ANNUAL REPORT 2011

Creating the future.
Forming real value.

GILDEMEISTER GROUP
KEY FIGURES

SALES REVENUES
ORDER INTAKE
EBIT
ANNUAL RESULT
EMPLOYEES

01 SEGMENTS IN THE GILDEMEISTER GROUP

MACHINE TOOLS

MILLING
TURNING
ULTRASONIC / LASERTEC
ECOLINE

INDUSTRIAL SERVICES

SERVICES
ENERGY SOLUTIONS

CORPORATE SERVICES

GILDEMEISTER IN BRIEF

GILDEMEISTER holds a leading position worldwide as a producer of cutting machine tools. The range it offers includes innovative high-tech machines and services as well as software and energy solutions. GILDEMEISTER has a broad, diverse and established customer base in a variety of industries and regions.

The “Machines Tools” segment includes the new machines business with the technologies of turning, milling and ultrasonic / lasertec as well as electronics and the ECOLINE productline. GILDEMEISTER has combined its technology and production expertise into four associations: the Milling Association, the Milling and Processing Association, the Turning Association and the ECOLINE Association.

DMG Vertriebs und Service GmbH represents the “Industrial Services” segment together with its subsidiary companies. This is where GILDEMEISTER combines all its service and technology solutions over the entire life cycle of the machine tool. This also includes integration solutions for the automation of machine tools and energy solutions for industrial applications. In this way GILDEMEISTER has trend-setting practical knowledge and abilities at its disposal with considerable future potential.

The group-wide holding functions are brought together under “Corporate Services”.

Key Figures

The Consolidated Annual Financial Statements for GILDEMEISTER Aktiengesellschaft as at 31 December 2011 were prepared in accordance with the International Financial Reporting Standards (IFRS) – as they have to be applied in the European Union.

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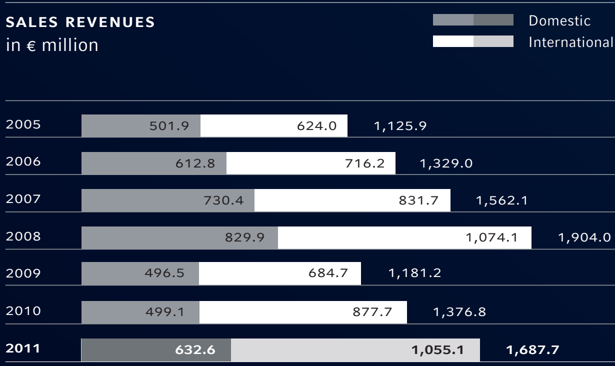
GILDEMEISTER GROUP	**2011**	2010	Changes 2011 against 2010	
	€ million	€ million	€ million	%
Sales revenues				
Total	1,687.7	1,376.8	310.9	23
Domestic	632.6	499.1	133.5	27
International	1,055.1	877.7	177.4	20
% International	63	64		
Order intake				
Total	1,927.3	1,418.4	508.9	36
Domestic	764.2	537.7	226.5	42
International	1,163.1	880.7	282.4	32
% International	60	62		
Order backlog*				
Total	811.2	628.3	182.9	29
Domestic	237.6	105.9	131.7	124
International	573.6	522.4	51.2	10
% International	71	83		
Investments	89.7**	50.0**	39.7	79
Personnel costs	384.7	333.2	51.5	15
Personnel quota in %	22.1	24.3		
Employees	5,810	5,232	578	11
Plus trainees	222	213	9	4
Total employees*	6,032	5,445	587	11
EBITDA	146.1	74.5	71.6	96
EBIT	112.5	45.0	67.5	150
EBT	66.9	6.5	60.4	929
Annual result	45.5	4.3	41.2	958

* Reporting date December 31
** of which € 14.8 million capital inflow to financial assets (2010: € 11.0 million)

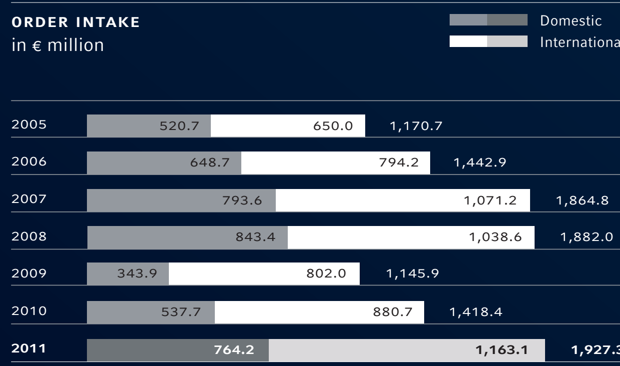
03

SALES REVENUES
in € million



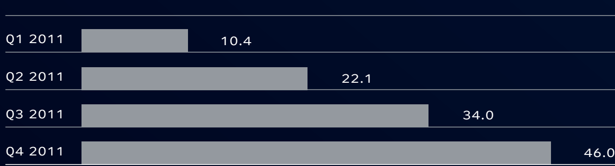
04

ORDER INTAKE
in € million



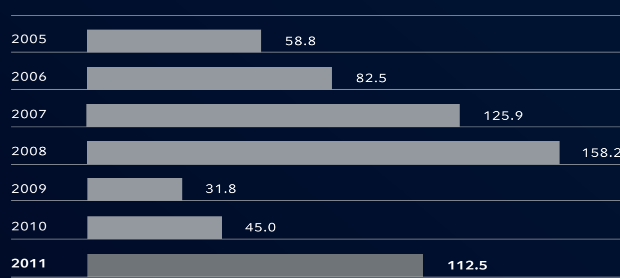
05

QUARTERLY RESULTS (EBIT)
in € million



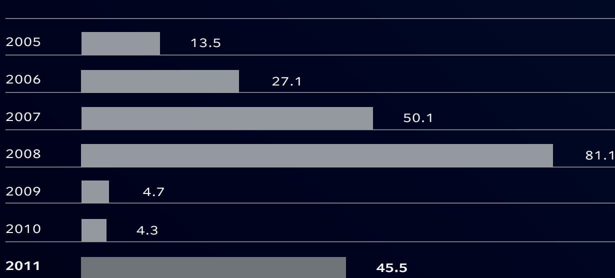
06

EBIT
in € million



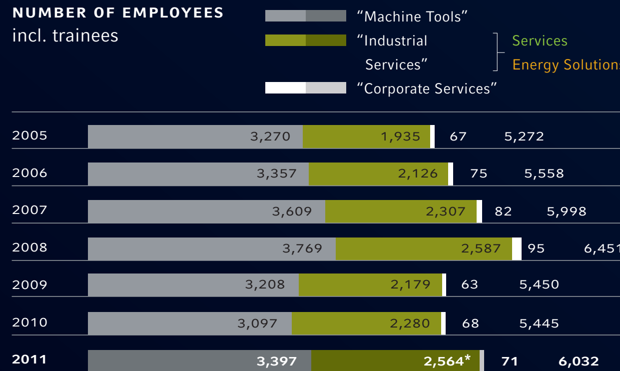
07

ANNUAL RESULT
in € million



08

NUMBER OF EMPLOYEES
incl. trainees



* of which 2.406 are included in Services, 158 in Energy Solutions

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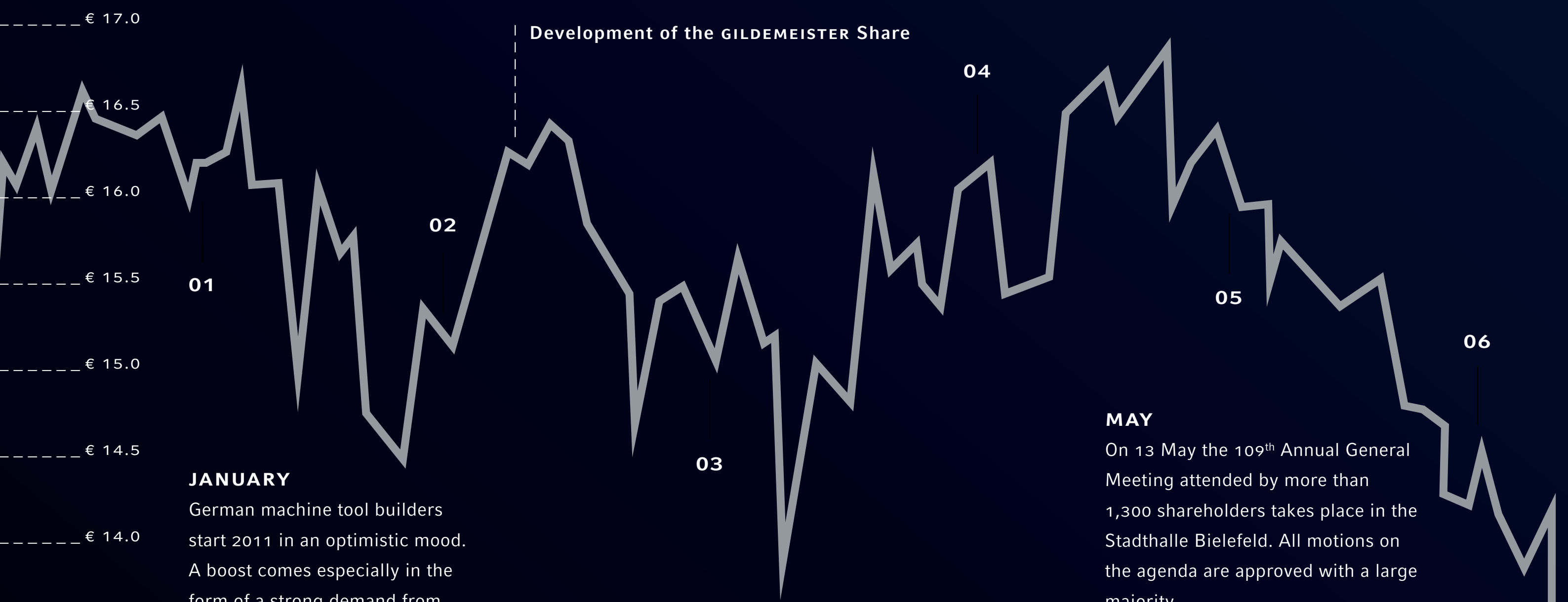
GILDEMEISTER IN BRIEF



JANUARY

German machine tool builders start 2011 in an optimistic mood. A boost comes especially in the form of a strong demand from the BRIC countries. GILDEMEISTER also benefits from growing investment in the industry.

FEBRUARY

With order intake of € 107.7 million and 391 machines sold, GILDEMEISTER takes positive stock of the traditional in-house exhibition in Pfronten. The successful in-house exhibition indicates that demand for machine tools is growing.

MARCH

GILDEMEISTER has started financial year 2011 in line with plans and was able to increase order intake, sales revenues and earnings markedly in the first quarter. Order intake of +48% is clearly above the previous year's quarter.

A grand opening is held to officially open the new HSC Center in Geretsried. The highlight is the presentation of the high-precision high speed cutting (HSC) machines, customers experience the entire process chain of high speed machining live.

GILDEMEISTER carries out a 10% capital increase excluding subscription rights of existing shareholders. The 4,558,200 new shares were subscribed by our cooperation partner, Mori Seiki.

APRIL

At the CIMT in Beijing GILDEMEISTER sells 234 machines worth € 45.2 million and together with DMG China takes positive stock of the most important machine tool trade fair in Asia.

In a second, 20% capital increase 10,028,040 new shares are offered to all shareholders. Within the framework of the subscription offer, 99.7% of the subscription rights are exercised by existing and new shareholders.

MAY

On 13 May the 109th Annual General Meeting attended by more than 1,300 shareholders takes place in the Stadthalle Bielefeld. All motions on the agenda are approved with a large majority.

A grand opening ceremony is held to open the DMG / MORI SEIKI Technology Center in India. Products for the Indian market that have been tailor-made to suit our customers' requirements exactly are displayed over 4,000 sqm in Bangalore.

JUNE

Energy Solutions presents itself at the international INTERSOLAR trade fair: Producing, storing and using clean electricity – GILDEMEISTER presents innovative solutions to about 1,500 visitors over 754 square metres.

GILDEMEISTER continues its growth trend in the second quarter: order intake, sales revenues and income are increased according to plan. Through the closer collaboration with Mori Seiki, GILDEMEISTER improves its presence in Asia and in the USA.

* market price of the GILDEMEISTER share in €

JULY

GILDEMEISTER and Mori Seiki plan to combine sales and services in Europe. Customers benefit in particular from the cooperation in the area of sales and technical services.

AUGUST

At the start of the new vocational training year, GILDEMEISTER takes on 57 trainees at its domestic companies. The technology group once again indicates the importance of its vocational training and invests in the future.

GILDEMEISTER Aktiengesellschaft increases its shareholding in its Japanese cooperation partner Mori Seiki Co. Ltd. to 5.1%. Through the acquisition of a further 1.6 million shares, GILDEMEISTER now holds 6.0 million Mori Seiki shares and becomes the largest single shareholder.

SEPTEMBER

As the biggest exhibitor, DMG and Mori Seiki present jointly for the first time in the German market at the EMO. With order intake of € 207.6 million and 847 machines sold, the most important trade fair worldwide for machine tools is the most successful showing of all time.

The manager magazin once again awards the GILDEMEISTER financial report 2010 a top place in its ranking.

Despite the debt crisis, demand worldwide for machine tools remains at a high level. GILDEMEISTER was able to increase order intake, sales revenues and earnings figures in the third quarter in line with plans.

OCTOBER

The World Skills in London, UK, is a success for GILDEMEISTER. An employee at GILDEMEISTER Drehmaschinen GmbH wins a "Medaillon for Excellence" in CNC Turning at the world championships for professional trades.

At our production site in Seebach we start construction of the "Technical Innovation Center" and extending the assembly capacity.

NOVEMBER

GILDEMEISTER signs an agreement in Russia on the construction of a modern machine tool plant in the Ulyanovsk region. Machines of the ECOLINE series are to be built here for the Russian market.

DEZEMBER

GILDEMEISTER achieves the highest order intake of the company's history. It rises to € 1,927.3 million. Sales revenues rise to € 1,687.7 million. EBT amounts to € 66.9 million and annual profit to € 45.5 million.

The Supervisory Board of GILDEMEISTER Aktiengesellschaft appoints Christian Thönes (39) as a deputy member of the Executive Board effective as of 1 January 2012.

Chairman of the Supervisory Board

Hans Henning Offen (71)
has been the 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.

In financial year 2011, the Supervisory Board dealt intensively with developments on the international machine tool market as well as with the business performance and the commercial development of GILDEMEISTER. The EMO trade fair and the cooperation with Mori Seiki likewise played an important role at Supervisory Board meetings. Furthermore, the planning for the investment volume was deliberated and decided, and the planned development of the group until the year 2014 was discussed.

Moreover, the Supervisory Board discussed issues relating to corporate policy, the risk situation, risk management and compliance with the Executive Board. The Executive Board regularly prepared written, comprehensive and timely reports on any events of significant importance and on the development of the company's key performance indicators. The committee chairmen reported regularly to the plenum on the matters discussed and the recommendations of the committee meetings. The Supervisory Board carried out its tasks pursuant to the Articles of Association and statutory requirements with great care and held meetings five times in total. Four of the meetings were held at the Bielefeld site, one meeting was held by telephone conference. In addition, the Supervisory Board passed resolutions by written procedure. Also in the expired financial year there were no conflicts of interest to report at all for the members of the Supervisory Board.

In financial year 2011, the following **personnel changes took place on the Supervisory Board:** Gerhard Dirr resigned as a member of the Supervisory Board as of 15 April 2011. He was succeeded by Mario Krainhöfner, who was additionally elected as of 12 May 2011 to the Personnel, Nominations and Remuneration Committee as well as to the Finance and Audit Committee of the Supervisory Board. By resolution of 21 July 2011, Mario Krainhöfner was furthermore elected as a member of the Mediation Committee of the Supervisory Board. The Supervisory Board elected Günther-Johann Schachner on 12 May 2011 as the deputy chairman of the Supervisory Board; by resolution of 21 July 2011, he was additionally appointed to the Finance and Audit Committee. Norbert Zweng was elected as deputy chairman of the Finance and Audit Committee by resolution of 21 July 2011. Harry Domnik resigned as a member of the Supervisory Board as of 31 May 2011. He was succeeded by Dr. Constanze Kurz. By resolution of 21 July 2011, she was elected as a member and deputy chairwoman of the Personnel, Nominations and Remuneration Committee. The Supervisory Board and the Executive Board would like to thank those who have resigned their office for their commitment and their contribution.

At the balance sheet meeting on 15 March 2011 the auditors and all the Supervisory Board members took part, namely: Hans Henning Offen, Prof. Dr. Edgar Ernst, Dr.-Ing. Jürgen Harnisch, Ulrich Hocker, Prof. Dr.-Ing. Walter Kunerth, Dr.-Ing. Masahiko Mori, Gerhard Dirr, Harry Domnik, Oliver Grabe, Matthias Pfuhl, Günther-Johann Schachner, Norbert Zweng. Following their own examination as well as having heard the reports from the meeting of the Finance and Audit Committee and the auditors', they unanimously approved the annual and consolidated financial statements of GILDEMEISTER Aktiengesellschaft as at 31 December 2010. In addition, the Supervisory Board formed a committee, comprising Hans Henning Offen, Ulrich Hocker and Prof. Dr. Edgar Ernst and transferred responsibility for the resolutions relating to the pending capital increases to this committee. The committee passed a resolution consenting to the two capital increase tranches to the extent of 10% (4,558,200 new shares) or 20% (10,028,040 new shares). The net proceeds from the two capital increases amounted to € 213.7 million.

The Supervisory Board decided on the specific arrangement for the short-term, long-term and performance-based Executive Board remuneration on the basis of regulations on the short-term incentive (STI) and the long-term incentive (LTI). The invitation to the 109th annual general meeting of shareholders on 13 May 2011 was also discussed.

In the second **meeting on 12 May 2011,** the Supervisory Board initially discussed the effects of the catastrophes in Japan. In addition, the Supervisory Board consulted on personnel decisions and unanimously appointed Günther-Johann Schachner as the new deputy chairman of the Supervisory Board of GILDEMEISTER Aktiengesellschaft; Mario Krainhöfner was appointed as a member of various committees. The Supervisory Board examined the business development of the group and dealt with issues involving individual divisions and subsidiaries. Other important items on the agenda were the approaching annual general meeting on the following day as well as the EMO trade fair in September 2011 in Hanover. Eleven members of the Supervisory Board were present at this meeting. Ulrich Hocker could not attend this meeting.

