			769		-	769
182,189	182,189				-	187,197
50,063	50,063				-	50,063
28,164	28,164				-	28,164
143,277	143,277				-	143,277
21,503	21,503				-	21,503
7,924	7,924				7,924	7,924
18,327	18,327				-	18,327
612				612	-	612
985			985		-	985
457,975	457,975					457,975
357	357					357
1,801				1,801		1,801
451,447	451,447					456,455
612				612		612

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For financial instruments accounted at fair value the fair value is determined, in principle, by way of stock market prices. Insofar as stock market prices are not available, measurement is carried out applying standard economic methods (measurement methods), taking instrument-specific market parameters as a basis.

Fair value assessment is carried out by means of the discounted cash flow method, where the individual credit-standings and other market circumstances in the form of standard market credit-standings or liquidity spreads are taken into account in the cash value assessment.

Financial assets are measured at acquisition cost (if necessary taking into account value adjustments). A reliable assessment of the fair market value would only be possible within the scope of specific sales negotiations.

For loans and receivables, which are measured at amortised acquisition costs, there is no liquid market. For short-term loans and receivables it is assumed that the fair value corresponds to the carrying amount. All other loans and receivables are assessed at fair value through the deduction of accrued interest on future expected cash flows. In this, interest rates are used for credits, for which credits with a corresponding risk structure, original currency and term have been reconcluded.

Trade payables and other short-term financial liabilities in general have a term of less than one year, so that the carrying amount corresponds approximately to the fair value.

The fair value of the stock market listed bond in the previous year corresponds to the number of securities issued multiplied by the quoted price on the closing date.

For the non-stock market listed borrowers' notes, liabilities to banks and other long-term liabilities, the fair values are cash values of the payments related to the liabilities taking market standard interest rates as the basis.

The net results of the financial instruments according to valuation category are shown as follows:

	From interest € K	Subsequent measuring			Disposal € K	2008 € K	2007 € K
		At fair value € K	Foreign currency translation € K	Value adjust-ment € K			
Loans and receivables	710	2	-1,363	-9,842	-534	-11,027	-7,977
Assets in the category							
held to maturity	0	0	0	0	0	0	0
available for sale	0	0	0	0	0	0	-96
held for trading	0	692	0	0	0	692	-440
Liabilities in the category							
measured at amortised cost	-26,556	-2,026	-5,488	0	0	-34,070	-44,622
held for trading	0	-2,632	0	0	0	-2,632	-1,065
Total	**-25,846**	**-3,964**	**-6,851**	**-9,842**	**-534**	**-47,037**	**-54,200**

Interest from financial instruments is recognised in interest results.

Value adjustments on trade receivables are recognised in other operating expenses.

Interest results from financial liabilities in the valuation category “liabilities at amortised cost” result essentially from interest expenses for the bond and for liabilities to banks.

Notes to the Cash Flow Statement

35 CASH FLOW STATEMENT

The Cash Flow Statement pursuant to IAS 7 “Cash Flow Statements” records the payment flow in a financial year and represents the inflow and outflow of the company's liquid funds. The payment flow is distinguished between cash flow from current operations and cash flow from investment and financing activity.

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

The cash flow from current operations was calculated by the indirect method through adjusting the earnings before tax by changes in inventories, trade receivables and payables, non-cash items and all other items showing cash flows in the investment or financing areas. The cash flows from investment and financing activities were each calculated in terms of actual sums paid. Effects from foreign currency translation and changes in the consolidated group are adjusted accordingly.

Investment operations for finance leases of € 32 K (previous year: € 763 K) have not resulted in a change in cash flow.

Amounts paid out for investments in financial assets result from the second part payment of € 971 K for the acquisition of shares in DMG Automation GmbH, Hüfingen. The total acquisition price amounted to € 6,971 K of which € 4,000 K was paid in the year of purchase (2007). The outstanding payment amounting to € 2,000 K depends on the occurrence of contractual conditions.

The cash flow from financing activity contains an amount of € 200,000 K for the down payment as well as an amount of € 1,525 K for the costs arising from drawing the borrowers’ notes. In addition, an amount of € 183,531 K for the redemption payment of the bond has been taken into account.

Notes to Segmental Reporting

36 EXPLANATORY NOTES TO THE SEGMENTS

In segmental reporting pursuant to IAS 14 "Segment Reporting", the business activities of the GILDEMEISTER group are distinguished between business segments requiring primary segment reporting and geographical areas requiring secondary segment reporting. A presentation in table format as part of the Notes can be found on page 10 et seq.

The business activities of the GILDEMEISTER group consist of the "Machine Tools", "Services" and "Corporate Services" segments. This segmentation follows the group's management and control. Each group company is allocated to the segment pertaining to its respective economic activities. The "Machine Tools" segment covers the group's new machines business and consists of the "turning", "milling" and "ultrasonic / lasertec" technologies. This includes the lathes and turning centres of

- GILDEMEISTER Drehmaschinen GmbH, Bielefeld,
- GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italiy,
- GRAZIANO Tortona S.r.l., Tortona, Italiy,
- FAMOT Pleszew S.A., Pleszew, Poland,
- DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China,

the milling machines and machining centres of

- DECKEL MAHO Pfronten GmbH, Pfronten,
- DECKEL MAHO Seebach GmbH, Seebach,
- DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China,

the ultrasonic and laser machines of

- SAUER GmbH, Idar-Oberstein / Kempten

and the products from the area of automation/controls of

- DMG Automation GmbH, Hüfingen,
- DMG Electronics GmbH, Pfronten.

All of our machines are classified as cutting machine tools, and all business segments are concurrent with each other.

The **"Services"** segment, which covers all areas, is directly related to the machine tools and, with its products and technical services, represents an independent segment.

Primarily it consists of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld, and their subsidiaries, as well as a+f GmbH with the two business divisions "SunCarrier" and "Components". The latter company serves the growing solar technology market with the "SunCarrier". The business model is focused primarily on the complete execution of turnkey products and after-sales service. In the area of "Components", a+f GmbH is geared towards the acquisition of components for wind energy.

DMG Service Solutions offer worldwide customised service solutions and service products over the entire lifespan of the DMG machine tools. The service solutions include various services, which, through our highly-qualified service staff and our worldwide sales and service network, ensure direct customer contact and rapid availability. DMG service products – such as DMG power tools, adjustment devices and tool management from DMG MICROSET, DMG Spare Parts as well as components from SACO – provide users of DMG service products with an opportunity to increase the productivity of their DMG machines tools significantly. In addition to introduction and consulting services, these also include traditional maintenance and service activities, installation and initial training, vocational and further training provided by DMG Trainingsakademie GmbH, as well as the retrofitting of machines and the used machines business. Another area is key accounting, to serve our major customers, which has been centralised to cover all areas and products in order to meet the increasing globalisation of international companies.

With its "Solar Technology" area, a+f GmbH contributed a total of € 199,473 K (previous year: € 7,406 K) to the segment's sales revenues and achieved EBT with this business division of € 9,741 K. The proportional assets amounted to € 65,915 K and the liabilities amounted to € 48,837 K. In the financial year, investments of € 761 K were made for the "SunCarrier" area. Depreciation amounted to € 288 K. As at 31 December 2008, 43 employees worked for a+f GmbH in the "Solar Techology" area.

The **"Corporate Services"** segment also comprises, in addition to GILDEMEISTER Aktiengesellschaft with its group wide holding functions, GILDEMEISTER Beteiligungen AG, which, as the parent company of all the production plants, has a central importance. Central functions have been assigned to GILDEMEISTER Aktiengesellschaft, such as group strategy, development and purchasing coordination, management of overall projects in the production and logistics areas, funding, corporate controlling and corporate personnel management. The group wide standard IT has been combined in GILDEMEISTER Beteiligungen AG.

37 EXPLANATORY NOTES TO THE SEGMENTAL INFORMATION

The definition of terms used in individual segmental information is in line with the management principle for the value-oriented corporate management of the GILDEMEISTER group. Segmental information is in principle based on the same accounting and valuation methods as form the basis for the Consolidated Financial Statements.

Segmental assets include all assets tied up in the business including shares, goodwill and deferred income; it does not include income tax claims. Sales between the segments are carried out according to settlement prices usual in the market.

As part of the exercise of the accounting policy choice pursuant to IFRS 3 "Business Combinations", existing goodwill was allocated to the segments as follows: Goodwill to the "Machine Tools" segment of € 44,311 K (previous year: € 44,311 K), to the "Services" segment of € 31,412 K (previous year: € 31,448 K) and of € 0 K to the "Corporate Services" segment (previous year: € 0 K).

No impairment of goodwill was recorded in the financial year.

Segmental debts consist of the outside capital and financial liabilities including provisions and deferred income; they do not include income tax liabilities.

Investments include the additions to tangible fixed assets and intangible assets. Intrasegment sales revenues show the sales revenues that have been made between the segments. The settlement prices of intragroup sales revenues are market-oriented determined (arm's length principle).

Depreciation relates to segmental fixed assets.

In the financial year non-cash expenses were included in the "Corporate Services" segment due to the scheduled amortisation of transaction costs of financial instruments in an amount of € 671 K (previous year: € 13.486 K). The change mainly results from a one-off expense in an amount of € 11,774 K in the previous year, which arose out of the scheduled premature redemption of the bond. No significant non-cash expenses were incurred in the two other segments.