In the **written procedure** various resolutions on personnel changes for committee tasks were passed as of 21 July 2011 with the votes of all Supervisory Board members. At the same time the increase of the shareholding of GILDEMEISTER in Mori Seiki Co., Ltd. to 6 million shares corresponding to 5.1% of the shares was passed. In the third **meeting on 29 September 2011** the EMO performance, which had culminated in a record order intake for GILDEMEISTER, and the sales and service cooperation with Mori Seiki were the main focus of consultations, as well as business progress and continuing development in the BRIC countries. The Supervisory Board unanimously passed a resolution on increasing the investment volume of the GILDEMEISTER group for financial year 2011 to € 70 million for plant, property and equipment and intangible assets (excluding goodwill). Items on the agenda included information on the discussions held in meetings of the Finance and Audit Committee of 29 September, of the Personnel, Nominations and Remuneration Committee of the same date and of the Technology and Development Committee of 22 September. All Supervisory Board members were present at the meeting.

The main topic of the **planning meeting of 24 November 2011**, in which one member, Mario Krainhöfner, could not participate, was the corporate planning for the financial years 2012 to 2014, which was submitted by the Executive Board. Following in-depth examination, this was approved as was the planned investment volume for the financial year 2012. During the meeting the key aspects of the annual audit for the year 2011 were determined. Moreover, the Supervisory Board dealt thoroughly with the reports from the meetings of the Finance and Audit Committee, of the Personnel, Nominations and Remuneration Committee and of the Technology and Development Committee, which had already been held earlier the same day. In addition, Executive Board remuneration matters were also dealt with. Dr. Rüdiger Kapitza was re-appointed as a member of the Executive Board and as the chairman of the Executive Board. Furthermore, the Supervisory Board dealt with the declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG) and passed a resolution on this, which is set out in the chapter Corporate Governance on page 60.

A fifth meeting took place as a telephone conference on **13 December 2011.** During this telephone conference the Supervisory Board appointed Christian Thönes as a deputy member of the Executive Board of GILDEMEISTER Aktiengesellschaft effective as of 1 January 2012. As a result of this, the Supervisory Board amended the distribution of responsibilities in the Executive Board rules of procedure. Please find further information on this on page 13.

Committees are responsible for a major part of the Supervisory Board's work. In the financial year 2011, the **Finance and Audit Committee** met seven times. The Finance and Audit Committee is led by Prof. Dr. Edgar Ernst, a qualified financial expert with many years' experience in finance, accounting and risk management. 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 addition, it examined the annual financial statements, evaluated the proposal on the appointment of the auditors and drew up recommendations for resolutions relating to the capital measures. Financial key performance indicators and GILDEMEISTER's liquidity were topics of the meetings as were risk management and the internal audit and compliance report.

The **Personnel, Nominations and Remuneration Committee** met a total of four times. It consulted on personnel developments and remuneration issues relating to the Executive Board. Moreover, it dealt with the results of the efficiency check, which the Supervisory Board had carried out. The items on its agenda included opportunities for improvements to GILDEMEISTER's compliance management system and an increase in diversity within the company, the consultations focused in particular on the proportion of women employees.

The **Technology and Development Committee** likewise held four meetings. It examined analyses that related to a technical review of the trade fairs in 2010 and the outlook for trade fairs in 2011, innovations during the reporting year and the respective status of the development work. Issues relating to the standard presentation of quality costs and the productivity per plant were discussed, likewise planned investments in 2012 also formed part of the consultations.

The **Nominations Committee** did not convene, neither was there any need in the reporting year to call a meeting of the **Conciliation Committee.**

GILDEMEISTER Aktiengesellschaft has complied with the recommendations of the "Government Commission's **German Corporate Governance Code**" in the code version dated 26 May 2010 since its publication in the Electronic Federal Gazette (Elektronischer Bundesanzeiger) on 2 July 2010 and will comply with them in the future, although with the following exception: The Supervisory Board member Dr. Masahiko Mori is the president of a foreign producer of machines for metal cutting processes and thus a competitor. The high level of expertise of Dr. Mori represents additional expertise for the company and through this a significant gain for the work of the Supervisory Board. The company takes appropriate measures to counteract any conflicts of interest: In view of his job Dr. Mori did not participate in votings concerning the acquisition of Mori Seiki shares by GILDEMEISTER. The declaration of the Executive Board and of the Supervisory Board of GILDEMEISTER Aktiengesellschaft pursuant to Section 161 AktG was published in December 2011.

At the planning meeting in November, the Supervisory Board passed a resolution on a **self-imposed obligation pursuant to Clause 5.4.1** of the German Corporate Governance Code, which was prepared by the Personnel Committee. All attendant members of the Supervisory Board present voted in favour of the fact that the nominations for elections for the future composition of the Supervisory Board should continue to focus in particular on the well-being of the company, however at the same time the following goals should be taken into account: The composition of the Supervisory Board with members on the owners' side with experience of management or managing internationally-operating companies, should be maintained at the level as at present. Employees from significant areas within GILDEMEISTER should be taken into consideration on the employees' side. Knowledge of GILDEMEISTER and of markets particularly important for GILDEMEISTER, as well as of technical matters and in the management of technologies should be taken into account; the same applies to special knowledge and experience in the application of accounting principles as well as of internal auditing procedures and compliance processes. The current female ratio should be increased from the current one female member to four female members by the time of the re-elections to the Supervisory Board in 2018, whereby every effort should be made to achieve equal female distribution on the owners' and employees' sides. The independence of more than 50% of the Supervisory Board members should be retained; conflicts of interest should be avoided and an upper age limit of 70 years at the time of election to the Supervisory Board should be observed.

At the **balance sheet meeting of 13 March 2012,** which all members of the Supervisory Board attended, the annual auditor reported on the audit procedure and the material results of the annual audit and was available for further questioning. Following its own audit, the Supervisory Board approved the annual and consolidated financial statements for financial year 2011. The annual financial statements of GILDEMEISTER Aktiengesellschaft are therefore deemed to have been approved in accordance with Section 172 of the German Stock Corporation Act (AktG). The Supervisory Board endorses the Executive Board's proposal for the appropriation of net retained profits. The Executive Board prepared the Management Report and the Annual Financial Statements 2011 as well as the Group Management Report 2011 of GILDEMEISTER Aktiengesellschaft in accordance with the provisions of the German Commercial Code (HGB). The Consolidated Financial Statements 2011 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 auditors, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, issued an unqualified audit certificate for both financial statements and the management reports. The auditors gave a detailed report on the audit procedure and findings. The chairman of the Finance and Audit Committee as well as the chairman of the Supervisory Board, have additionally reported on their activities within the scope of the audit of the annual financial statements.

The Supervisory Board would like to thank the Executive Board and all employees for their commitment and performance. It is to their credit that GILDEMEISTER was able to offer such positive developments in the reporting year.

Hans Henning Offen
Chairman of the Supervisory Board
Bielefeld, 13 March 2012

The Executive Board

Letter from the Chairman

Dear Shareholders,

we have started the current financial year with a sound order book. The year 2011 was a transitional year for us. Over the course of the year we permanently achieved increases against the previous year. The question that interests you the most now will be: Will it continue like this or will the effects of the European debt crisis have a lasting negative impact on the machine tool economic cycle?

At the current time we cannot see any serious indications of a collapse in economic activity in our industry. Nevertheless, the financial and debt crisis is having a dampening effect on willingness to invest in Europe. In the BRIC countries demand for machine tools continues uninterrupted. Should the US economy return to a clear growth trend in the current year, there is a possibility that the stagnation in Europe can be balanced out. However, the situation the global economy finds itself in also holds risks. Challenges in the current year include, amongst others, the fact that machine tool producers are starting to feel the growing global competition for raw materials and therefore have to keep an even closer eye on their production costs.

We have good reason to place this financial report under the motto **"Creating the future – forming real value"** as we have chosen the right strategic direction to secure GILDEMEISTER's position, even if the market environment should become more difficult. In the transitional year 2011 we have once again picked up from the growth year of 2008. In the Asian and US regions the cooperation with Mori Seiki is opening up new opportunities for us; we have already been able to increase our sales there significantly. In addition, we will further expand the innovations in the product and service area for growing future business areas, such as medical technology, aerospace or the automotive industry.

Dear Shareholders, before I turn to the outlock for the current financial year, I would like to give a summary of the past financial year.

The key figures for the reporting year clearly show that in this financial report we can look back on an overall positive reporting period with regard to operations. The order intake was the highest in the company's history: it rose by 36% to € 1,927.3 million! In our forecast we were anticipating about € 1.9 billion. Even sales grew more than planned and were thus the second best ever. They reached € 1,687.7 million – a growth of 23% compared to the previous year. We were able to increase EBT significantly. Following € 6.5 million in the previous year, in the reporting year it amounted to € 66.9 million. Even the group net profit improved markedly from € 4.3 million to € 45.5 million in the reporting year. We are thus recording the third-best result in the company's history.

The earnings per share in the reporting year were 0.85 €. The Executive Board and the Supervisory Board will propose to the Annual General Meeting on 18 May 2012 that a dividend of € 0.25 be distributed. This corresponds to a dividend yield of 2.6%.

The capital measures taken in the spring formed a solid base for the further development of your company. We achieved net proceeds from the issue of the two capital measures of € 213.7 million and used these primarily to reduce our financial liabilities, and we thus reached our target of an equity ratio of nearly 50%. Subsequently we were able to renegotiate our borrowings at standard market terms until 2016. This will cause our financing costs to fall clearly from 2012.

GILDEMEISTER's positive business development was helped by the economic cycle gaining momentum again in the first half-year and because the investment backlog, which had formed during the crisis, started to clear. Our earnings situation improved continuously. In addition, our cooperation with Mori Seiki bore fruit. We were not satisfied with the development of Energy Solutions. Due to the massive turmoil on the southern European markets our plans could not be fulfilled. The restructuring process initiated in this business area should be completed mid-2012.

Our innovations, which we presented at the EMO industry fair in September, were met with great interest from the market and we were able to achieve a very encouraging order record at this most important trade fair. These developments were not reflected in GILDEMEISTER's share price performance. At –42%, our share price fell clearly, also compared to the MDAX, whose performance was likewise characterised by uncertainty relating to the debt crisis in Europe as well as the down-rating of the USA.

We are taking our motto for this year's financial report as our agenda: We intend to do everything we can so that both our products and our share performance offer a solid basis for a long-term increase in performance.

We will win customers and gain their loyalty with convincing overall concepts. It is our goal, together with our cooperation partner, to constantly improve our customers' satisfaction through a global presence. Therefore we will concentrate on market segments that have distinct opportunities for growth in our core "Machine Tools" business. Innovations will form the core of how we clearly set ourselves apart from our competitors. In the fourth quarter we brought together all the group's other products and services into "Industrial Services". This also underscores our focus on industrial customers and investors with respect to our Energy Solutions products. The segment provides complete solutions from one source.

In addition, we are expanding our range of services worldwide and are strengthening our cooperation with Mori Seiki. On the one side, as of the current financial year customers and interested parties throughout the whole of Europe should benefit from our cooperation. On the other side, we have been able to further expand our presence on the important Asian market through the cooperation.

We will make increased use of the potential in the fast-growing regions. The effects of the debt and financial crisis in Europe are hardly being felt in the BRIC countries and quite a few other countries. Even if growth slows down in China, the rates of growth there are still very high in comparison and a willingness to invest in machine tools is undiminished. Our plant in China is at full production capacity. In the reporting year we have decided to set up a **production in Russia** in the medium-term. Production there is intended solely for the local market. Some of you may perhaps remember that before the 1980s GILDEMEISTER achieved more than a third of the group sales in this region. The business collapsed with the end of the Soviet Union. We intend to follow up on old sucesses and to increase our Russian sales in a relatively short space of time markedly. The preconditions for this are excellent. We will build our plant in Ulyanovsk, in an industrial regional on the Volga, where the leading Russian automotive plants and aviation groups, as well as major suppliers and logistics companies, have relocated. The building phase of the project will start at the end of 2012; we have already purchased a parcel of land of about 200,000 square metres.

Sustainability lies at the core of our dealings, in all areas we are focused on the long-term. One of the goals of our research and development will be to develop our products in a trend-setting and resource-friendly way; in the energy efficiency of machine tools we have already set the benchmarks. In the area of Energy Solutions we will concentrate more strongly on energy concepts for industrial customers. Cellstrom GmbH in Wien has developed storage technology for electricity. This technology will increasingly take on an important role in the coming years, particularly for electricity supply to industrial companies, as the competition and the cost structures on the electricity market will change. We are also planning to operate our sites increasingly with self-generated renewable energies.

What business development are we expecting for 2012? At the EMO we achieved the highest trade fair order intake in the company's history. With our order backlog we already have capacity utilisation until the middle of the current year. For 2012 we plan to surpass the record intake of the last year once again and to achieve more than € 2 billion for the first time. We intend to increase our sale of Mori Seiki machines in Germany and Europe even further. In Asia we expect increasing sales revenues with our cooperation.

The development of the Russian market and our planned local presence will have a positive impact on our business – overall we want to increase orders from the BRIC countries. Read more about this on page 22 onwards.

Nevertheless we also anticipate that the competition for raw materials will lead to higher production costs and wage costs will continue to rise. We plan to align our production concepts more globally in the following years.

It remains our goal to achieve clear growth in the earnings key performance indicators. We are not planning any significant acquisitions at the moment – we intend to build upon our market position through organic growth.

We will do everything possible to live up to the trust you place in us. This applies for our customers, suppliers, business, and cooperation partners as well as for our employees and investors. And, more especially, we promise this to you, dear Shareholders! I am delighted at the support that we have been receiving from Christian Thönes since 1 January 2012. As a deputy member of the Executive Board, he is responsible, amongst others, for the direction of our product development and for the further internationalisation of our production workshops – topics that are constantly gaining in importance in our industry due to globalisation.

With a consistent value management, together we will ensure that GILDEMEISTER remains an attractive capital investment for you. On behalf of the entire Executive Board, I would like to warmly thank everyone who has contributed to the success of the company so far and who will also continue to support us in the future!

Yours sincerely,

Rüdiger Kapitza

Dr Rüdiger Kapitza
Chairman of the Executive Board
Bielefeld, 13 March 2012

The Executive Board

Letter from the Chairman

Above, from left to right:

Dr. Rüdiger Kapitza (57)
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 Paderborn and obtained his doctorate at the Johannes Gutenberg University in Mainz. Dr Rüdiger Kapitza is responsible for corporate strategy, key accounting, personnel, purchasing, auditing and compliance, as well as investor and public relations.

Günter Bachmann (60)
has been a member of the Executive Board since October 2006. The engineering graduate studied mechanical engineering at the Technical University of Chemnitz and started his professional career in 1974 in the production area at today's DECKEL MAHO Seebach GmbH in Thüringen. He was promoted to Head of Production in 1985 and in 1994 to Managing Director of the company. Günter Bachmann is responsible for technology and production.

Dr. Thorsten Schmidt (39)
has been a member of the Executive Board since October 2006. He holds a doctorate in economics from Munster University and has been working at GILDEMEISTER since January 2002. He took over management responsibility for sales and services in America, after which he became a managing director in Asia. Dr. Thorsten Schmidt is responsible for the sales and service and the information technology (IT) areas.

Kathrin Dahnke (51)
has been a member of the Executive Board since May 2010. The business studies graduate joined the group in 2005 as the head of finance. Previously she held various roles, most recently as general manager for finance. Kathrin Dahnke is responsible for controlling, finance, accounting, tax and risk management.

Christian Thönes (39)
has been a deputy member of the Executive Board since January 2012. The business graduate joined the GILDEMEISTER group in 1998, built up Advanced Technologies (Lasertec and Ultrasonic) and was most recently managing director of DECKEL MAHO Pfronten GmbH. Christian Thönes is responsible for product development, technology and the expansion of the international production workshops.

Group Structure

CORPORATE SERVICES

GILDEMEISTER Aktiengesellschaft, Bielefeld

MACHINE TOOLS

GILDEMEISTER Beteiligungen AG, Production (10)

Turning Association	Milling Association	Milling and Processing Association	ECOLINE Association	Electronics
GILDEMEISTER Drehmaschinen GmbH Bielefeld	DECKEL MAHO Pfronten GmbH Pfronten	DECKEL MAHO Seebach GmbH Seebach	DMG Ecoline GmbH Klaus (Austria)	DMG Electronics GmbH Pfronten
GRAZIANO Tortona S.r.l. Tortona	SAUER GmbH Idar-Oberstein, Pfronten	FAMOT Pleszew Sp. z o.o. Pleszew (Poland)	DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai	

GILDEMEISTER is a globally-operating company: 93 national and international sales and service locations in 37 countries maintain direct contact with our customers. Some 6,032 employees contribute to the success of our company.