The "Transition" column represents the elimination of intercompany receivables and liabilities, income and expenses and results between the segments.

The secondary segmentation is based on the corporate seats of the group companies and is divided into the geographical areas: Germany, rest of Europe, North America, Asia and rest of the world, which includes Mexico and Brazil.

In the presentation of secondary segmentation, data was determined on the basis of regional subgroups.

Other explanatory notes

38 AUDITOR'S FEES AND SERVICES

In the financial year 2008, the fees of the auditor of the Consolidated Financial Statements, KPMG AG Wirtschaftsprüfungsgesellschaft (formerly KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft), as well as for its affiliated companies within the meaning of Section 271 paragraph 2 HGB (German Commercial Code) amounted to € 1.005 K (previous year: € 969 K). This includes the fees and expenses for the group audit and the audit of the statutory financial statements of GILDEMEISTER Aktiengesellschaft and its domestic subsidiaries. An amount of € 694 K (previous year: € 193 K) was also charged in expenditure for other services as well as other verification and valuation services of € 111 K (previous year: € 3 K) within the scope of the spin-off of the DMG Spare Parts GmbH.

39 EVENTS OCCURING AFTER THE BALANCE SHEET DATE

Material events occurring after the balance sheet date are set out in the Supplementary Report to the Group Management Report. No other material events occurred before the date of submission to the Supervisory Board on 4 March 2009.

40 INFORMATION ON RELATIONS WITH AFFILIATED COMPANIES AND PERSONS

Related persons and companies within the meaning of IAS 24 “Related Party Disclosures” are, in principle, members of the Executive Board and of the Supervisory Board, close members of their families and subsidiaries that are not fully consolidated. Related persons were not party to any major transaction or any transaction of unusual nature or structure with companies of the GILDEMEISTER group.

41 CORPORATE GOVERNANCE

The declaration of compliance in accordance with Section 161 of the German Companies Act (AktG) was made in December 2008 and has been made permanently accessible to shareholders on our website at www.gildemeister.com.

Affiliated companies

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES, PROCUREMENT / COMPONENTS	National currency	Equity [1]	€ K	Participation quota in %
GILDEMEISTER Beteiligungen AG, Bielefeld [2]			240,416	100.0
DECKEL MAHO Pfronten GmbH, Pfronten [4/6/7]			47,922	100.0
SAUER GmbH, Stipshausen / Idar-Oberstein [4/8/9]			6,942	100.0
DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China [6]	CNY K	133,563	13,900	100.0
FAMOT Pleszew S.A., Pleszew, Poland [6]	PLN K	55,952	13,378	100.0
GILDEMEISTER Drehmaschinen GmbH, Bielefeld [4/6/7]			15,750	100.0
GILDEMEISTER Partecipazioni S.r.l., Tortona, Italy [6]			109,585	100.0
GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italy [3]			68,116	100.0
GRAZIANO Tortona S.r.l., Tortona, Italy [3]			13,545	100.0
SACO S.p.A., Castelleone, Italy [3]			7,542	100.0
DMG Italia S.r.l., Brembate di Sopra, Italy [3]			2,986	100.0
DECKEL MAHO Seebach GmbH, Seebach [4/6/7]			8,363	100.0
DMG Automation GmbH, Hüfingen [4/6/7]			1,486	100.0
DMG Electronics GmbH, Pfronten [4/6/7]			500	100.0
DMG Spare Parts GmbH, Geretsried [4/6/7]			12,000	100.0
GILDEMEISTER Finance S.à.r.l., Luxembourg [6]			13	100.0

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

	National currency	Equity [1]	€ K	Participation quota in %
DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [2/4/5]			124,863	100.0
DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg [4/5/10/11]			45,001	100.0
DMG München Vertriebs und Service GmbH für Werkzeugmaschinen DECKEL MAHO GILDEMEISTER, Munich [4/5/12/13]			929	100.0
DMG Hilden Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Hilden [4/5/12/13]			935	100.0
DMG Bielefeld Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [4/5/12/13]			957	100.0
DMG Berlin Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Berlin [4/5/11/12]			301	100.0
DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bad Homburg [4/5/12/13]			610	100.0
GILDEMEISTER Italiana Deutschland GmbH, Leonberg [4/5/12/13]			300	100.0
DMG Europe Holding GmbH, Klaus, Austria [10]			77,573	100.0
DMG Asia Pacific Pte. Ltd., Singapore [14]	SGD K	9,248	4,583	100.0
DMG Australia Pty. Ltd., Clayton Victoria, Australia [15]	AUD K	5,674	2,801	100.0
DMG (Thailand) Co. Ltd., Bangkok, Thailand [15]	THB K	14,850	304	100.0
DMG Austria GmbH, Klaus, Austria [14]			4,373	100.0
DMG Ecoline GmbH, Klaus, Austria [14]			969	100.0
DMG Middle East FZE, Dubai, United Arab Emirates [14]	AED K	1,075	209	100.0
DMG Benelux B.V., Veenendaal, Netherlands [14]			33,031	100.0
DECKEL MAHO GILDEMEISTER Brasil Ltda., São Paulo, Brazil [16]	BRL K	6,545	1,993	100.0
DECKEL MAHO GILDEMEISTER Iberica S.L., Ripollet, Spain [16]			1,924	100.0
DMG America Inc., Itasca, USA [16]	USD K	33,204	23,756	100.0
DMG Charlotte LLC, Charlotte, USA [17]	USD K	3,032	2,169	100,0
DMG Chicago Inc., Itasca, USA [17]	USD K	1,360	973	100.0
DMG Houston Inc., Houston, USA [17]	USD K	1,360	973	100.0
DMG Los Angeles Inc., Los Angeles, USA [17]	USD K	1,349	965	100.0
DMG Boston LLC, Burlington, USA [17]	USD K	2,012	1,439	100.0

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

	National currency	Equity [1]	€ K	Participation quota in %
DMG Asia Pte. Ltd., Singapore [16]			7,803	100.0
DMG Benelux BVBA - SPRL., Zaventem, Belgium [16]			2,815	100.0
DMG France S.a.r.l., Les Ulis, France [16]			4,871	100.0
DMG Czech s.r.o., Brno, Czech Republic [16]	CZK K	139,951	5,264	100.0
DMG Polska Sp.z o.o., Pleszew, Polen [16]	PLN K	18,912	4,522	100.0
DMG (Schweiz) AG DECKEL MAHO GILDEMEISTER, Dübendorf, Switzerland [16]	CHF K	15,506	10,435	100.0
DMG Romania Sales & Services S.r.l., Bukarest, Romania [16]	RON K	786	196	100.0
DMG South East Europe E.P.E., Thessaloniki, Greece [16]			255	100.0
DMG (U.K.) Ltd., Luton, Great Britain [16]	GBP K	3,267	3,403	100.0
DMG Russland o.o.o., Moskau, Russia [14]	RUB K	31,456	744	100.0
DMG Istanbul Makine Tikaret ve Servis Limited Sirketi, Istanbul, Turkey [14]	TRY K	3,042	1,414	100.0
DMG Malaysia SDN BHD, Puchong/Kuala Lumpur, Malaysia [14]	MYR K	4,735	972	100.0
DMG Nippon K.K., Yokohama, Japan [14]	JPY K	243,133	1,924	100.0
DMG Scandinavia Sverige AB, Sollentuna, Sweden [14]	SEK K	16,930	1,551	100.0
DMG Hungary Kereskedekmi és Szeviz Korlatolt Felelösségü Tarasag, Budapest, Hungary [14]	HUF K	231,426	875	100.0
DMG Scandinavia Norge AS, Langhus, Norway [14]	NOK K	7,050	720	100.0
DMG Canada Inc., Toronto, Canada [10]	CAD K	1,558	908	100.0
DECKEL MAHO GILDEMEISTER México S.A. de C.V., Queretaro, Mexiko [10]	MXN K	21,147	1,093	100.0
DMG Technology Trading (Shanghai) Co. Ltd., Shanghai, China [10]	CNY K	43,644	4,542	100.0
DMG DECKEL MAHO GILDEMEISTER (India) Pvt. Ltd., Bangalore, India [10]	INR K	405,480	5,925	100.0
DMG Machinery Taiwan Ltd., Taichung, Taiwan [10]	TWD K	90,368	1,954	100.0
DMG Korea Ltd., Seoul, Korea [10]	KRW K	4,252,055	2,396	100.0
DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [4/5/10/11]			1,500	100.0
DMG Service Fräsen Pfronten GmbH, Pfronten [4/5/10/11]			1,559	100.0
DMG Service Fräsen Seebach GmbH, Seebach [4/5/10/11]			1,171	100.0
DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER, Geretsried [4/5/10/11]			17,517	100.0
DMG Gebrauchtmaschinen Czech s.r.o., Zlin, Czech Republic [18]	CZK K	27,534	1,036	100.0
DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [4/5/10/11]			271	100.0
DMG MICROSET GmbH, Bielefeld [4/5/10/11]			1,405	100.0
a + f GmbH, Wurzburg [4/5/10/11]			20,100	100.0