INDUSTRIAL SERVICES

A . 01

DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld (93)

DMG Deutschland Stuttgart (8)	DMG Europa Klaus (Austria) (28)	DMG Asien Shanghai, Singapur (24)	DMG Amerika Itasca (Illinois) (13)	DMG Services Bielefeld, Pfronten (13)	a+f GmbH Wurzburg (7)
DMG / MORI SEIKI Stuttgart Vertriebs und Service GmbH	DMG / MORI SEIKI Italia S.r.l. Bergamo, Tortona, Ancona	DMG China: DMG Shanghai Co. Ltd. Shanghai	DMG North America: DMG Canada Inc. Toronto	DMG Gebraucht- maschinen GmbH Geretsried, Bielefeld	a+f Italia Holding S.r.l. Milan
DMG / MORI SEIKI München Vertriebs und Service GmbH	DMG France S.a.r.l. Les Ulis, Lyon, Scionzier	DMG Beijing Sales Office Beijing	DMG / MORI SEIKI México S.A. de C.V. Queretaro	DMG Trainings- Akademie GmbH Bielefeld, Pfronten, Stuttgart, Geretsried	a+f Italia S.r.l. Milan
DMG / MORI SEIKI Hilden Vertriebs und Service GmbH	DMG (Schweiz) AG Dübendorf (Zurich)	DMG Guangdong Sales Office Guangdong	DMG South America: DMG Brasil Ltda. São Paulo	DMG Spare Parts GmbH Geretsried, Waigaoquiao	af SUNCARRIER Ibérica S.L. Madrid
DMG / MORI SEIKI Bielefeld Vertriebs und Service GmbH	DMG / MORI SEIKI Austria GmbH Klaus, Wiener Neudorf	DMG Chongqing Sales Office Chongqing		DMG AUTOMATION GmbH Hüfingen	a+f SUNCARRIER FRANCE SAS Les Ulis
DMG / MORI SEIKI Berlin Vertriebs und Service GmbH	DMG Scandinavia Sverige AB Värnamo	DMG Shenyang Sales Office Shenyang	MORI SEIKI USA** from 04 / 2010	DMG Service Drehen GmbH Bielefeld	a+f USA LLC. Denver
DMG / MORI SEIKI Frankfurt Vertriebs und Service GmbH	DMG Polska Sp. z o.o. Pleszew	DMG Xi'an Sales Office Xi'an	DMG / MORI SEIKI USA Chicago, Charlotte, Boston, Los Angeles, Dallas, Detroit, San Francisco, Seattle, New Jersey, Cincinnati	DMG Service Fräsen GmbH Pfronten, Seebach, Geretsried	Cellstrom GmbH Vienna
DMG / MORI SEIKI Hamburg Vertriebs und Service GmbH*	DMG Czech s.r.o. Brno, Trenčin	DMG / MORI SEIKI South East Asia Pte. Ltd. Singapur, Kuala Lumpur, Hanoi, Ho Chi Minh		DMG MICROSET GmbH Bielefeld	SUNCARRIER OMEGA Pvt. Ltd. Bhopal
	DMG (UK) Ltd. Luton			DMG Service Drehen Italia S.r.l. Bergamo, Tortona	
	DMG Iberica S.L. Barcelona, Madrid	DMG / MORI SEIKI Turkey LtdS Istanbul, Izmir, Ankara			
	DMG Benelux Veenendaal, Zaventem	DMG / MORI SEIKI Korea Co. Ltd. Seoul			
	DMG Scandinavia Denmark ApS Copenhagen	DMG / MORI SEIKI India Pvt. Ltd. Bangalore, Neu-Delhi, Ahmedabad, Pune			
	DMG Russland o.o.o. Moscow, St. Peters- burg, Ekaterinburg	DMG / MORI SEIKI Taiwan Co. Ltd. Taichung			
	DMG / MORI SEIKI Hungary Kft. Budapest	MORI SEIKI Asia / Australia** from 03 / 2010			
	DMG Scandinavia Norge AS Stokke	DMG / MORI SEIKI Nippon Yokohama			
	DMG South East Europe E.P.E. Thessaloniki	DMG / MORI SEIKI Australia Melbourne			
	DMG Romania Sales & Services S.R.L., Bukarest	DMG / MORI SEIKI Thailand Ayutthaya, Bangna			
	DMG Middle East FZE Dubai	DMG / MORI SEIKI Indonesia Jakarta			
	DMG Egypt for Trading in Machines Manu- factured LLC, Cairo*				

* 2 new group companies 2011.

** These markets are worked and consolidated by our cooperation partner Mori Seiki.

Simplified organisational structure according to management criteria. The legal corporate structure is presented in the Notes to the Consolidated Financial Statements 2011 on page 202 et seq.

As at 13 March 2012

Business Environment

The global rate of growth has slowed down. In particular, turbulence on the financial markets led to a loss of economic momentum in the second half-year. In Asia the economy performed soundly and China once again recorded the highest growth rate. The Japanese economy suffered from the consequences of the natural catastrophe. In the USA as in Europe the cyclical revival made moderate progress; the German economy grew above average.

Overall Economic Development

In the reporting year the cyclical upturn of the year 2010 continued in the global economy with slightly less momentum. Growth turned out to be moderate in both the industrial and the emerging countries. The rate of expansion in the BRIC countries of Brazil, Russia, India and China slowed down. In the USA the economic momentum weakened. The European economy was subdued. Government crises in Greece, Italy and Portugal curbed the rate of growth over the course of the year. In contrast, the German economy grew above average in a European comparison. According to provisional calculations by the Institute for World Economics (IfW) at the University of Kiel, overall economic production rose worldwide by 3.8% following 4.8% the previous year.

Economic growth in **Asia** was the strongest overall. China was once again the motor for this development, even though the rate of growth slowed down there, too. In Japan the economy suffered from the economic consequences of the natural catastrophe, which have gradually been overcome. According to the IfW, China's gross domestic product achieved growth of 9.5% (previous year: 10.7%), whereas in Japan it fell by 0.7% (previous year: +3.3%).

In the **USA** weak employment growth and high over indebtedness of private households as well as of the state were reflected in very little economic growth. According to IfW calculations, over the whole year gross domestic product grew by 1.7% (previous year: 2.8%).

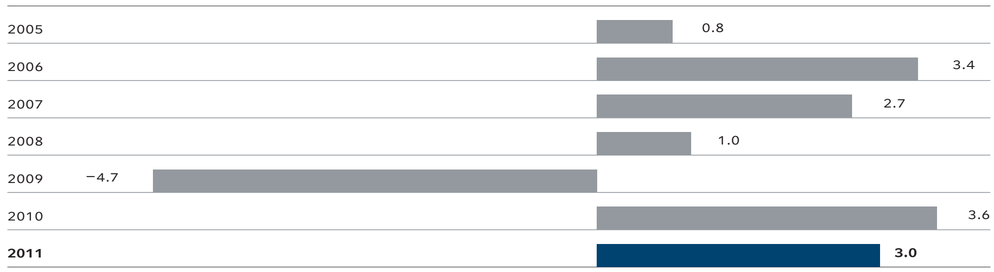
Cyclical development in **Europe** varied greatly. The debt crises, especially of the southern European countries, had a strongly unsettling influence on the economy. As a consequence, according to provisional figures, gross domestic product stagnated in the euro countries at 1.5% (previous year: 1.7%).

For information on GILDEMEISTER's performance on the world markets and the cyclical influences, please refer to page 23.

B . 01

GROSS DOMESTIC PRODUCT IN GERMANY

Real changes against the previous year in %

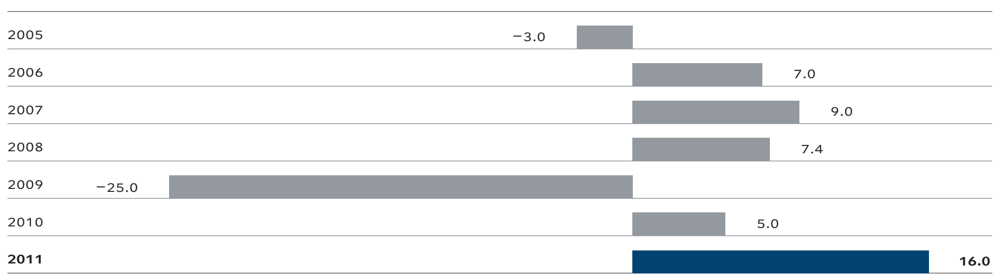


The economy in **Germany** grew significantly above average in comparison with other European countries. According to the German Federal Statistical Office in Wiesbaden, gross domestic product rose in the full year by 3.0% (previous year: 3.6%). Exports climbed by 8.2% (previous year: 14.2%). The high growth in investments was also welcome. It supported the robust domestic economy with a rise of 8.3% (previous year: 9.4%). Capital expenditure in manufacturing industries made a significant contribution to this; the following chart shows a multiple year comparison:

B . 02

INVESTMENT IN THE GERMAN MANUFACTURING SECTOR

Nominal changes against the previous year in %



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

The situation on the German unemployment market continued to recover. An average of 2.98 million people was registered unemployed, some 263,000 less than a year ago. The number of business insolvencies fell only slightly to 30,200 (previous year: 32,100). According to initial calculations, the rate of inflation rose to 2.3% (previous year: 1.1%). The government budgetary position improved. The deficit ratio of 1.0% was below the upper threshold of 3.0% set by the Maastricht Treaty.

For GILDEMEISTER's international business, the US dollar primarily, but also the Chinese renminbi and the Japanese yen, are of particular importance. The **foreign exchange rate** of the main currencies for GILDEMEISTER gained in value overall against the euro when compared to the previous year. At year-end the US dollar closed against the euro at USD 1.29 (previous year: USD 1.33), the exchange rate of the Chinese renminbi at year-end was 8.16 renminbi (previous year: 8.80 renminbi) and the Japanese yen closed at a value of 100.2 yen (previous year: 108.7 yen).

The average exchange rates show the changes in value of the currencies within the reporting period – in comparison with the previous year the trend was as follows: The US dollar against the euro was USD 1.39 (previous year: USD 1.33). Against the renminbi the euro was 9.00 renminbi (previous year: 8.97 renminbi). The average value of the euro against the yen amounted to 111.0 yen (previous year: 116.24 yen).

Compared to the previous year, in a yearly average the US dollar recorded a loss in value of 4.8% and the renminbi of 0.3%. The Japanese yen gained 4.8% in value. This led to our products becoming more expensive in the USA and in the dollar-dependent markets, as well as to slightly more expensive exports from our European production to the People's Republic of China. In addition, the change in the Japanese yen led to an increase in prices for components and machines acquired from Japan

Development of the machine tool building industry

International development

The worldwide market for machine tools developed positively in 2011. The German Machine Tool Builders Association (VDW) calculated growth in **global consumption** at 29% or € 13.6 billion to € 60.7 billion (previous year: € 47.1 billion). The industry thus finds itself once again above the level of the record year 2008 (€ 52.6 billion). Development of global consumption in a 10-year comparison is presented in the **Forecast report** on **page 103.**

The structural shift in the world machine tool market from Europe and America towards Asia was also confirmed in 2011. **Asia**'s share in **global consumption** amounted to 61%. Asia's growth impetus amounted to 29% following strong growth in 2010 at +54%. In **America** at 31% consumption rose clearly compared to the previous year (+12%). Even in **Europe** the overall trend was positive. While the machine tool industry was still in decline in the year 2010 at −5%, demand was able to record strong growth again at +27%.

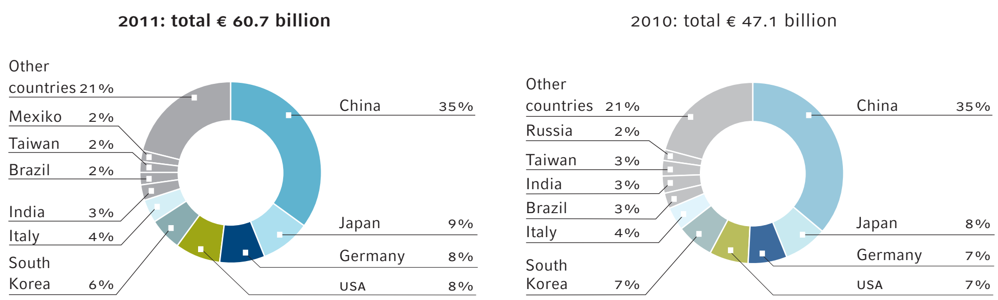
China was once more the world's largest sales market at € 21.4 billion and a share in global consumption of 35% (previous year: 35%). **Japan**'s machine tool consumption grew strongly at +48% and took second position with € 5.5 billion (previous year: € 3.7 billion). Due to the high growth of 42% and consumption of € 5.0 billion (share: 8.2%), **Germany** remained the third most important market for machine tools worldwide. It was followed by the USA (consumption: € 4.8 billion; change to previous year: +46%;

share of global consumption: 8%) and South Korea (€ 3.7 billion; +15%; 6%). Places six to ten were taken by Italy (€ 2.1 billion; +6%; 4%), India (€ 1.7 billion; +26%; 3%), Brazil (€ 1.4 billion; +2%; 2%), Taiwan (€ 1.4 billion; +8%; 2%) and Mexico (€ 1.0 billion; +22%; 2%). The ten most important consumer markets represented 79% of worldwide consumption of machine tools (previous year: 79%).

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

B . 03

WORLDWIDE CONSUMPTION OF MACHINE TOOLS*



* provisional figures for 2011; revised values 2010

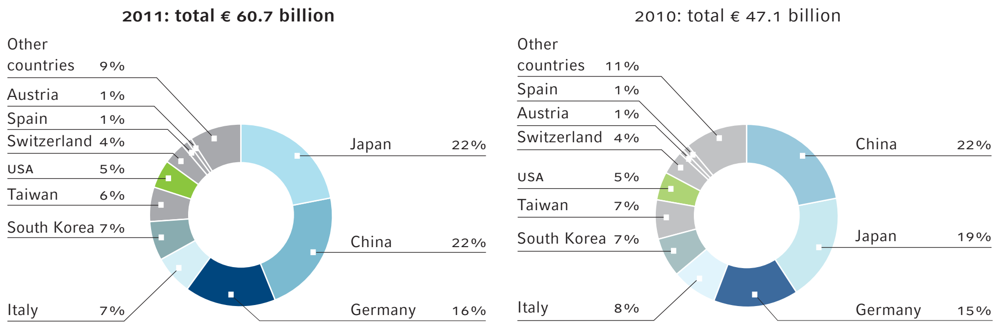
In **imports** of machine tools China took the first place with € 9.4 billion (+32%) for the ninth consecutive year (previous year: € 7.1 billion). With a rise of 63% to € 3.1 billion, imports in the USA grew the most worldwide (previous year: € 1.9 billion). In 2011, China and the USA consumed 43% of all machine tools (previous year: 42%). China's **import ratio** grew by one percentage point to 44% (previous year: 43%). Whereas the USA covered 65% of its consumption last year with imports (previous year: 59%). The German import ratio amounted to 42% (previous year: 41%).

The German Machine Tool Builders Association calculated a rise in **global production** of 29% or € 13.6 billion to € 60.7 billion (previous year: € 47.1 billion). For the first time since the year 2007 Japan was once again the world's largest producer of machine tools at € 13.2 billion. This represents 22% of machine tools produced worldwide (change to previous year: +46%). China followed with production of € 13.1 billion (+26%) or 22% of the global production share. Germany at € 9.7 billion (+35%) was once again the third largest producer; this corresponds to a share in global production of 16%. Places four to ten were taken by Italy (€ 4.5 billion; +18%; 7%), South Korea (€ 4,1 billion; +19%; 7%), Taiwan (€ 3.9 billion; +25%; 6%), the USA (€ 3.0 billion; +19%; 5%), Switzerland (€ 2.5 billion; +38%; 4%), Spain (€ 0.8 billion; +20%; 1%) and Austria (€ 0.7 billion; +13%; 1%). The ten most important production countries represent a total of 91% of all machine tools (previous year: 89%).

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

B . 04

WORLDWIDE PRODCUTION OF MACHINE TOOLS*



* provisional figures for 2011; revised values 2010

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 revised values of the previous year.

In the reporting period, € 32.6 billion or 54% of the global production of machine tools was exported (previous year: 53%). With exports to a value of € 8.2 billion and an export ratio of 62%, Japan took first place (previous year: € 5.7 billion, 63%). Germany followed with an export volume of € 6.8 billion (previous year: € 5.1 billion). This corresponds to an export ratio of 70% (previous year: 71%) Germany and Japan together reached a share of world exports in value terms of 46% (previous year: 43%). In places three to ten were Italy (10%) and Taiwan (10%), Switzerland (7%), South Korea (5%), the USA (4%), China (3%), Spain (2%) and Belgium (2%).

German machine tool industry

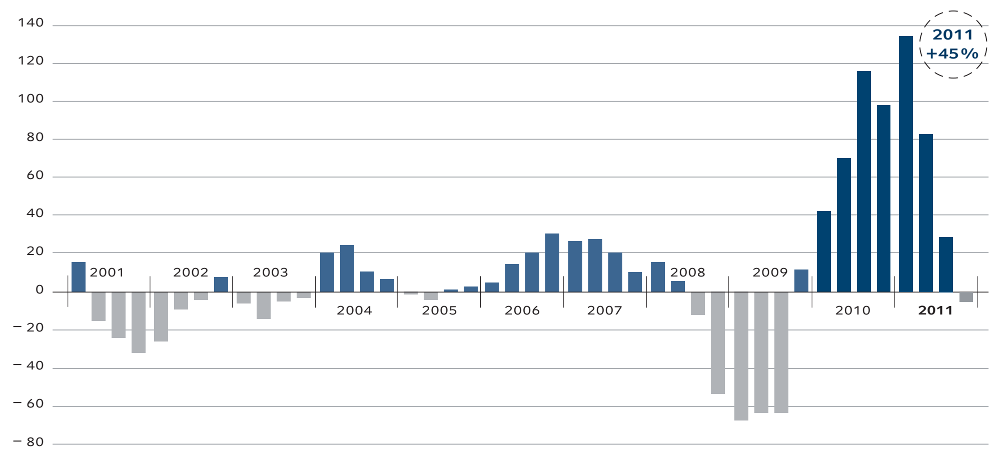
In 2011 the German machine tool industry recorded overall growth in order intake, higher production and a rise in exports. **Order intake** rose to € 16.7 billion or by 45% (previous year: € 11.5 billion). Domestic demand increased by 46% (previous year: +74%). International demand rose by 45% (previous year: +89%). Based on strong growth in order intake in the first quarter of 2011, the growth momentum slowed by the quarter compared to the previous year.