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES, PROCUREMENT / COMPONENTS (CONTINUATION)	National currency	Equity [1]	€ K	Participation quota in %
OTHER				
MITIS Grundstücks-Vermietungs Gesellschaft mbH & Co. Objekt Bielefeld KG, Dusseldorf [19]			0	98.0
BIL Leasing GmbH & Co 736 KG, Munich [20]			0	
BIL Leasing GmbH & Co 748 KG, Munich [21]			0	
Chemnitzer Grundbesitz Limited, Birmingham, Great Britain [22]	GBP K	74	77	94.9

1) The figures correspond with the financial statements prepared in accordance with local regulations; they do not show the respective companies' contribution to the Consolidated Financial Statements. Foreign currencies with respect to equity were translated at the market price on reporting date.
2) Management and profit and loss transfer agreement with GILDEMEISTER Aktiengesellschaft
3) Participating interest of GILDEMEISTER Partecipazioni S.r.l.
4) The domestic subsidiary has complied with the conditions required by Section 264 paragraph 3 HGB (German Commercial Code) regarding the application of the exemption regulations and therefore waives the disclosure of its annual financial statements and relating documents.
5) The domestic subsidiary has complied with the conditions required by Section § 264 paragraph 3 HGB (German Commercial Code) regarding the application of the exemption regulations and therefore waives the preparation of a management report.
6) Participating interest of GILDEMEISTER Beteiligungen AG
7) Management and profit and loss transfer agreement with GILDEMEISTER Beteiligungen AG
8) Participating interest of DECKEL MAHO Pfronten GmbH
9) Management and profit and loss transfer agreement with DECKEL MAHO Pfronten GmbH
10) Participating interest of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
11) Management and profit and loss transfer agreement with DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
12) Participating interest of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
13) Management and profit and loss transfer agreement with DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
14) Participating interest of DMG Europe Holding GmbH
15) Participating interest of DMG Asia Pacific Pte. Ltd.
16) Participating interest of DMG Benelux B.V.
17) Participating interest of DMG America Inc.
18) Participating interest of DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER
19) Percentage in voting shares 49.0%, Special Purpose Entity of GILDEMEISTER Aktiengesellschaft
20) Special Purpose Entity of DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bad Homburg, excluding capital share
21) Special Purpose Entity of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg, excluding capital share
22) Participating interest of DMG Berlin Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Berlin

Corporate Directory

Supervisory Board

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

Hans Henning Offen,
Großhansdorf, born 1940, Chairman,
Independent Industry Consultant,
- • Lindner Hotels AG, Dusseldorf, member of the Supervisory Board
- * 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
- * Alpha-Stiftung, Dresden, Stiftungsrat
- * LD-Stiftung, Dresden, Stiftungsrat
- * Bürgerstiftung Stormarn, Bad Oldesloe, member of 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,
1st secretary of the IG Metall Headquarters, Bielefeld,
- * ThyssenKrupp Umformtechnik GmbH, Ludwigsfelde, member of the Supervisory Board

Dr.-Ing. Jürgen Harnisch,
Mühlheim an der Ruhr, born 1942,
Independent Industry Consultant,
- • Schenck Process Holding GmbH, Darmstadt, member of the Supervisory Board
- • Fahrzeug-Werke LUEG AG, Bochum, 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, Partner in Schelling & Partner
Lawyers and notaries, Stuttgart
Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW), Dusseldorf, member of the Executive Committee
- * Baden-Württembergische Wertpapier Börse, Stuttgart, Deputy Chairman of the Stock Exchange Council

Prof. Dr.-Ing. Walter Kunerth,
Zeitlarn, born 1940,
Independent Industry Consultant,
- • Götz AG, Regensburg, Chairman of the Supervisory Board
- • Paragon AG, Delbrück, Chairman of the Supervisory Board
- * Autoliv Inc., Stockholm, Sweden, member of the Board of Directors

Prof. Dr.-Ing. Uwe Loos,
Stuttgart, born 1946,
Independent Industry Consultant,
- • Dorma Holding GmbH + Co. KGaA, Ennepetal, member of the Supervisory Board
- • Adam Opel GmbH, Rüsselsheim, member of the Supervisory Board since 1st July 2008
- * Trumpf GmbH + Co. KG, Ditzingen, member of the Supervisory Board, member of the Administrative Board
- * Claas KGaA mbH, Harsewinkel, member of the Shareholders' Committee
- * Bharat Forge LTD, Pune, India, Non-Executive Independent Director
- * CDP Bharat Forge GmbH, Ennepetal, member of the Advisory Board
- * HP Pelzer Group, Witten, member of the Supervisory Board
- * Rodenstock GmbH, Munich, member of the Supervisory Board, member of the Advisory Board

Günther-Johann Schachner,
Peiting, born 1952,
1st secretary of the IG Metall Headquarters, Weilheim

Matthias Pfuhl,
Schmerbach, born 1960,
Chairman of the Works Council at
DECKEL MAHO Seebach GmbH,
since 16 May 2008

Rainer Stritzke,
Seebach, born 1957,
Designer, until 16 May 2008

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

Responsibility Statement

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

Bielefeld, March 10, 2009
GILDEMEISTER Aktiengesellschaft
The Executive Board

Dipl.-Kfm. Dr. Rüdiger Kapitza

Dipl.-Ing. Günter Bachmann

Dipl.-Kfm. Dr. Thorsten Schmidt

Dipl.-Kfm. Michael Welt

Auditor's report

We have audited the consolidated financial statements prepared by GILDEMEISTER Aktiengesellschaft, Bielefeld, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2008 to December 31, 2008. The contents of the "declaration of compliance", pursuant to Section 161 of the German Stock Companies Act (AktG) in the group management report, is not the object of our audit. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a, paragraph 1, HGB (German Commercial Code), are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

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

Our audit has not led to any reservations.

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

Berlin, March 10, 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft
(formerly
KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)

Rehnen	Dübeler
Auditor	Auditor

GILDEMEISTER GROUP					IFRS				Changes agains previous
		2002	2003	2004	2005	2006	2007	2008	year in %
Sales revenues	€ K	**1,032,814**	**977,763**	**1,051,500**	**1,125,897**	**1,328,971**	**1,562,037**	**1,903,964**	**22**
Domestic	€ K	491,719	475,688	502,892	501,946	612,758	730,372	829,874	14
International	€ K	541,095	502,075	548,608	623,953	716,213	831,665	1,074,090	29
% International		52%	51%	52%	55%	54%	53%	56%	6
Total work done	€ K	**1,046,599**	**995,709**	**1,053,143**	**1,146,233**	**1,330,116**	**1,599,601**	**1,954,856**	**22**
Cost of materials	€ K	569,922	525,345	553,715	608,541	698,153	833,948	1,066,296	28
Personnel costs	€ K	270,156	270,577	282,524	295,926	320,201	366,411	405,497	11
Depreciation	€ K	37,757	36,430	29,339	31,369	32,600	32,311	30,663	-5
Financial result	€ K	-24,672	-24,414	-29,833	-33,467	-35,053	-42,458	-31,444	-26
Profit / loss on ordinary activities	€ K	**-7,496**	**10,261**	**12,021**	**25,365**	**47,418**	**83,449**	**126,745**	**52**
Annual profit / loss	€ K	**-18,710**	**-3,579**	**5,577**	**13,530**	**27,100**	**50,137**	**81,119**	**62**
Adjusted results									
EBITDA	€ K	**54,933**	**71,105**	**71,193**	**90,201**	**115,071**	**158,218**	**188,852**	**19**
EBIT	€ K	**17,176**	**34,675**	**41,854**	**58,832**	**82,471**	**125,907**	**158,189**	**26**
EBT	€ K	**-7,496**	**10,261**	**12,021**	**25,365**	**47,418**	**83,449**	**126,745**	**52**
Income share of shareholders in GILDEMEISTER AG	€ K	**-19,057**	**-3,732**	**5,534**	**13,719**	**27,243**	**50,087**	**81,052**	**62**
Fixed assets	€ K	**276,281**	**270,569**	**262,500**	**262,353**	**265,420**	**285,262**	**301,330**	**6**
Intangible assets	€ K	101,356	99,795	98,912	100,928	97,387	100,057	99,368	
Tangible assets	€ K	170,550	174,482	163,348	161,191	167,850	184,848	201,606	
Financial assets	€ K	443	224	239	234	183	357	356	
Current assets incl. deferred tax and deferred income	€ K	**622,082**	**604,343**	**708,148**	**699,063**	**689,437**	**864,863**	**1,089,028**	**26**
Inventories	€ K	250,768	264,365	276,565	288,777	292,964	361,044	425,858	
Receivables incl. deferred tax assets + prepaid expenses	€ K	353,625	328,553	371,285	388,366	354,292	408,267	405,248	
Liquid funds	€ K	17,689	11,425	60,297	21,920	42,181	95,552	257,922	
Equity [1]	€ K	**193,824**	**187,593**	**250,540**	**265,782**	**288,574**	**329,513**	**379,690**	**15**
Subscribed capital	€ K	75,087	75,087	112,587	112,587	112,587	112,587	112,587	
Capital reserves	€ K	48,734	48,734	68,319	68,319	68,319	68,319	68,319	
Revenue reserves	€ K	70,003	63,772	68,597	85,014	108,070	148,958	199,067	
Net retained profits / loss	€ K	0	0	0	0	0	0	0	
Minority interest in equity	€ K	**1,193**	**1,198**	**1,037**	**-138**	**-402**	**-351**	**-283**	**-19**
Outside capital	€ K	**703,346**	**686,121**	**720,108**	**695,634**	**666,283**	**820,612**	**1,010,668**	**23**
Provisions	€ K	148,386	133,958	123,456	125,407	166,206	214,041	252,676	
Payables incl. deferred tax liabilities + deferred income	€ K	554,960	552,163	596,652	570,227	500,077	606,571	757,992	
Balance sheet total	€ K	**898,363**	**874,912**	**970,647**	**961,416**	**954,857**	**1,150,125**	**1,390,358**	**21**
Employees (annual average)		4,912	4,849	4,932	5,090	5,362	5,588	6,272	12
Employees (31 Dec.)		4,821	4,823	4,984	5,083	5,367	5,772	6,191	7
Trainees		224	205	190	189	191	226	260	15
Total employees		**5,045**	**5,028**	**5,174**	**5,272**	**5,558**	**5,998**	**6,451**	**8**