The ifo **business climate** index for trade and industry reflects this mood. Although on balance the business climate index in 2011 was overall positive, a clear decline could be noted in the second half of the year. Order intake of the German machine tool industry progressed over the course of the year as follows:

B . 05

MACHINE TOOL ORDER INTAKE IN GERMANY PER QUARTER*

Real changes against the previous year in %



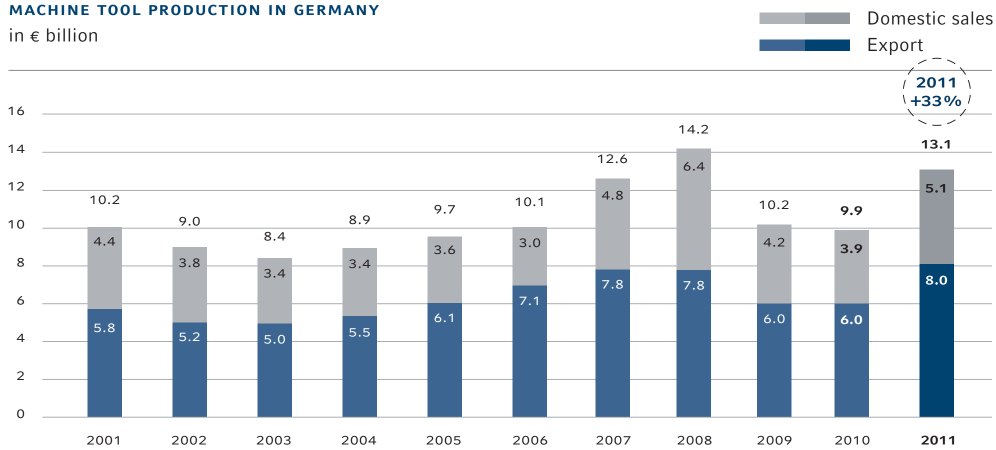
* previous year's figures partly adjusted

Domestic consumption reached € 6.8 billion (previous year: € 5.0 billion). **Production** rose by 33% to € 13.1 billion and was thus above the previous year's figure (€ 9.9 billion). **Exports** recorded the export of machines to a value of € 8.0 billion and were thus 31% above the previous year's level; this represents an export ratio of 61% (previous year: 62%). The most important export market for German machine tools was again China at € 2.3 billion, this represents 29% of German machine tool exports (previous year: 28%). The USA took second place with an export volume of € 723.4 million (previous year: € 436.9 million). Russia was the third most important export market; machines valued at € 375.9 million were delivered (previous year: € 340.1 million; export share: 5%). The following places were taken by Switzerland (€ 359.9 million; export share 5%), France (€ 330.7 million; export share 4%) and Italy (€ 290.4 million; export share 4%). Of the ten most important export countries, exports to the USA increased the most at +66%.

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

B . 06

MACHINE TOOL PRODUCTION IN GERMANY
in € billion



Machine tool **imports** grew by € 0.8 billion or 42% to € 2.8 billion (previous year: € 2.0 billion). With an import share of 32%, nearly every third machine tool imported came from Switzerland. This was followed by Japan (13%), Italy (8%), the Czech Republic (5%) and the USA (5%). Of the top 10 import countries, imports from Taiwan rose the most at +88%.

German machine tools to a value of € 5.1 billion were sold on the domestic market. The German machine tool builders recorded rising **capacity utilisation** over the course of the year. Thanks to the improved order intake situation, capacity of 91% at producers of cutting machines at the start of the year (previous year: 68%) rose to 96% (previous year: 86%) towards the end of the year.

The extent of the **order backlog** rose steadily during the year; on average it was 9.3 months (previous year: 7.1 months). The extent of order backlog is based on calculations and represents an average figure for the industry. It can merely be viewed as a rough approximation of actual order backlog. The total number of **employees** in German machine tool companies throughout the year was an average of 65,892 (previous year: 64,108).

Reliable information on the **profitability** of the German machine tool industry is not readily available as only a few companies publish the corresponding figures. Therefore the association has to rely on estimates. However, it can be determined that profitability within the industry has improved overall due to the positive improvement in the economic cycle.

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

General Statement of the Executive Board on the Business Environment

GILDEMEISTER has been able to maintain its competitive position in a challenging market environment and further improve it. As a leading manufacturer of cutting machine tools, we have increased our **global market share** in the market relevant for us to 7.7% (previous year: 7.1%). Four main economic aspects have had a significant influence on our business development.

Continuing overall economic recovery and increasing cyclical volatility: The intensity with which both the overall economy and the machine tools sector have recovered in 2011 from the considerable slump triggered by the financial crisis in 2008 / 2009 illustrates the growing volatility of economic cycles. GILDEMEISTER has the necessary **stability** in order to better counteract growing economic fluctuations. This allowed us to increase our order intake worldwide in the reporting year by an above average 36%. We have been able to adapt our production capacity flexibly to suit market circumstances and furthermore have managed to bring our product innovations to market quickly. Further information on order intake per region can be found in the chapter Order intake on page 28 et seq.

Fast recovery of our domestic market: In our domestic market of Germany, the third largest market for machine tools in the world, demand grew significantly in 2011 at 42%. We have managed to reinforce our traditionally strong market position in Germany: and, with order intake growth in the new machines area of 61% in value terms, have been able to share disproportionately high in the strong market growth.

Emerging markets most important growth markets: In 2011 42% of all machine tools were sold in the **BRIC markets.** China was once again the most important market for machine tools worldwide with a share of 35%. In 2011 we were able to further expand our business in China, Brazil, Russia and India, and consolidate our **competitive position** in these strategically important future markets. In 2011 GILDEMEISTER was able to increase order intake for new machines in the BRIC markets on a value basis of 57%.

Polarisation of customer needs: Customer requirements in our industry are becoming more diverse and demand offers that are specific to the target groups – from entry machines to a comprehensive technology solution as well as extensive services. In 2011 we have therefore continued to align our **product portfolio** with this.

Results of Operations, Net Worth and Financial Position

In the financial year 2011, GILDEMEISTER permanently achieved increases over the course of the year compared to the previous year. Order intake was the highest in the company's history: it rose to € 1,927.3 million (+36%). Sales revenues were the second best of all time. They reached € 1,687.7 million (+23%). GILDEMEISTER increased its earnings in 2011 significantly: EBIT amounted to € 112.5 million, EBT reached € 66.9 million. The annual profit in the group amounted to € 45.5 million.

Corporate strategy

GILDEMEISTERS's corporate strategy focuses on building up its market and innovations leadership measured by returns. The core element is the **cooperation with Mori Seiki.** We benefit from the synergies, for example in the areas of sales and service as well as research and development. Both companies pursue the aim that in both customers and employees, but also the owners, should benefit from the cooperation.

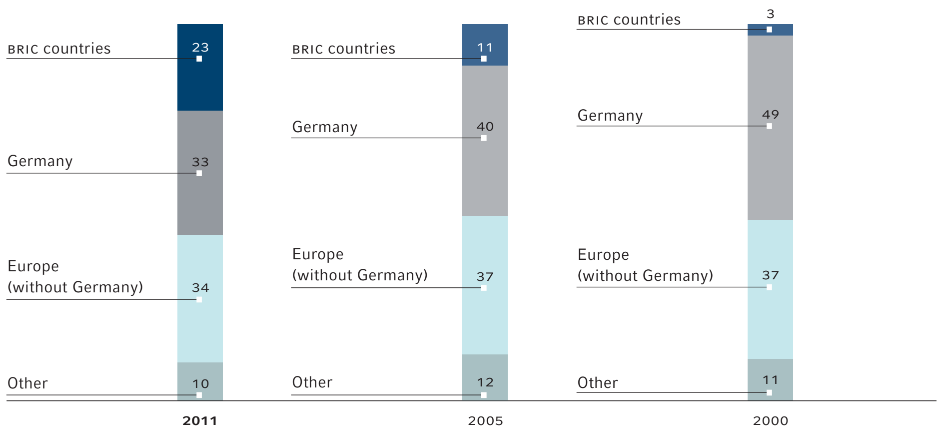
The GILDEMEISTER machine tool business is directed on the one hand towards the global markets, however on the other hand we focus in particular on fast-growing areas such as aerospace, medical technology, the automobile industry and renewable energy sources. A firm component of the corporate strategy – and which has meanwhile become a cornerstone of sustainable profitability for the company – is the company's consistent focus on service. Our range of services covers the entire life cycle of a machine tool. Activities in the renewable energy sources division in the future will be consistently directed towards offering complete energy solutions to industrial customers. The following additional central aspects define the guidelines of GILDEMEISTERS's business activities:

- **Consolidating and extending the leading international market position:** GILDEMEISTER is consistently managed with a focus on markets and products. Our aim is to build further upon our market position as a producer of cutting machine tools in all relevant markets. As the basis for this we are consistently strengthening our innovative power as well as our technological position and are placing our main focus on the growth markets and sectors.
- **Focus on product innovations as a growth driver:** We plan to bring more innovative products and services from all business areas to market regularly. In the "Machine Tools" segment, we will offer innovative and qualitatively high-value products in the technology fields of turning and milling, and ultrasonic / lasertec as well as the ECOLINE products. We will constantly increase the system efficiency that we offer in the area of Energy Solutions through new products. Thanks to the strength of our existing product portfolio, new developments and enhancements can be built upon the existing product range.

- **Strategic orientation towards growth markets:** China and the other BRIC countries (Brazil, Russia and India) are strategically very important for GILDEMEISTER due to their considerable rates of growth in machine tools. Our strategy focuses on winning new customers in these countries. It is our goal to achieve more than a third of our order intake for new machines in the BRIC countries in the medium term. The following graphs show the already significant development in the past years:

C.01

DEVELOPMENT OF REGIONAL DISTRIBUTION OF GILDEMEISTER ORDER INTAKE*
in %*



* Percentage figures on quantity basis

To do this we are further expanding sales and services. We will then also be able to serve existing and potential customers locally in these markets too. In addition, we are planning that in future GILDEMEISTER will be present in particularly strong growth markets with its own production workshops.

- **Strengthening the cooperation with Mori Seiki:** Since 23 March 2009 we have been successfully cooperating with Mori Seiki. Our customers worldwide have significant advantages in the segments of "Machine Tools" and "Industrial Services" through the cooperation. In this respect we can highlight our first jointly-developed machine, the MILLTAP 700, which met with a very positive response from the market. In 2012 we intend to further extend the cooperation in the areas of sales and services. Through this, GILDEMEISTER and Mori Seiki can offer customers a better and faster service as well as improved spare parts supply on the one hand. Whereas on the other, it offers an opportunity to operate machines of both producers next to each other. Together with another partner, GILDEMEISTER and Mori Seiki manage the joint company MG Finance GmbH, Wernau, which offers tailor-made customer financing, especially for small and medium-sized enterprises in Germany and France.

- **Focus on growth sectors:** GILDEMEISTER is geared towards the demands of the global markets and places its sector focus in the area of machine tools on strongly growing areas such as the aerospace industry, medical technology, automotive and renewable energies. We have combined the relevant process expertise in the "Aerospace Excellence Center". By purposely reinforcing our expertise in these areas, we are able to offer leading technological production solutions. As an example, customers at the Geretsried site are advised extensively on the fields of application of high-speed cutting precision centres (HSC) in highly-specialised areas such as medical technology. At the "Aerospace Excellence Center" at the Pfronten site, GILDEMEISTER develops comprehensive individual solutions for customers from the aerospace industry.
- **Product and solutions focus in the field of Energy Solutions:** With Energy Solutions GILDEMEISTER is striving to offer innovative and technologically sophisticated solutions that allow renewable energies to be produced, stored and used. Our SunCarrier series is a system that produces energy particularly efficiently when compared to fixed systems. With our large battery system CellCube, we are additionally offering long-term solutions for the cleaner and emissions-free storage of energy. The GILDEMEISTER e-fuelling station is a high-performance product for the fast charging of electric vehicles. We will continue to promote such application possibilities of renewable energies. The previous focus on setting up turnkey solar parks is to be redirected in the future towards the sale of integrated solutions. GILDEMEISTER is aiming to offer products and solutions to industrial customers and investors to optimise their energy management, which will gain in importance given the background of rapidly rising energy costs. A corresponding restructuring of the business division should be completed by mid-2012.
- **Strengthening existing customer relations:** In machine tools we intend to secure our heterogeneous and broad customer base and further expand it. The basis for this is that we offer an innovative and extensive product and service portfolio, which is tailored to the needs of our customers. In order to win follow-up orders, we will further extend our key account management; in this way we will be able to make a more targeted approach to our customers who are internationally active, plan long-term and invest regularly. In order to keep our dependency on individual industries to a minimum, we pay attention to ensuring our customer base is as balanced as possible and is widely spread over several industries – our differentiated and universally applicable product portfolio supports us in this. Not least the cooperation with Mori Seiki also contributes to broadening our customer base.

Sales revenues

In the reporting year GILDEMEISTER achieved the second highest sales revenues in the company's history. They exceeded the previous year's figure by € 310.9 million and were € 1,687.7 million (previous year: € 1,376.8 million). This represents an increase of 23%. In the fourth quarter sales revenues reached € 493.4 million (previous year: € 518.4 million).

Our core "Machine Tools" business performed especially well. With an increase in sales revenues of € 318.2 million or 41%, we made clear gains with respect to quantities and value – both for technology machines and in the area of entry level machines. In the fourth quarter sales revenues rose by € 86.3 million or 33% to € 345.1 million (previous year's quarter: € 258.8 million).

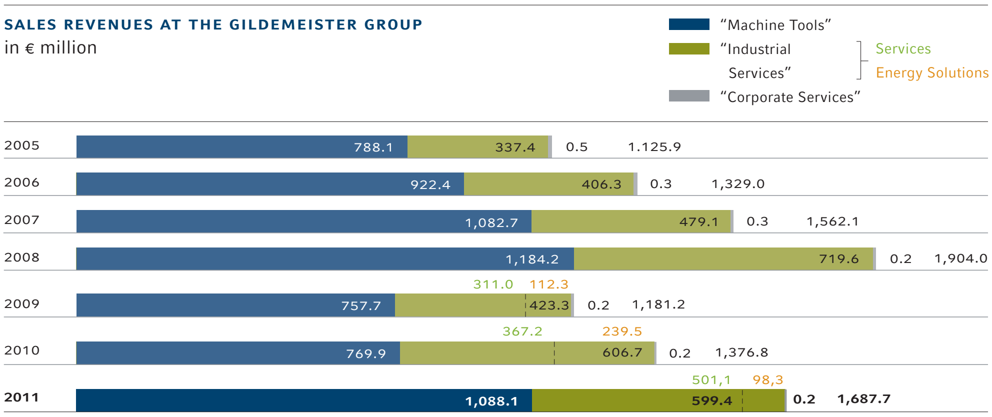
Sales revenues in the "Industrial Services" segment were € 599.4 million (previous year: € 606.7 million). At the same time, we were able to increase sales revenues in Services by € 133.9 million or 36% to € 501.1 million (previous year: € 367.2 million). The area of Energy Solutions accounted for € 98.3 million (previous year: € 239.5 million).

The group's international sales revenues rose by 20% to € 1,055.1 million; domestic sales revenues amounted to € 632.6 million (+27%). The export ratio amounted to 63% (previous year: 64%).

In a multiple year comparison, the individual segments shared in group sales revenues as follows:

c . 02

SALES REVENUES AT THE GILDEMEISTER GROUP
in € million



More detailed information on **sales revenues in each segment** is given on **page 45** et seq.

Order intake

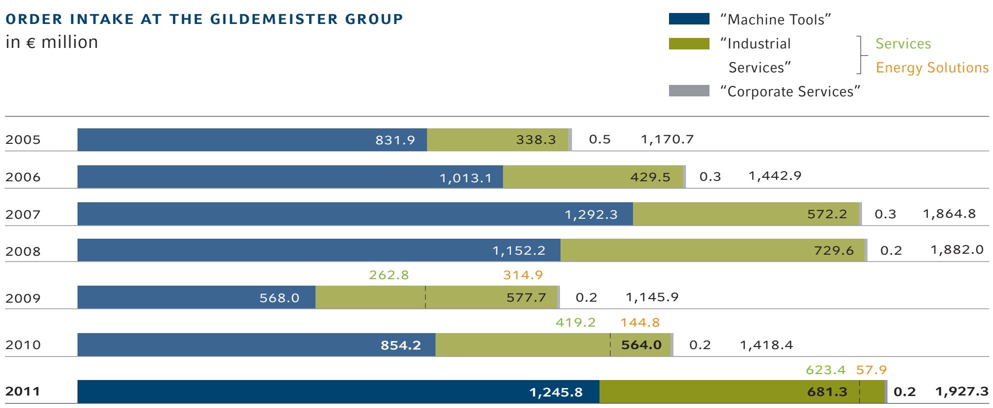
Order intake was the highest in the company's history. It reached € 1,927.3 million and was some € 508.9 million or 36% above the previous year's figure (€ 1,418.4 million). In the fourth quarter order intake reached € 415.0 million and was thus 3% higher than the previous year (€ 404.6 million).

In our core "Machine Tools" business we were able to increase order intake in the reporting year by 46% to a total of € 1,245.8 million (previous year: € 854.2 million). "Industrial Services" likewise developed positively; order intake rose by 21% to € 681.3 million (previous year: € 564.0 million). Of this, Services contributed € 623.4 million (+49%) and Energy Solutions € 57.9 million (–60%) to order intake.

Domestic orders rose overall by 42% to € 764.2 million (previous year: € 537.7 million). International orders grew by 32% to € 1,163.1 million (previous year: € 880.7 million). In this respect the proportion of international orders has fallen slightly from 62% to 60%. In a multiple year comparison, the segments shared in group order intake as follows.

C . 03

ORDER INTAKE AT THE GILDEMEISTER GROUP
in € million

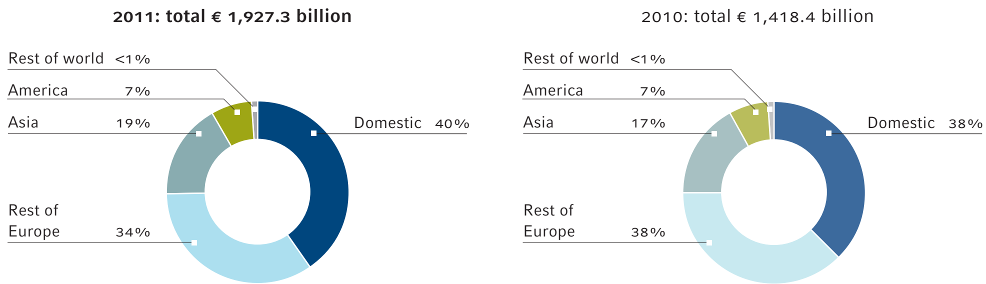


More detailed information on **order intake for each segment** is given on **page 45 et seq.**

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

C.04

ORDER INTAKE AT THE GILDEMEISTER GROUP BY REGION



The 7,141 machines sold (previous year: 5,244) were delivered to 4,398 different customers. The **sales volume** in "Machine Tools" thus increased by 36% in comparison to the previous year. In the reporting year we raised **selling prices** by about 4% depending on the market and product. Our **key accounting** made a significant contribution again with a share of 12% in order intake. With machine orders to a value of € 226.1 million (+66%), the business with our globally operating major customers is progressing satisfactorily. Technology products from the automotive sector and the aerospace industry contributed in particular to this.

Order backlog

As at 31 December 2011, the group order backlog amounted to € 811.2 million and thus was € 182.9 million or some 29% above the previous year's figure (31 Dec. 2010: € 628.3 million).

With a gain of 124%, domestic order backlog rose by € 131.7 million to € 237.6 million (previous year: € 105.9 million). The international order backlog grew by € 51.2 million or 10% to € 573.6 million (previous year: € 522.4 million). Of the current orders, international orders account for 71% (corresponding date of the previous year: 83%).

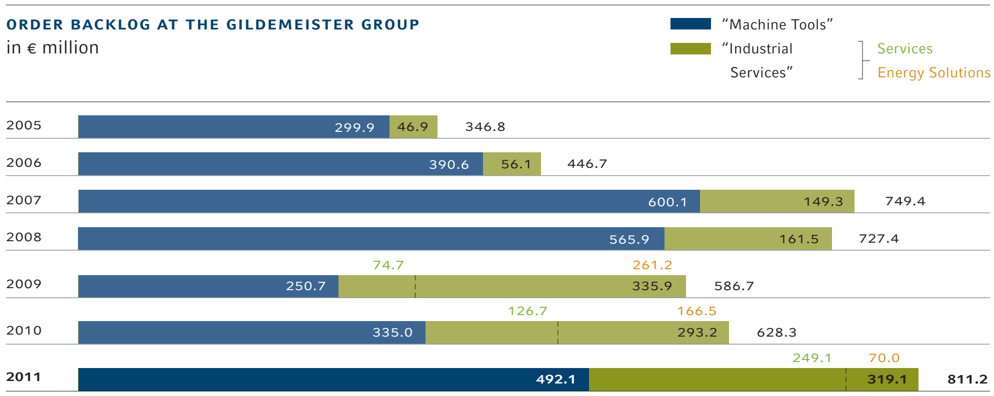
The order backlog developed differently in the individual segments. In "Machine Tools" the order backlog rose in comparison with the same date in the previous year by € 157.1 million or 47% to € 492.1 million (31 Dec. 2010: € 335.0 million). "Industrial

Services" had an order backlog as of 31 December 2011 of a total of € 319.1 million (31 Dec. 2010: € 293.2 million). Of this, an amount of € 249.1 million was attributable to the order backlog in the services area (previous year's date: € 126.7 million). The order backlog in the Energy Solutions developed in line with plans to € 70.0 million (previous year's date: € 166.5 million).

Further information on **order backlog in each segment** can be found on **page 47 et seq.** The following graph shows the development of order backlog in a multiple year comparison:

C . 05

ORDER BACKLOG AT THE GILDEMEISTER GROUP
in € million



From the order backlog in "Machine Tools" a calculated forward order book of an average of some five months has arisen – a good basic capacity utilisation for the current business year. In this respect the individual product companies report different capacity utilisation.

Results of operations

GILDEMEISTER was able to markedly increase its earnings key performance indicators in financial year 2011. In the **fourth quarter** EBITDA reached € 56.5 million (previous year: € 44.3 million); EBIT amounted to € 46.0 million (previous year: € 35.9 million). EBT rose to € 40.3 million (previous year: € 24.8 million). Earnings after tax amounted to € 27.4 million (previous year: € 17.9 million).

Third-best result in the company's history

As of **31 December 2011,** the results of operations developed as follows: **EBITDA** for the whole year amounted to € 146.1 million (previous year: (€ 74.5 million), **EBIT** rose to € 112.5 million (previous year: € 45.0 million). **EBT** rose to € 66.9 million (previous year: € 6.5 million) and the group **annual profit** grew to € 45.5 million (previous year: € 4.3 million).

C . 06

INCOME STATEMENT OF THE GILDEMEISTER GROUP	2011 € million	%	2010 € million	%	Changes against previous year € million	%
Sales revenues	**1,687.7**	**96.8**	**1,376.8**	**100.2**	**310.9**	**22.6**
Changes in finished goods and work in progress	44.8	2.6	– 12.1	– 0.8	56.9	470.2
Own work capitalised	11.1	0.6	8.8	0.6	2.3	26.1
Total work done	**1.743.6**	**100.0**	**1,373.5**	**100.0**	**370.1**	**27.0**
Cost of materials	– 952,7	– 54.6	– 768.1	– 55.9	– 184.6	24.0
Gross profit	**790.9**	**45.4**	**605.4**	**44.1**	**185.5**	**30.6**
Personnel costs	– 384.7	– 22.1	– 333.2	– 24.3	– 51.5	15.5
Other income and expenses	– 260.1	– 14.9	– 197.7	– 14.4	– 62.4	31.6
EBITDA	**146.1**	**8.4**	**74.5**	**5.4**	**71.6**	**96.1**
Depreciation of fixed assets	– 33.6	– 1.9	– 29.5	– 2.1	– 4.1	13.9
EBIT	**112.5**	**6.5**	**45.0**	**3.3**	**67.5**	**150.0**
Financial results	– 46.1	– 2.7	– 38.1	– 2.8	– 8.0	21.0
Result of at equity-valued companies	0.5	0.0	– 0.4	0.0	0.9	225.0
EBT	**66.9**	**3.8**	**6.5**	**0.5**	**60.4**	**929.2**
Taxes on profit	– 21.4	– 1.2	– 2.2	– 0.2	– 19.2	872.7
Annual profit	**45.5**	**2.6**	**4.3**	**0.3**	**41.2**	**958.1**

Total operating revenue in financial year 2011 rose to € 1,743.6 million; it was thus some € 370.1 million or 27.0% higher than the previous year's figure (€ 1,373.5 million). The rise resulted from the increase of € 310.9 million or 22.6% in sales (previous year: € 1,376.8 million) and the increase in stock levels of € 56.9 million. Further explanations on the change in stocks are given in the **Financial position** chapter on **page 36 et seq.**

The materials ratio reduced to 54.6% (previous year: 55.9%). With a rise in total operating revenue the materials costs amounted to € 952.7 million (previous year: € 768.1 million). Gross income improved by € 185.5 million (30.6%) to € 790.9 million and the gross margin rose to 45.4% (previous year: 44.1%).

Personnel expenses amounted to € 384.7 million (previous year: € 333.2 million). With a rise in total operating revenue, the personnel expenses ratio decreased to 22.1% (previous year: 24.3%). More detailed information can be found in the **Employees** chapter on **page 56 et seq.**

The balance of other expenses and income amounted to € 260.1 million (previous year: € 197.7 million). Other operating expenses rose by € 75.8 million to € 328.9 million (previous year: € 253.1 million). This increase is mainly due to greater use of temporary workers to achieve the rise in sales and to other sales revenue-dependent expenses. Other operating income increased to € 68.8 million (previous year: € 55.4 million); it includes primarily the release of provisions as well as currency gains. Other details on the breakdown of **other operating expenses and income** can be found in the **Notes to the Consolidated Financial Statements** on **page 113 et seq.**

Depreciation amounted to € 33.6 million (previous year: € 29.5 million). The net financial costs amounted to € −46.1 million (previous year: € −38.1 million). The increase resulted from a one-off expense (€ −12.5 million) in the second quarter, which arose from the recognition in the income statement of the dissolution of the interest rate hedges in connection with the redemption of the borrowers' notes. As a counter effect, financial expenses fell due to the repayment of financial liabilities from the proceeds of the capital increases in the first six months.

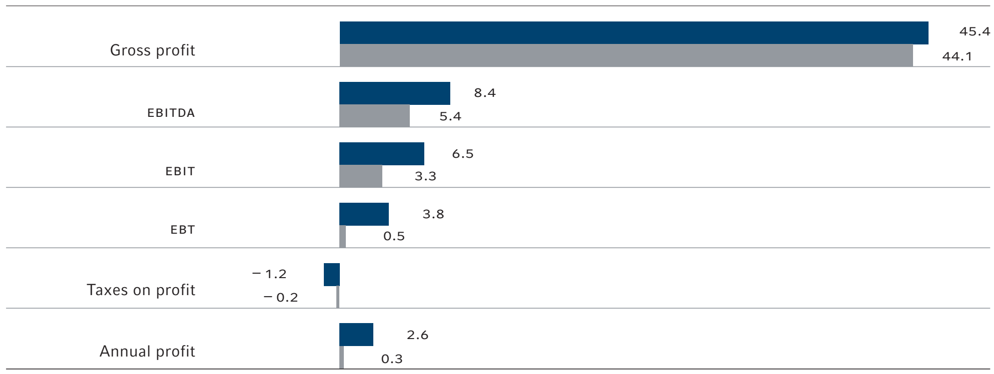
The tax ratio reduced to 31.9% (previous year: 34.2%); the **tax expense** rose with a rise in earnings to € 21.4 million (previous year: € 2.2 million).

The earnings margins, which are determined on the basis of total operating revenue, have developed as follows: The gross margin amounted to 45.4% (previous year: 44.1%). The EBITDA margin reached 8.4% (previous year: 5.4%), the EBIT margin 6.5% (previous year: 3.3%) and the EBT margin amounted to 3.8% (previous year: 0.5%). Taking the tax expenses into consideration, the annual profit margin amounted to 2.6% (previous year: 0.3%).

C . 07

DEVELOPMENT OF MARGINS AT THE GILDEMEISTER GROUP
in %

2011
2010

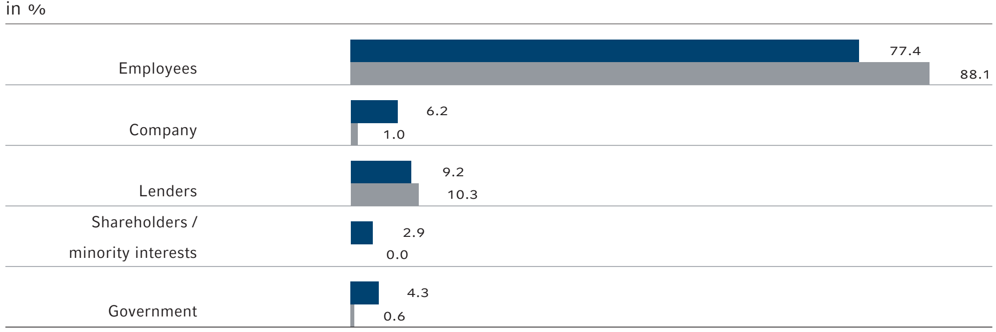


In the financial year 2011 the **value added** of the GILDEMEISTER group amounted to € 497.9 million and has thus risen by € 119.0 million compared to the previous year (€ 378.9 million).

C . 08

DISTRIBUTION OF VALUE ADDED IN THE GILDEMEISTER GROUP
in %

2011
2010



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

C . 09

VALUE ADDED STATEMENT OF THE GILDEMEISTER GROUP	2011 € million	2011 %	2010 € million	2010 %	Changes against previous year € million	Changes against previous year %
Source						
Sales revenues	1,687.7	93.1	1,376.8	96.4	310.9	22.6
Other revenues	124.7	6.9	52.1	3.6	72.6	139.3
Operating performance	**1,812.4**	**100.0**	**1,428.9**	**100.0**	**383.5**	**26.8**
Cost of materials	952.7	52,6	768.1	53.7	184.6	24.0
Depreciation	33.6	1.8	29.5	2.1	4.1	13.9
Other expenses	328.2	18.1	252.4	17.7	75.8	30.0
Purchased materials and services	**1,314.5**	**72.5**	**1,050.0**	**73.5**	**264.5**	**25.2**
Value added	**497.9**	**27.5**	**378.9**	**26.5**	**119.0**	**31.4**
Distribution						
Employees	385.4	77.4	333.9	88.1	51.5	15.4
Companies	30.9	6.2	3.9	1.0	27.0	692.3
Lenders	45.6	9.2	38.9	10.3	6.7	17.2
Shareholders / minority interests	14.6	2.9	0.0	0.0	14.6	0.0
Government	21.4	4.3	2.2	0.6	19.2	872.7
Value added	**497.9**	**100.0**	**378.9**	**100.0**	**119.0**	**31.4**

Financial position

The group's financial position developed positively in the reporting year. In the reporting year the **cash flow from operating activities (cash inflows)** improved by € 86.4 million to € 161.0 million (previous year: € 74.6 million). Earnings before tax (EBT) of € 66.9 million (previous year: € 6.5 million) and depreciation of € 33.6 million (previous year: € 29.5 million) made a positive contribution. In particular, the decrease in trade receivables of € 90.5 million increased cash flow; this resulted mainly from high payment receipts from Energy Solutions projects and from increasing the factoring volume. In addition, an increase in prepayments received of € 30.8 million led to an improvement in cash flow. The rise in inventories (€ +41.0 million) – due to an increase in business volume – as well as interest payments (€ 27.1 million) and income taxes (€ 19.0 million) reduced cash flow.

C . 10

CASHFLOW	2011 € million	2010 € million
Cash flow from operating activity	161.0	74.6
Cash flow from investment activity	– 80.6	– 40.3
Cash flow from financing activity	– 86.7	– 8.3
Changes in cash and cash equivalents	– 6.6	27.4
Liquid funds at the start of the reporting period	111.8	84.4
Liquid funds at the end of the reporting period	105.2	111.8

The **cash flow from investment activity (cash outflow)** increased by € 40.3 million to € 80.6 million (previous year: € 40.3 million). Investments in property, plant and equipment were € 44.1 million (previous year: € 22.2 million) and in intangible assets were € 25.5 million (previous year: € 11.5 million). Amounts paid out for investments in financial assets amounted to € 14.8 million (previous year: € 11.0 million). Further details can be found in the Investments chapter on page 43 et seq.

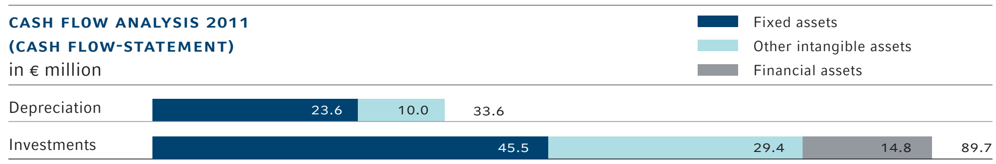
Cash flow from financing activity (cash outflow) was € −86.7 million. The capital increases carried out led to incoming payments of € 213.7 million. The decline in financial liabilities resulted in payments made of € 86.0 million and payments for the purchase of own shares of € 20.7 million.

Free cash flow was positive as announced and increased in comparison with the previous year to € 95.2 million (previous year: € 45.2 million).

Within total financing GILDEMEISTER had sufficient liquidity as of the end of the year 2011. Cash amounted to € 105.2 million (previous year: € 111.8 million).

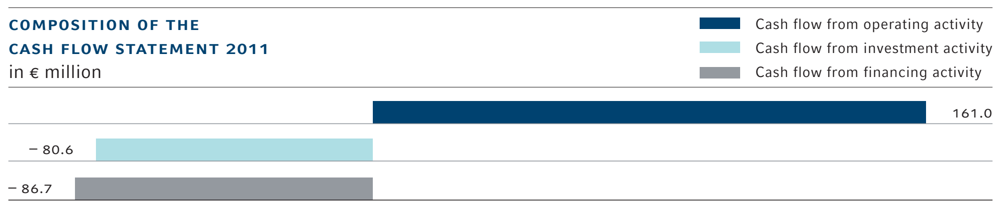
C . 11

CASH FLOW ANALYSIS 2011
(CASH FLOW-STATEMENT)
in € million



C . 12

COMPOSITION OF THE
CASH FLOW STATEMENT 2011
in € million



The detailed cash flow statement can be found in the Notes to the Consolidated Financial Statements on page 117 et seq.

GILDEMEISTER covers its capital requirements from the operating cash flow and by taking up short- and medium-term financing. Confirmed credit lines amount in total to € 831.9 million. The essential components are the new syndicated line of credit of € 450.0 million, aval lines of € 178.0 million and factoring agreements amounting to € 157.2 million. In addition, we still have some long-term loans and short-term bilateral loan commitments to individual subsidiaries of a total volume of € 46.7 million (previous year: € 36.7 million). With regard to the terms, we refer to the explanatory notes on "financial liabilities" on page 175 et seq. in the Notes to the Consolidated Financial Statements. In addition, for its operating activities GILDEMEISTER requires aval lines in order to have payment guarantees and warranties issued.

In the reporting year we have restructured our financial liabilities. From the issue proceeds from the capital increases we redeemed the borrowers' notes of € 201.5 million prematurely in May. In August the refinancing of financial liabilities was finalised. The new syndicated credit line totalling € 450.0 million replaces the syndicated loan of € 211.9 million. The new credit line has a term of five years (until 2016). It comprises a cash tranche of € 200.0 million and an aval tranche of € 250.0 million. The new syndicated credit line was concluded at far more favourable terms on account of GILDEMEISTER's improved creditworthiness following the capital increases.

Refinancing finalised

Further explanations on the material financial liabilities, including those in foreign currencies as well, can be found in the Notes to the Consolidated Financial Statements on page 175 et seq. The most important key performance indicators for an analysis of the financial position are presented in the multiple year overview on page 210.

GILDEMEISTER does not have a **corporate rating** as we are not planning any capital market financing and any such rating involves significant costs.

Our financing includes customary agreements on compliance with defined key performance indicators (covenants). The financing was extended through off balance sheet operating leasing agreements.

Through this financing mix we have sufficient credit lines with which we can make the necessary liquidity available for the industry-related seasonal fluctuations, for the growth in the machine tools business and for the demands in the project business. Material financing instruments and future financial obligations are depicted in the Notes to the Consolidated Financial Statements on pages 181 et seq. and 187 et seq.

GILDEMEISTER group financing is carried out centrally. Only when group financing is not advantageous due to the legal framework, is local financing concluded 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 95 et seq, and in the Notes to the Consolidated Financial Statements under derivative financial instruments on page 182 et seq, we explain the risks arising out of financing and measurement. Details are likewise given of the methods used to hedge interest and currency risks, as well as price changes, default and liquidity risks.

Net worth

The assets and capital structure developed as follows. The **balance sheet** total rose to € 1,371.8 million (previous year. € 1,357.5 million). The material change in assets arose out of an increase in inventories (€ +41.7 million). On the equity and liabilities side, equity rose by € 242.3 million to € 655.2 million in particular due to the capital increases (previous year: € 412.9 million) and the annual net profit. The shares that were purchased within the scope of the share buyback programme reduced equity by € 20.7 million. The equity ratio thus increased to 47.8% (previous year: 30.4%).