GILDEMEISTER GROUP		IFRS							Changes agains previous year in %
		2002	2003	2004	2005	2006	2007	2008	
Efficiency ratios									
Profit on sales (EBIT) = EBIT / Sales revenues	%	1.7	3.5	4.0	5.2	6.2	8.1	8.3	3
Profit on sales (EBT) = EBT / Sales revenues	%	-0.7	1.0	1.1	2.3	3.6	5.3	6.7	25
Profit on sales (annual result) = annual result / sales revenues	%	-1.8	-0.4	0.5	1.2	2.0	3.2	4.3	33
Equity return [1)] = annual result / equity (as of 01 Jan.) [3)]	%	-8.1	-1.8	3.0	5.4	10.2	17.4	24.6	42
Return on total assets = EBT + interest on borrowed capital / average total assets	%	2.2	4.1	4.8	6.3	8.7	12.2	12.7	4
ROI – Return on Investment = EBT / average total capital	%	-0.8	1.2	1.3	2.6	4.9	7.9	10.0	26
Sales per employee = sales revenue / average number of employees (exc. trainees)	€ K	210.3	201.4	213.2	221.2	247.8	279.5	303.6	9
EBIT per employee = EBIT / average number of employees (exc. trainees)	€ K	3.5	7.2	8.5	11.6	15.4	22.5	25.2	12
ROCE – Return on capital employed [1)] = EBIT / Capital Employed	%	2.6	5.2	6.1	8.4	12.3	17.8	21.0	18
Value added	€ million	287.5	305.4	324.5	354.9	403.1	492.9	564.3	14
Value added per employee	€ K	58.5	63.0	65.8	69.7	75.2	88.2	90.0	2
Balance sheet ratios									
Capitalisation ratio of fixed assets = fixed assets / total assets	%	30.8	30.9	27.0	27.3	27.8	24.8	21.7	-13
Working intensity of current assets = current assets / total assets	%	65.1	65.2	69.9	69.3	68.5	72.4	75.8	5
Equity ratio = equity / total capital	%	21.6	21.4	25.8	27.6	30.2	28.7	27.3	-5
Borrowed capital ratio = borrowed capital / total assets	%	78.4	78.6	74.2	72.4	69.8	71.3	72.7	2
Assets and liabilities structure = fixed assets / current assets	%	47.2	47.5	38.7	39.4	40.6	34.3	28.6	-17
Capital structure = equity / outside capital	%	27.5	27.3	34.8	38.2	43.3	40.2	37.6	-6