C . 13

BALANCE SHEET OF THE GILDEMEISTER GROUP	31.12.2011 € million	%	31.12.2010 € million	%	Changes against previous year € million	%
Assets						
Long-term assets						
Fixed assets	403.9	29.4	365.4	26.9	38.5	10.5
Receivables and Other assets	59.3	4.4	53.1	3.9	6.2	11.7
	463.2	33,8	418.5	30.8	44.7	10.7
Short-term assets						
Inventories	452.0	32.9	410.3	30.2	41.7	10.2
Receivables and other assets	351.4	25.6	416.9	30.8	– 65.5	– 15.7
Liquid funds	105.2	7.7	111.8	8.2	– 6.6	– 5.9
	908.6	66.2	939.0	69.2	– 30.4	– 3.2
Balance Sheet total	**1,371.8**	**100.0**	**1,357.5**	**100.0**	**14.3**	**1.1**
Equity and liabilities						
Long-term financing resources						
Equity	655.2	47.8	412.9	30.4	242.3	58.7
Outside capital						
Provisions	38.3	2.8	46.2	3.4	– 7.9	– 17.1
Liabilities	41.9	3.0	250.5	18.5	– 208.6	– 83.3
	80.2	5.8	296.7	21.9	– 216.5	– 73.0
	735.4	53.6	709.6	52.3	25.8	3.6
Short-term financing resources						
Provisions	158.4	11.5	133.1	9.8	25.3	19.0
Liabilities	478.0	34.9	514.8	37.9	– 36.8	– 7.1
	636.4	46.4	647.9	47.7	– 11.5	– 1.8
Balance Sheet total	**1,371.8**	**100.0**	**1,357.5**	**100.0**	**14.3**	**1.1**

On the **assets** side, **assets** rose by € 38.5 million or 10.5% to € 403.9 million (previous year: € 365.4 million). Intangible assets rose by € 19.6 million and property, plant and equipment rose by € 16.2 million. Financial assets rose by € 2.8 million to € 53.6 million (previous year: € 50.8 million). A detailed presentation of additions to assets is set out in **Investments** on **page 43 et seq.**

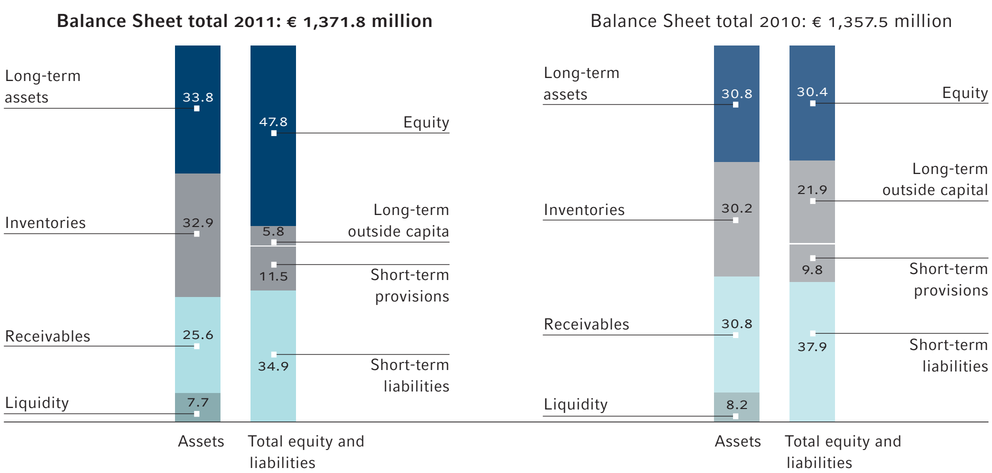
Long-term receivables and other assets rose by € 6.2 million or 11.7% to € 59.3 million (previous year: € 53.1 million). At the same time, deferred taxes amounted to € 41.3 million (previous year: € 41.3 million). Other assets include discounted customer bills of exchange of € 2.2 million (previous year: € 5.8 million).

By an increase in total operating revenue of 26.9%, **inventories** rose only by 10.2% or € 41.7 million to € 452.0 million (previous year: € 410.3 million). The inventory of raw materials and consumables (RHB) rose by € 9.1 million to € 192.2 million (previous year: € 183.1 million) and stocks of work in progress by € 18.5 million to € 118.9 million (previous year: € 100.4 million). Stocks of finished goods and merchandise amounted to € 139.4 million (previous year: € 114.9 million). The turnover rate of inventories was 3.7 (previous year: 3.4).

In total, the proportion of inventories in the balance sheet total rose to 32.9% (previous year: 30.2%).

C . 14

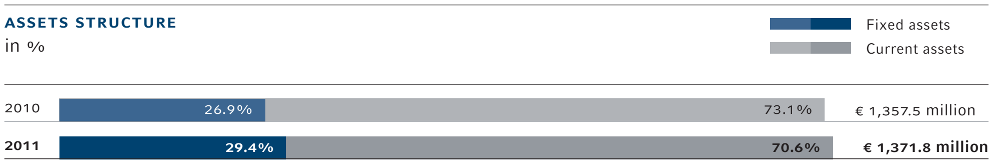
ASSETS AND CAPITAL STRUCTURE OF THE GILDEMEISTER GROUP
in %



Current receivables and other assets have fallen compared to the previous year by 15.7% or € 65.5 million to € 351.4 million. Trade receivables reduced by € 106.7 million to € 188.7 million. The turnover rate of trade receivables improved to 8.1 (previous year: 5.4). Other assets increased to € 142.5 million (previous year: € 112.6 million). This rise resulted from the certification of solar parks in Energy Solutions, whose sale is pending in the current year (€ 43.6 million).

At the end of the reporting period, **cash and cash equivalents** amounted to € 105.2 million (previous year: € 111.8 million) or 7.7% of the balance sheet total (previous year: 8.2%). In the assets structure, the share of long-term assets rose by 3.0 percentage points to 33.8% (previous year: 30.8%).

C. 15



Net indebteness completely reduced

Under **equity and liabilities,** equity increased by € 242.3 million or 58.7% to € 655.2 million (previous year: € 412.9 million). The buyback of own shares reduced equity by € 20.7 million. The equity ratio thus rose to 47.8% (previous year: 30.4%). In the financial year we were able to completely reduced net indebtedness and therefore do not have any **gearing** anymore.

Long-term borrowings decreased by € 216.5 million to € 80.2 million. This resulted in particular from a reduction in financial liabilities through the redemption of the borrowers' notes in an amount of € 201.5 million. The share of the balance sheet total fell by 16.1 percentage points to 5.8% (previous year: 21.9%). The share of long-term provisions amounts to 2.8% (previous year 3.4%). This includes company pension provisions of € 21.6 million (previous year: € 26.3 million) as well as other provisions for personnel obligations in an amount of € 12.7 million (previous year: € 16.0 million). Liabilities of € 7.7 million (previous year: € 5.9 million) relate to deferred tax liabilities.

Long-term financing resources rose in the reporting year by € 25.8 million or 3.6% to € 735.4 million. Long-term assets are financed as to 158.8% (previous year: 169.6%) by long-term available funds.

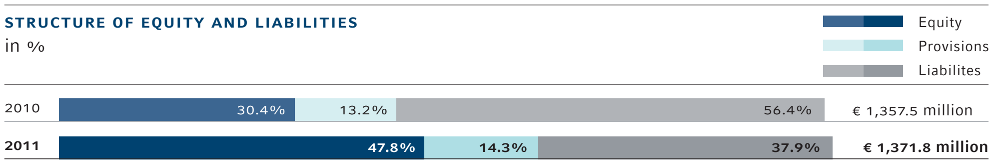
Current financing resources fell to € 636.4 million (previous year: € 647.9 million). Trade payables amounted to € 267.4 million (previous year: € 264.5 million). Our measures to improve the prepayment ratio led to a rise in prepayments received to € 127.8 million (previous year: € 97.0 million). The prepayments ratio rose to 15.8% (previous year: 15,4%). Provisions rose by € 25.3 million to € 158.4 million (previous year: € 133.1 million). Current financial liabilities fell by € 80.5 million to € 19.5 million (previous year: € 100.0 million). Under current liabilities € 11.9 million are shown for pending assets held for sale.

The total of fixed assets and inventories of € 855.9 million (previous year: € 775.7 million) is covered as to 85.9% (previous year: 91.5%) by long-term financing resources. The structure of equity and liabilities compared to the previous year shows an increase in the equity ratio of 17.4 percentage points to 47.8% and in the ratio of provisions of 1.1 percentage points to 14.3%. The liabilities ratio decreased by 18.5 percentage points to 37.9% (previous year: 56.4%).

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 181 et seq. Within the scope of off-balance sheet financing instruments, the group uses a factoring programme. Details of this can be found in the Notes to the Consolidated Financial Statements on page 139 et seq. Of special importance are our excellent, long-term relationships of trust with our customers and suppliers; they make it possible for us to have direct access to the relevant markets and render us independent of short-term market fluctuations.

C. 16

STRUCTURE OF EQUITY AND LIABILITIES
in %



Annual Financial Statements of GILDEMEISTER Aktiengesellschaft (short form)

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

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BALANCE SHEET OF GILDEMEISTER AKTIENGESELLSCHAFT (HGB)

	2011 € million	2010 € million
Assets		
Fixed assets		
Shares in affiliated companies	415.5	390.5
Other fixed assets	75.1	59.1
	490.6	**449.6**
Current assets		
Receivables from affiliated companies	336.9	344.1
Other current assets	82.0	100.6
	418.9	**444.7**
Balance Sheet total	**909.5**	**894.3**
Equity and liabilities		
Equity	**584.3**	**371.1**
Provisions	**41,0**	**27.2**
Liabilities		
Financial liabilities	0.7	289.2
Liabilities to affiliated companies	271.1	198.1
Other liabilities	12,4	8.7
	284,2	**496.0**
Balance Sheet total	**909.5**	**894.3**

The balance sheet total of GILDEMEISTER Aktiengesellschaft rose by € 15.2 million to € 909.5 million (previous year € 894.3 million). The material changes arise through the increase in equity, the addition to assets, as well as an increase in receivables from associated companies and in liabilities towards associated companies. The reduction in bank liabilities has an inverse effect.

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INCOME STATEMENT OF GILDEMEISTER AKTIENGESELLSCHAFT (HGB)	2011 € million	2010 € million
Sales	11.4	10.6
Other operating income	15.1	13.6
Other expenses and income	– 66.3	– 42.7
Income from financial assets	64.7	29.7
Financial result	– 2.6	– 12.6
Profit of ordinary activities	22.3	– 1.4
Extraordinary income	0.0	1.2
Extraordinary expense	– 0.2	– 0.2
Income taxes	– 8.3	1.5
Annual loss / profit	13.8	1.1
Profit brought forward	**3.0**	**1.9**
Net profit	**16.8**	**3.0**

The results of GILDEMEISTER Aktiengesellsschaft were determined primarily by earnings from financial investments (€ 64.7 million), which comprised profit transfers of DMG Vertriebs und Service GmbH (€ 21.7 million), of GILDEMEISTER Beteiligungen AG (€ 42.0 million) as well as investment income from Mori Seiki amounting to € 1.0 million (previous year: € 0.8 million).

The net financial costs were € –2.6 million (previous year: € –12.6 million). Tax expenditure amounted to € –8.3 million (previous year: tax income € 1.5 million).

GILDEMEISTER Aktiengesellschaft closes financial year 2011 with net income for the year of € 13.8 million (previous year: € 1.1 million). Taking into account the profit carry-forward of the previous year, net retained profits amount to € 16.8 million (previous year: € 3.0 million).

The Executive Board and the Supervisory Board will propose to the 110th Annual General Meeting of Shareholders on 18 May 2012 that a dividend of € 0.25 be distributed for the financial year 2011 (previous year: no dividend). Moreover, it will be proposed to the Annual General Meeting of Shareholders to carry forward the remaining net retained profits of GILDEMEISTER Aktiengesellschaft of € 2.2 million to new account.

Value Reporting

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

GILDEMEISTER gears its corporate management towards a sustainable increase in corporate value. With the aid of our internal corporate controlling and management system, we manage the group and the individual companies on value-based lines. At the same time, **earnings before tax** (EBT), sales revenues and order intake, as well as – at the group level – the **return on capital employed** (ROCE), are our most important internal targets and key performance indicators. Management according to ROCE and the relative economic value added – the difference between ROCE and cost of capital following the **WACC method** (weighted average cost of capital) – is based on the assumption that the enterprise value rises when sustainable, positive value added is achieved. Due to the rise in EBIT and the fall in capital employed, ROCE rose in the reporting year to 14.4% (previous year: 5.6%) and was thus above the WACC. A positive value proposition of 4.1% was achieved (previous year: –4.2%). Additional values are shown in the following table:

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ROCE AND ECONOMIC VALUE ADDED

	2011	2010
EBIT (€ million)	112.5	45.0
Capital Employed (€ million)	780.7	800.6
ROCE (in %)	14.4	5.6
WACC (in %)	10.3	9.8
Relative economic value added before taxes (in %)	4.1	– 4.2
Economic value added before taxes (€ million)	32.1	– 33.7

We give further details of relevant key performance indicators for the capital market in the **Results of operations** chapter **on page 30 et seq** and in **GILDEMEISTER share** on **page 68 et seq.**

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WEIGHTED AVERAGE COST OF CAPITAL (WACC)

	2011	2010
Risk-free interest rate	4.0%	3.3%
Market risk premium	5.0%	5.0%
Beta factor	1.0	1.0
Cost of equity after tax	9.0%	8.3%
Cost of debt capital before tax	8.2%	9.1%
Tax rate (28.8%)	2.4%	2.6%
Cost of debt capital after tax	**5.8%**	**6.5%**
Share of equity	48%	30%
Share of debt capital	52%	70%
Cost of capital after tax	7.3%	7.0%
Tax rate	28.8%	28.8%
Cost of capital before tax (WACC)	**10.3%**	**9.8%**

Information on planned **future net investments** can be found in the **Future development of the GILDEMEISTER group** on **page 104 et seq.**

Investments

Investments in property, plant and equipment, and in intangible assets amounted to € 74.9 million (previous year: € 39.0 million). The clear rise compared to the previous year is primarily due to extending our worldwide sales and service presence. Furthermore, in the reporting year we have caught up with investments that we purposely did not carry out in recent years. Depreciation of property, plant and equipment, taking into account capitalised development costs and finance leases, amounted to € 33.6 million (previous year: € 29.5 million).

The main focus of our investing activity was the opening of the "HSC Center" in Geretsried and the new DMG / MORI SEIKI technology center in India. In addition, we were able to conclude the construction of the joint technology center in Singapore, which further strengthens our presence in the southeast Asian markets. At our production site in Seebach we have started construction of the "Technical Innovation Center" and the assembly capacity extension. A further investment priority was the development of our innovative products. With the MILLTAP 700 and the DMU 600 P we are opening up new market segments. Furthermore, we have purchased licences and made available the tools, models and equipment necessary for production.

By increasing the percentage of shares in Mori Seiki Co. Ltd. to 5.10%, additions to financial assets amounted to € 14.8 million (previous year: € 11.0 million). Investments amounted in total to € 89.7 million (previous year: € 50.0 million).

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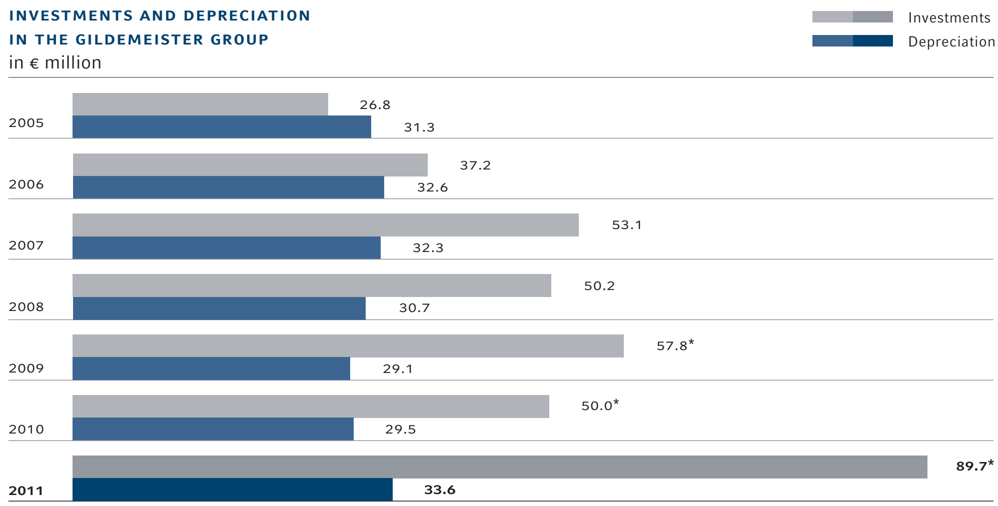
INVESTMENTS AND DEPRECIATION IN THE GILDEMEISTER GROUP
in € million

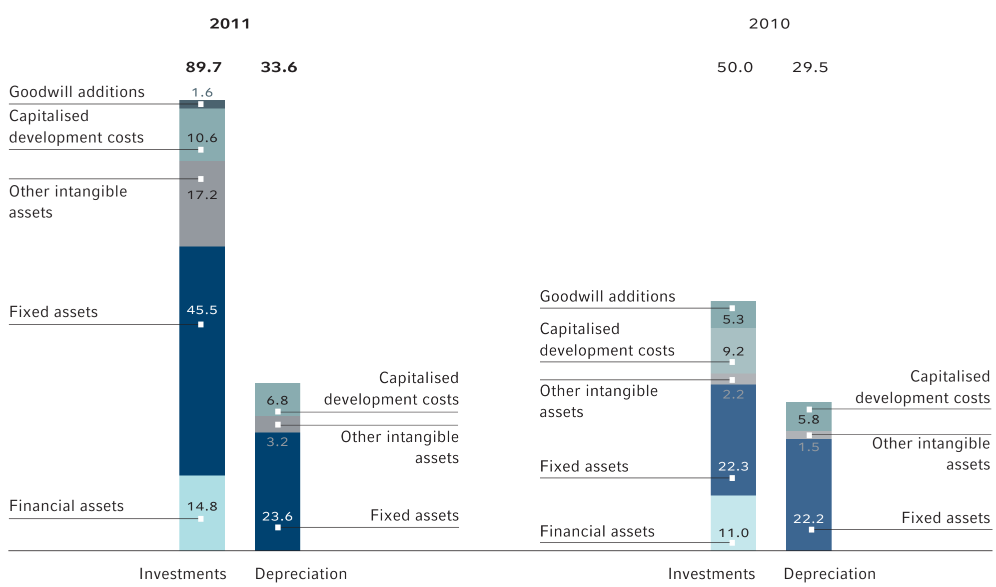


* of this inflows to financial assets: 2011: € 14.8 million, 2010: € 11.0 million, 2009: € 31.3 million

More detailed information on **investments in each segment** is included in the **Segment Report** chapter on **page 45 et seq.**

C . 22

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



Segmental reporting

We have reorganised our business activities and manage these since the end of 2011 in the segments "Machine Tools" and "Industrial Services". Due to the structural adjustments, as well as the reorientation of the Energy Solutions business model, pursuant to the stipulations of IFRS 8 Business segments, Energy Solutions and the business unit Services are aggregated to the joint segment "Industrial Services". This aggregated segment offers our industrial customers all sales and services from one source. The previous year's figures for the new segment have been adjusted accordingly and the Energy Solutions figures have been added; detailed information on this can be found on page 49 et seq as well as in the Notes on page 197 et seq. "Corporate Services" includes GILDEMEISTER Aktiengesellschaft with its group-wide holding functions. The breakdown of sales revenues, order intake and EBIT for the individual segments in the reporting year was as follows:

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SEGMENT KEY INDICATORS OF THE GILDEMEISTER GROUP

	2011 € million	2010* € million	€ million	Changes 2011 against 2010 %
Sales revenues	**1,687.7**	**1,376.8**	**310.9**	**23**
Machine Tools	1,088.1	769.9	318.2	41
Industrial Services	599.4	606.7	− 7.3	− 1
Corporate Services	0.2	0.2	0.0	0
Order intake	**1,927.3**	**1,418.4**	**508.9**	**36**
Machine Tools	1,245.8	854.2	391.6	46
Industrial Services	681.3	564.0	117.3	21
Corporate Services	0.2	0.2	0.0	0
EBIT	**112.5**	**45.0**	**67.5**	**150**
Machine Tools	73.4	6.2	67.2	
Industrial Services	56.9	59.1	− 2.2	
Corporate Services	− 17.5	− 20.3	2.8	

* Figures adjusted

Further information on **segmentation by business area and geographical regions** is given in the **notes to the consolidated financial statements** on **page 197 et seq.**

"Machine Tools" segment

The "Machine Tools" segment is our core segment and includes the group's new machines business with the business divisions turning and milling, ultrasonic / lasertec, ECOLINE and electronics.