>> to be continued

GILDEMEISTER GROUP					IFRS				Changes agains previous year in %
		2002	2003	2004	2005	2006	2007	2008	
Ratios pertaining to financial position									
1st class liquidity = liquid funds (from balance sheet) / short-term liabilities (up to 1 year)	%	3.6	2.2	19.0	6.3	12.4	15.3	40.8	166
2nd class liquidity = (liquid funds + short-term receivables) / short-term liabilities (up to 1 year)	%	67.1	59.1	117.1	107.5	106.0	75.5	99.3	31
3rd class liquidity = (liquid funds + short-term receivables + inventories) / short-term liabilities (up to 1 year)	%	111.4	106.1	195.6	180.5	175.9	115.4	151.4	31
Net financial liabilities = bank liabilities + bond / borrower's note – liquid funds	€ million	319.5	342.1	314.0	305.1	216.7	165.0	120.4	-27
Gearing 1) = net financial liabilities – equity before shares held by other shareholders	%	164.8	182.4	125.9	114.7	75.0	50.0	31.7	-37
Working Capital = current assets – short-term borrowed capital	€ million	176.0	136.7	340.5	305.0	284.8	127.4	385.9	203
Net Working Capital = inventories + payments on account – - customer prepayments + trade debtors – trade creditors	€ million	386.5	377.7	390.2	399.5	360.5	398.2	416.4	5
Capital Employed = equity + provisions + net financial liabilities	€ million	661.7	663.7	688.0	696.3	671.5	708.6	752.7	6
Structural analysis ratios									
Turnover rate of raw materials and consumables = cost for raw materials and consumables / inventories of raw materials and consumables		6.8	5.8	5.0	5.5	5.9	5.3	6.0	12
Turnover rate of inventories = sales revenues / inventories		4.1	3.7	3.8	3.9	4.5	4.3	4.5	3
Turnover rate of receivables = sales revenues (incl. 16% or 19% VAT on domestic revenues) / average trade debtors		3.7	3.8	4.2	4.2	5.3	6.2	7.1	14
Total capital-sales ratio = sales revenues / total capital (incl. deferred tax and deferred income)		1.1	1.1	1.1	1.2	1.4	1.4	1.4	1
DSO (Days sales outstanding) = average trade debtors / (sales revenues (incl. 16% or 19% VAT on domestic revenues)) x 365		97.6	96.1	87.3	86.2	68.4	58.6	51.2	-13

GROUP OVERVIEW
Multiple Year Overview

GILDEMEISTER GROUP		IFRS							Changes agains previous year in %
		2002	2003	2004	2005	2006	2007	2008	
Productivity ratios									
Intensity of materials = cost of materials / gross performance	%	54.5	52.8	52.6	53.1	52.5	52.1	54.5	5
Intensity of staff = staff costs / gross performance	%	25.8	27.2	26.8	25.8	24.1	22.9	20.7	-9
Cash flow & Investments									
Cash flow from current operations	€ million	47.7	28.7	12.8	27.2	108.1	128.2	108.6	-15
Cash flow from investment activity	€ million	-71.9	-32.3	-20.1	-24.4	-35.1	-46.7	-49.4	6
Cash flow from financing activity	€ million	27.6	-1.8	57.0	-41.7	-52.5	-27.7	104.0	475
Free Cash flow = cash flow from current operations + cash flow from investment activity (exc. cash flow from financial investments)	€ million	-0.8	-3.7	-6.4	3.2	74.8	84.8	60.1	-29
Investments	€ million	73.2	36.4	21.8	26.8	37.2	53.1	50.2	-5
Share & valuation									
Market capitalisation	€ million	109.2	237.4	225.2	253.8	414.0	801.1	339.9	-58
Company value = Market capitalisation + bank liabilities + bond liabilities / borrowers' note + bills of exchange + other liabilities + pension provisions – liquid funds	€ million	496.1	643.8	609.8	636.0	698.3	1.071.4	552.6	-48
Earnings per share [2)] = result after minority interests / number of shares	€	-0.66	-0.13	0.15	0.32	0.63	1.16	1.87	62
Price-to-earnings ratio (P / E) = market capitalisation / EBT		-14.6	23.1	18.7	10.0	8.7	9.6	2.7	-72
Company value-EBITDA-ratio = company value / EBITDA		9.0	9.1	8.6	7.1	6.1	6.8	2.9	-57
Company value-EBIT-ratio = company value / EBIT		28.9	18.6	14.6	10.8	8.5	8.5	3.5	-59
Company value sales ratio = company value / sales		0.5	0.7	0.6	0.6	0.5	0.7	0.3	-58

1) Under HGB incl. minority interests; under IFRS excl. minority interests, from 2004 incl. minority interests.

2) Under HGB in acc. with DVFA / SG; the share capital was split 1:10 in 1999; the figures for the previous years were adjusted accordingly.

3) Without consideration of the capital increased accomplished at 16 June 2004

Statements relating to the future

This report contains statements relating to the future, which are based on current estimates by the management regarding future developments. Such statements are subject to risks and uncertainties and as such it is impracticable for GILDEMEISTER to carry out a check or make a precise estimate, such as for example for the future market environment and the general economic conditions, the conduct of the market participants, the successful integration of new acquisitions and the realization of expected synergy effects as well as measures by state agencies. Should one of these uncertainty factors or incalculabilities occur, or should the assumptions on which these statements are based turn out to be incorrect, the actual results may deviate significantly from the results explicitly stated or implicitly included in these statements. GILDEMEISTER neither intends nor assumes a separate obligation to update forward-looking statements in order to adapt them to events or developments after the reporting period. Forward-looking statements must not be understood as a guarantee or assurance of the future developments or events contained therein.

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