The production plants at GILDEMEISTER are pooled into associations independent of location, in order to strengthen core technological expertise. Through this we achieve additional synergies and can make optimum use of our capacity and reduce fixed costs. In addition, the association organisation increases our efficiency in producing innovative and competitive products.

In the **Turning Association,** GILDEMEISTER Drehmaschinen GmbH in Bielefeld, GRAZIANO Tortona S.r.l. and GILDEMEISTER Italiana S.p.A. combine their "turning" core expertise. Our full-line turning machine range comprises seven product lines, ranging from universal and vertical turning machines to turning centres and through to turning-milling centres for 5-axis machining.

In the **Milling Association,** DECKEL MAHO Pfronten GmbH and Sauer GmbH combine their core expertise in milling as well as in ultrasonics and lasertec. Our range in the Milling business division is concentrated on seven product lines: from universal milling machines to horizontal and vertical machining centres, travelling column and HSC precision machines and to milling machines and machining centres for 5-axis machining.

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

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

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

More detailed information on our products in the "Machine Tools" segment can be found in Production, Technology and Logistics on **page 82 et seq.**

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KEY FIGURES "MACHINE TOOLS" SEGMENT	2011 € million	2010 * € million	Changes 2011 against 2010 € million	%
Sales revenues				
Total	1,088.1	769.9	318.2	41
Domestic	373.1	280.2	92.9	33
International	715.0	489.7	225.3	46
% International	66	64		
Order intake				
Total	1,245.8	854.2	391.6	46
Domestic	469.1	303.9	165.2	54
International	776.7	550.3	226.4	41
% International	62	64		
Order backlog**				
Total	492.1	335.0	157.1	47
Domestic	140.8	44.8	96.0	214
International	351.3	290.2	61.1	21
% International	71	87		
Investments	47.9	22.4	25.5	114
Employees	3,178	2,887	291	10
plus trainees	219	210	9	4
Total employees**	3,397	3,097	300	10
EBITDA	97.3	26.8	70.5	
EBIT	73.4	6.2	67.2	
EBT	59.7	– 5.8	65.5	

* Figures adjusted
** Reporting date December 31

The "Machine Tools" segment showed a clear growth trend in order intake, sales revenues and earnings in financial year 2011. In the fourth quarter sales revenues reached € 345.1 million (+33%). Over the entire year the "Machine Tools" achieved **sales revenues** of € 1,088.1 million. This corresponds to an increase of 41% or € 318.2 million compared to the previous year (€ 769.9 million). Domestic sales revenues increased by 33% or € 92.9 million to € 373.1 million (previous year: € 280.2 million). International sales revenues grew by 46% or € 225.3 million to € 715.0 million (previous year: € 489.7 million). International sales accounted for 66% (previous year: 64%).

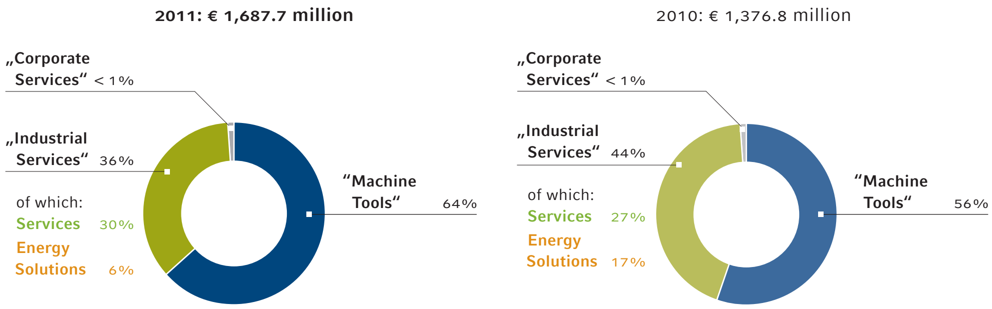
The "Machine Tools" segment contributed 64% of sales revenues (previous year: 56%). The turning technology of GILDEMEISTER accounted for 16% (previous year: 17%). The milling technology of DECKEL MAHO contributed 39% (previous year: 32%); ultrasonic / lasertec accounted for 2% (previous year: 3%). The ECOLINE area contributed 7% (previous year: 6%).

The **sales quantity** of new machines rose compared with the previous year by 36% to 6,928 (previous year: 5,089).

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

C . 25

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



Order intake in our core business developed in a prior-year comparison positively in all quarters. Our innovations were well accepted by the market. The EMO in Hanover in September contributed especially to the clear increase: At this trade fair we were able to achieve particular success with 847 machines sold at a value of € 207.6 million. In the first three quarters, order intake developed very positively at +64%. In the fourth quarter it progressed towards the previous year's level at € 225.2 (previous year's quarter: € 233.6 million). Over the whole year we were able to increase order intake once again markedly by 46% or € 391.6 million to € 1,245.8 million (previous year: € 854.2 million).

Domestic order intake rose by 54% or € 165.2 million to € 469.1 million (previous year: € 303.9 million). International orders grew by 41% or € 226.4 million to € 776.7 million (previous year: € 550.3 million); international orders accounted for 62% of orders (previous year: 64%). The percentage of orders for the “Machine Tools” segment amounted to 65% (previous year: 60%).

The **order backlog** as of 31 December 2011 of € 492.1 million (+47%) was above the previous year's figure (€ 335.0 million). Domestic orders increased by € 96.0 million to € 140.8 million (previous year: € 44.8 million). International orders recorded 71% (previous year: 87%); in total they grew by € 61.1 million or 21% to € 351.3 million (previous year: € 290.2 million).

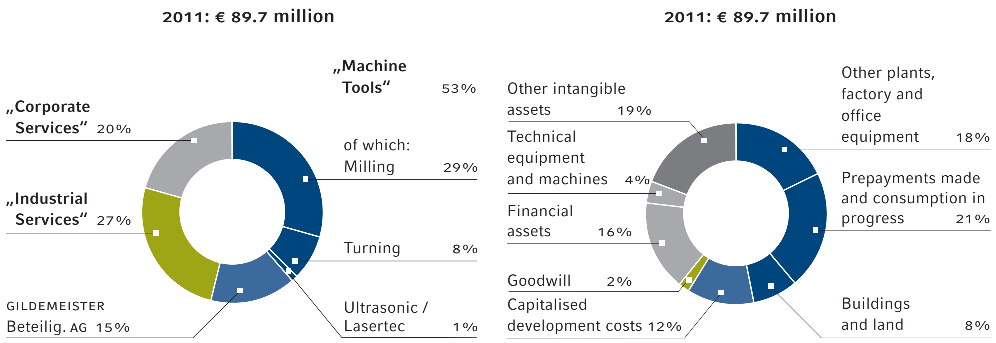
Based on the good sales development, we were able to improve earnings noticeably compared to the previous year. **EBITDA** grew by € 70.5 million to € 97.3 million (previous year: € 26.8 million). **EBIT** rose by € 67.2 million to € 73.4 million (previous year: € 6.2 million). **EBT** rose by € 65.5 million to € 59.7 million (previous year: € −5.8 million). In particular, the fourth quarter contributed to this with EBIT of € 40.0 million.

The following graphs show the amount and distribution of **investments** in each segment and business division:

C . 26

SHARE OF INDIVIDUAL SEGMENTS / DIVISION IN INVESTMENTS
in %

DISTRIBUTION OF INVESTMENT VOLUME BY TYPE OF INVESTMENT
in %



Investments in the **"Machine Tools"** segment amounted to € 47.9 million (previous year: € 22.4 million). In Seebach, the main focus was on the construction of the "Technical Innovation Center" with a new development center and the extension of the assembly area. This site was awarded the "Investment Award 2011 of Bavaria / Thuringia" from the German Federal Association for Economic Development and Foreign Trade. The award is a special way of documenting solidarity with the Seebach site and acknowledges GILDEMEISTER's investment in the site's sustainability. In Geretsried the opening took place of the "HSC Center" from 22 to 25 March 2011. Here GILDEMEISTER presented the high-precision HSC series (high-speed cutting). In addition, we invested in optimising assembly processes. At the Pfronten site we have started to realign motor spindle assembly as clokked progressive assembly. Through this measure we will increase quantities and quality even more. Likewise the FAMOT production plant in Pleszew, Poland, commenced the introduction of a progressive assembly system by which the assembly process is simplified and lead times are reduced. Moreover, GILDEMEISTER Beteiligungen AG invested in optimising our business processes, in purchasing licences and in enhancing our IT systems.

Capitalised development costs in the "Machine Tools" segment amounted to € 9.3 million. With the DMU 600 P and the MILLTAP 700 we are opening up new market segments. In total, we presented 20 new developments.

At the end of the year, the "Machine Tools" segment had 3,397 **employees** (previous year: 3,097). This represents 56% of total staff at the GILDEMEISTER group (previous year: 57%). In comparison with the previous year, the number of employees has risen by 300. At our sites in Poland and China additional production staff have been hired due to the growing need for assembly capacity for the ECOLINE series. In Germany, against the background of the improved business development, personnel numbers were increased at the production sites in Pfronten and Seebach. The personnel ratio in the "Machine Tools" segment amounted to 16.9% (previous year: 20.7%); employee expenses amounted to € 183.4 million (previous year: € 159.1 million).

"Industrial Services" segment

The "Industrial Services" segment includes the business activities of the Services and Energy Solutions areas. These are DMG Vertriebs und Service GmbH and its subsidiaries as well as a+f GmbH with the companies responsible for production as well as for sales and service. In this way we achieve a close dovetailing of our sales organisation and underscore our focus on industrial customers also with respect to our Energy Solutions products. The segment provides all the services from one source.

In the **Services** business division we have brought together all the services and products relating to our machine tools. With the aid of the DMG LifeCycle Services, our customers optimise the productivity of their machine tools over the entire life cycle – from their installation until part exchange as a used machine. The diverse range of training, repair and maintenance services ensure our customers achieve high cost efficiency with their DMG machine tools. The dense network of highly trained service technicians, which is unique in the marketplace, also ensures fast and sustained availability of machines in the event of damages. DMG Spare Parts ensures 95% availability of DMG spare parts within 24 hours worldwide with its state-of-the-art central warehouse in Geretsried near Munich as well as several satellite warehouses in Asia and America. There we maintain more than 70,000 spare parts and more than 1,000 spindles in stock for despatch to our customers. DMG LifeCycle Products – such as software solutions from DMG Powertools, the Tool Management from DMG Microset and automation solutions from DMG Automation – enable users to set up processes for machining workpieces safely and quickly, and at the same time cost-effectively.

In the business division of **Energy Solutions** GILDEMEISTER offers innovative products for producing energy and for energy storage as well as applications. The business division comprises four areas: Components, SunCarrier, CellCube and WindCarrier. At the EMO 2011 in Hanover, Energy Solutions presented live how companies can produce and store part of their energy requirements themselves with solar and wind technology. Our business model so far has been predominantly focused on major investors and implementing turnkey projects. With a broader product portfolio and greater sales focus on new markets and industrial customers, the division is to expand in the future to cover a broader market. In the reporting year we have concentrated on exploiting new markets and target groups. Further expenses in research and development, as well as in investments, created additional prospects for us.

C . 27

KEY FIGURES "INDUSTRIAL SERVICES" SEGMENT	2011 € million	2010* € million	Changes 2011 against 2010 € million	%
Sales revenues				
Total	599.4	606.7	– 7.3	– 1
of which Services	501.1	367.2	133.9	36
of which Energy Solutions	98.3	239.5	– 141.2	– 59
Domestic	259.3	218.7	40.6	19
International	340.1	388.0	– 47.9	– 12
% International	57	64		
Order intake				
Total	681.3	564.0	117.3	21
of which Services	623.4	419.2	204.2	49
of which Energy Solutions	57.9	144.8	– 86.9	– 60
Domestic	294.9	233.6	61.3	26
International	386.4	330.4	56.0	17
% International	57	59		
Order backlog**				
Total	319.1	293.2	25.9	9
of which Services	249.1	126.7	122.4	97
of which Energy Solutions	70.0	166.5	– 96.5	– 58
Domestic	96.8	61.1	35.7	58
International	222.3	232.1	– 9.8	– 4
% International	70	79		
Investments***	24.2	20.7	3.5	17
Employees	2,561	2,277	284	12
plus trainees	3	3	0	0
Total employees**	2,564	2,280	284	12
of which Services	2,406	2,120	286	14
of which Energy Solutions	158	160	– 2	– 1
EBITDA	64.8	66.2	– 1.4	
EBIT	56.9	59.1	– 2.2	
of which Services	99.7	58.7	41.0	
of which Energy Solutions	– 42.8	0.4	– 43.2	
EBT	39.6	42.3	– 2.7	

* Figures adjusted
** Reporting date December 31
*** of which in 2010: € 6.0 million capital inflow to financial assets

Development in the “Industrial Services” segment progressed in the reporting year as follows: The business area of Services recorded clear growth in order intake, sales revenues and earnings in comparison with the previous year. The revival in the market could be felt in all areas – from the spare parts, service and training business to automation solutions and the used machines business. In the Energy Solutions business division a clear decline in development was noted. Through the enormous turmoil on the south European markets, our planning did not come to fruition.

Overall **sales revenues** amounted to € 599.4 million (previous year: € 606.7 million). Abroad, sales revenues were € 340.1 million (−12%); this represents a proportion of 57% (previous year: 64%). Domestic sales revenues rose to € 259.3 million (previous year: € 218.7 million); this corresponds to a rise of 19% or € 40.6 million. Whilst Services was able to record a rise in sales revenues of 36% or € 133.9 million to € 501.1 million (previous year: € 367.2 million), sales revenues in Energy Solutions amounted to € 98.3 million and thereby decreased by 59% or € 141.2 million (previous year: € 239.5 million).

“Industrial Services” had a share of 36% in group sales revenues (previous year: 44%). **Order intake** reached € 681.3 million and was thus 21% above the previous year’s figure (€ 564.0 million). At the same time the share of Services rose to € 623.4 million (previous year: € 419.2 million), whilst the Energy Solutions area contributed € 57.9 million to the segment's order intake (previous year: € 144.8 million). Domestic orders at “Industrial Services” amounted to € 294.9 million (previous year: € 233.6 million). Some 57% of all orders came from abroad; they rose by 17% or € 56.0 million to € 386.4 million (previous year: € 330.4 million). In the group, “Industrial Services” accounted for 35% of all orders (previous year: 40%).

The **order backlog** as of 31 December amounted to € 319.1 million (previous year: € 293.2 million).

Earnings in the “Industrial Services” segment developed as follows: **EBITDA** amounted to € 64.8 million (previous year: € 66.2 million). **EBIT** was € 56.9 million (previous year: € 59.1 million). The Services area was able to increase EBIT markedly in the financial year to € 99.7 million (previous year: € 58.7 million). Energy Solutions closed with EBIT of € −42.8 million (previous year: € 0.4 million). This is essentially caused by the low level of sales as well as additional costs in completing projects as well as legal and consultancy costs in connection with the closings. In addition, research and development expenses, for example for the new SunCarrier (type SC 22) and the enhancement of storage technology, negatively affected the result. Furthermore, investment was made in building up product sales. The **EBT** of “Industrial Services” amounted to € 39.6 million (previous year: € 42.3 million).

Investments in property, plant and equipment, and in intangible assets in “Industrial Services” amounted to € 24.2 million (previous year: € 20.7 million). The priority in this was the opening of the DMG / MORI SEIKI Technology Center in India on 17 May 2011. Here products for the Indian market are presented that have been tailored to meet the needs of our customers exactly. Moreover, the construction of the joint technology center in Singapore has been completed, with which we will further strengthen our sales and service activities in the southeastern Asian markets. In Germany we took over the Mori Seiki Technology Center near Chemnitz and have pushed ahead with the integration of the Mori Seiki sales and service network. An additional priority lay in equipping our service employees with up-to-date tools and measuring resources. Capitalised development costs in the "Industrial Services" segment were € 1.3 million.

The number of **employees** in the "Industrial Services" segment rose in comparison with the previous year by 284 to 2,564 (previous year: 2,280). The proportion of employees working in the "Industrial Services" was 43% (previous year: 42%). The rise in personnel numbers results primarily from bringing together the joint sales and service activities with Mori Seiki and the associated integration of 101 employees in the regional sales and service companies in Germany as of 1 September 2011. Furthermore we have increased employees at the companies in the largest market worldwide of China as well as in the growing markets of India and Russia.

The personnel ratio in the "Industrial Services" segment was 30.9% (previous year: 26.0%); the personnel expenses amounted to € 185.3 million (previous year: € 157.8 million).

"Corporate Services" segment

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

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KEY FIGURES "CORPORATE SERVICES" SEGMENT	2011 € million	2010 € million	Changes 2011 against 2010 € million
Sales revenues	0.2	0.2	0.0
Order intake	0.2	0.2	0.0
Investments*	17.6	6.9	10.7
Employees**	71	68	3
EBITDA	– 15.7	– 18.5	2.8
EBIT	– 17.5	– 20.3	2.8
EBT	– 32.1	– 30.0	– 2.1

* of which € 14.8 million capital inflow to financial assets (2010: € 5.0 million)
** Reporting date December 31

In the “Corporate Services” segment, both **sales revenues** and **order intake** in an amount of € 0.2 million each (previous year: € 0.2 million) consisted mainly of rental income. “Corporate Services” again accounted for less than 0.1% of group sales revenues (previous year: <0.1%). **EBIT** improved to € –17.5 million (previous year: € –20.3 million). The net financial costs were € –14.6 million (previous year: € –9.7 million). One-off expenses in connection with the cancellation of the interest rate hedges (interest rate swaps) as a consequence of the repayment of the borrowers’ notes in the first half year (€ –12.5 million) had a negative effect on EBT in the reporting year. **EBT** was € –32.1 million (previous year: € –30.0 million).

Investments in property, plant and equipment, and in intangible assets in the **“Corporate Services”** segment amounted to € 2.8 million (previous year: € 1.9 million). At the in-house exhibition in Bielefeld (29 March – 2 April 2011) we presented the CO_2 neutral “e-filling station”. This closes the energy cycle from production to storage through to application. Renewable energies are available 24 hours a day. In addition, we have commenced modernisation measures at the Bielefeld site. By increasing the number of shares in Mori Seiki Co. Ltd. to 5.10%, additions to financial assets amounted to € 14.8 million (previous year: € 5.0 million). In total, investments thus amounted to € 17.6 million.

As of 31 December 2011, this segment had 71 **employees** (previous year: 68 employees). As in the previous year, this represents a 1% share in the group workforce.

General Statement of the Executive Board on Business Development

GILDEMEISTER was able to permanently increase order intake, sales revenues and earnings key performance indicators over the course of the year compared to the previous year. Through this we reached our targets and evaluate the business performance in 2011 as positive. Order intake was the highest figure in the company's history at € 1,927.3 million (+36%). Sales revenues, EBIT, EBT and the net income also developed according to plan. The sales revenues grew by 23% to € 1,687.7 million and were thus the second best ever. In the process we constantly increased sales revenues during the second half of the year. EBT was positive at € 66.9 million; EBIT amounted to € 112.5 million. With this we are recording the third best result in the company’s history. The return on sales reached 4.0% and improved markedly compared to the previous year (0.5%).

The “Machine Tools” segment with EBT of € 59.7 million made a good contribution to GILDEMEISTER’s EBT. In the “Industrial Services” segment EBT amounted to € 39.6 million, in attaining this, the Services area was more successful than planned. Business in the Energy Solutions area developed contrarily, in which the turmoil on the south European markets could not be offset by new business in other markets.

The annual profit in the group amounts to € 45.5 million. The free cash flow amounts to € 95.2 million. Equity rose as a result of the capital increases and due to the results of operations to € 655.2 million and we nearly reached our target of an equity ratio of about 50%. Over the course of the year we were able to reduce net financial liabilities completely and at year-end cash and cash equivalents (€ 105.2 million) clearly exceeded our financial liabilities (€ 34.0 million).

C.29

TARGETS AND RESULTS 2011 AT THE GILDEMEISTER GROUP

	Results 2010	**Targets 2011***	**Results 2011**
Sales revenues	€ 1,376.8 million	above € 1.6 million	€ 1,687.7 million
Order intake	€ 1,418.4 million	above € 1.9 million	€ 1,927.3 million
EBIT	€ 45.0 million	about € 100 million	€ 112.5 million
EBT	€ 6.5 million	about € 60 million	€ 66.9 million
Annual profit	€ 4.3 million	clear growth	€ 45.5 million
Dividend	No	Yes	Yes
Free Cash Flow	€ 45.3 million	more than € 40 million	€ 95.2 million
Equity ratio	30.4%	about 50%	47.8%
Net Working Capital	€ 354.4 million	Reduction	€ 271.3 million
ROCE	5.6%	Improvement	14.4%
Investments	€ 50.0 million	€ 70 million**	€ 89.7 million
Employees	5,445	Rise of about 200	6,032***
Research & Development expenses	€ 48.1 million	about € 51 million	€ 54.6 million
New developments / world premieres	17	16	20

* Status: last published target values
** Property, plant and equipment and intangible assets (excluding goodwill)
*** The number of employees increased: This results primarily from combining the joint sales and service activities with Mori Seiki in Germany and the associated integration of 101 employees. Moreover, we employed additional production personnel abroad and took on 37 trainees unlimited.

The financial year 2012 started excellently in line with plans for GILDEMEISTER. In January and February not only intake but also sales revenues and the results were higher than the previous year's figures. Further **details on the current economic situation** can be found in the Supplementary Report on **page 90 et seq.**

Corporate Situation

GILDEMEISTER again sets the trends worldwide: In the reporting year we presented 20 new developments at national and international trade fairs. We have pushed ahead with our activities in the field of industrial energy solutions. The combining of sales and service structures with Mori Seiki was forging ahead – GILDEMEISTER welcomed new employees at its domestic companies.

Employees

As of 31 December 2011, GILDEMEISTER had 6,032 employees, of whom 222 were trainees (previous year: 5,445). The number of employees rose in comparison with the previous year by 587.

In the "Machine Tools" segment we have hired additional production staff at our sites in Poland and China due to the growing need for assembly capacity for the ECOLINE series. In Germany we added personnel at the production sites at Pfronten and Seebach due to improved business development.

The rise in personnel numbers in the "Industrial Services" segment results primarily from combining the joint sales and service activities with Mori Seiki in Germany and the associated integration of 101 employees as of 1 September 2011. Moreover, the companies in the growing markets of China, India and Russia increased the workforce.

At year-end, 3,577 employees (59%) worked at our domestic companies and 2,455 employees (41%) at our foreign companies.

The number of temporary workers employed throughout the group was 546 at the end of the financial year.

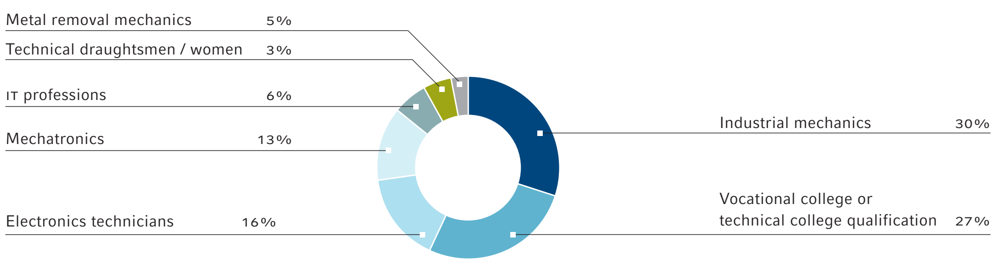
As of 31 December 2011, within the GILDEMEISTER group there was a total of 222 trainees (previous year: 213). At the start of the new training year, GILDEMEISTER took on 57 trainees (previous year: 35). The vocational training quota at the domestic companies in the "Machine Tools" segment amounted to 9.0% (previous year: 9,3%). Overall, we offer vocational training in nine different trades. In addition, we offer courses of study in cooperation with regional colleges of advanced vocational education and universities of applied sciences. We are continuously expanding and developing these co-operations further.

In the reporting year the number of women in the GILDEMEISTER group rose by 7% or by 47 to 763. Due to a reduction in personnel throughout the group in the areas of production and assembly, as well as in sales and service, the proportion of women in the group was consequently 12.6% (previous year: 13.1%). In the "Machine Tools" segment the proportion of women amounted to 9%, in "Industrial Services" 16% and in "Corporate Services" 40%. GILDEMEISTER promotes the reconciliation of work and family life. We support flexible working times, the use of parental leave by employees and individual solutions for the better reconciliation of work and family life. In an industry that has traditionally been preferred more by men, we are making every effort to keep the proportion of female employees high at GILDEMEISTER.

D.01

TRAINING IN THE GILDEMEISTER GROUP
Allocation by fields
in %

2011: 222 trainees

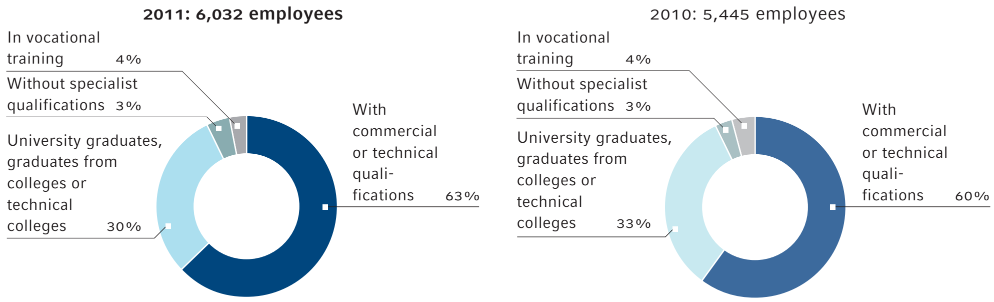


In the area of **human capital** for years we have placed a high value on the skills of our employees. It is a core element of the non-financial key performance indicators involving sustainability, the so-called "Sustainable Development Key Performance Indicators" **(SD-KPIS).** The following diagram shows that the GILDEMEISTER group places a high value on the professional training and qualifications of its workforce.

D . 02

QUALIFICATIONS STRUCTURE OF EMPLOYEES IN THE GILDEMEISTER GROUP

in %



The qualifications structure remained at the high level of previous years. In all, 97% of the workforce has a professional qualification or is currently in training (previous year: 97%). Overall 3,783 employees or 63% of the workforce took part in further training courses (previous year: 3,038 employees or 56%). This places GILDEMEISTER clearly above the industry average of 44%. A key aspect was the training of our domestic and foreign sales and service employees on the newly-developed machines. Moreover, skills development courses were held in the fields of information technology, languages and management and working techniques. Expenses on vocational and further training amounted in total to € 9.7 million (previous year: € 8.3 million). Variable income components acknowledge individual performance and encourage employee motivation. In addition, GILDEMEISTER brought forward the collective agreement wage and salary increase, which was intended for 1 April 2011 following the collective pay agreements of the metal and electrical industries, by three months and paid the increase from 1 January 2011.

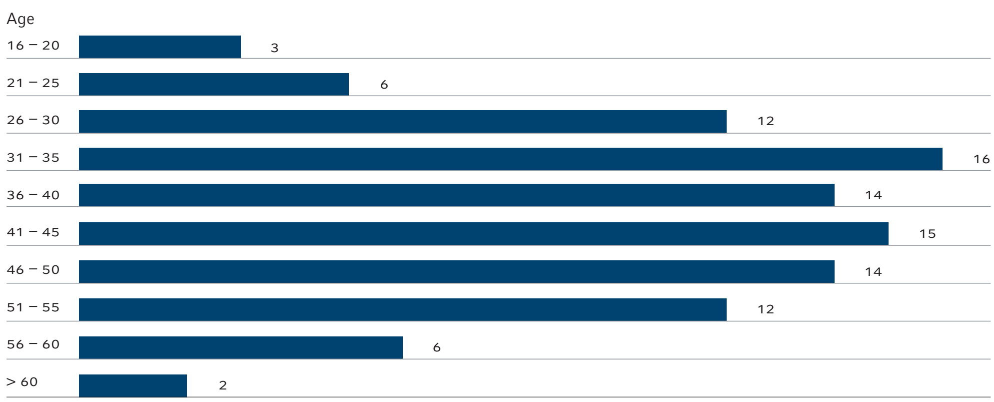
Further components of **employee motivation** are occupational safety and health protection, which are a core element in our value creation system both nationally and abroad. Our certified quality management system sets out the working conditions – naturally also in the emerging countries in which GILDEMEISTER has production plants as well as sales and service companies.

Employee expenses rose by € 51.5 million to € 384.7 million (previous year: € 333.2 million). Of this, wages and salaries accounted for € 326.3 million (previous year: € 279.5 million), social insurance contributions for € 53.3 million (previous year: € 49.4 million) and the costs of retirement pensions € 5.1 million (previous year: € 4.3 million). The personnel expenses ratio fell as a consequence of higher total operating revenue to 22.1% (previous year: 24.3%).

The part-time retirement plan covered 96 employment agreements (previous year: 143), for which we use the block model. The entire period of part-time retirement is divided into equal active and passive phases. There were 33 employees in the active phase and 63 in the passive phase. The age structure of our employees is well-balanced and has changed as follows: 37% of our employees are 35 years of age and younger (previous year: 35%), 80% are 50 years of age and younger (previous year: 80%).

D.03

AGE STRUCTURE OF EMPLOYEES IN THE GILDEMEISTER GROUP 2011
in %



Other non-financial key performance indicators have changed as follows: In the reporting year there were 118 traffic and operational accidents (previous year: 129). In relation to the total number of staff, this represents a decline to 2.0% (previous year: 2.4%). The sick leave ratio of 3.4% was higher than the previous year's figure of 3.1% and below the industry average of 3.9%. Employee fluctuation in the financial year just ended amounted to 7.9% (previous year: 10.2%).

One employee has been recognised for his 50 years' employment with the company. In addition, 36 employees celebrated 40 years', 67 employees 25 years' and 337 employees 10 years' employment at the company. We would like to thank all our employees who are celebrating their jubilee for their loyalty to the company and their unceasing commitment. At this point we would also like to thank all our employees for their unreserved, highly-committed performance.

Corporate Governance

GILDEMEISTER complies with Corporate Governance Code

Corporate governance has long been a key component of corporate management and of all corporate areas at GILDEMEISTER. For the Executive and Supervisory Boards, corporate governance represents responsible and transparent corporate management and controlling throughout the group. Their joint goal is a sustained increase in corporate value. The internal corporate guidelines have been amended to observe these regulations and principles. GILDEMEISTER has been following the recommendations of the German Corporate Governance Code for years and complied with all the recommendations with one exception until the latest version of the code came into force on 26 May 2010. The following **Declaration of Conformity** was issued by the Supervisory Board in November 2011; it is accessible at any time – as is the previous year's Declaration of Conformity – at our website www.gildemeister.com.

Since the last Declaration of Conformity of December 2010 GILDEMEISTER Aktiengesellschaft has complied with the recommendations of the “Government Commission’s German Corporate Governance Code” in the code version dated 26 May 2010 since its publication in the Electronic Federal Gazette (Elektronischer Bundesanzeiger) on 2 July 2010 and will comply with them in the future, although with the following exception:

- The Supervisory Board member Dr. Masahiko Mori is the president of a foreign producer of machines for metal cutting processes and thus a competitor. The high level of expertise of Dr. Mori represents additional expertise for the company and through this a significant gain for the work of the Supervisory Board.
- Appropriate measures are taken by the company to avoid any conflict of interests.”

Remuneration report

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

The remuneration of the Supervisory Board is determined by the Annual General Meeting of Shareholders and is regulated under Section 12 of the articles of association of GILDEMEISTER Aktiengesellschaft. It contains remuneration components not related to performance and a performance-related remuneration component. The remuneration components not dependent upon performance include the fixed remuneration that each member of the Supervisory Board receives and remuneration for committee work. The performance-

Performance-related components

related component comprises a long-term performance incentive (LTI), which has the aim of promoting sustainable corporate management along value-based lines.

In financial year 2011, the fixed remuneration for each individual member of the Supervisory Board was € 24,000; the chairman received 2.5-times that amount (€ 60,000) and the deputy chairman 1.5-times that amount (€ 36,000). The fixed remuneration therefore totalled € 333,140 (previous year: € 329,687).

Remuneration for committee work amounted to a total of € 213,254 (previous year: € 211,479) and took into account the work carried out by the Finance and Audit Committee, the Personnel, Nominations and Remuneration Committee, and by the Technology and Development Committee. No remuneration was paid for work on the Conciliation Committee or on the Nominations Committee, which are sub-committees of the Personnel, Nominations and Remuneration Committee. The individual committee members each received € 12,000. The chairperson of a committee also receives an additional fixed remuneration of a further € 12,000 and the deputy chairperson of € 6,000.

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

The LTI takes into account not only the reporting year but also the two preceding years. The key figure is the mean average of the EPS values in the corresponding financial years. The LTI is only paid if the average EPS for the relevant three years amounts to at least € 0.15. For financial year 2011 and the two preceding years, the corresponding EPS average value was € 0.35 (previous year: € 0.69). The performance-related remuneration for the Supervisory Board calculated from the LTI totalled € 121,458 (previous year: € 236,963).

In 2011 the Supervisory Board remuneration was made up as follows:

D . 04

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 €	LTI in €	**Total in €**
Hans Henning Offen chairman SB, chairman PNR	60,000	12,000	24,000	0	21,875	117,875
Ulrich Hocker	24,000	0	12,000	0	8,750	44,750
Prof. Dr. Edgar Ernst, chairman F&A	24,000	24,000	0	0	8,750	56,750
Dr.-Ing. Jürgen Harnisch, chairman T&D	24,000	0	0	24,000	8,750	56,750
Dr.-Ing. Masahiko Mori	24,000	12,000	0	0	8,750	44,750
Prof. Dr.-Ing. Walter Kunerth, deputy chairman T&D	24,000	0	0	18,000	8,750	50,750
Gerhard Dirr*, dep.chairman SB until 15 April 2011, deputy chairman PNR until 15 April 2011, member F&A until 15 April 2011	10,356	3,452	5,178	0	3,776	22,762
Mario Krainhöfner*, member SB as of 16 April 2011 Member PNR as of 13 May 2011 member F&A as of 13 May 2011	17,096	7,660	7,660	0	6,233	38,649
Oliver Grabe*	24,000	0	0	12,000	8,750	44,750
Harry Domnik*, member SB until 31 May 2011, deputy chairman F&A until 31 May 2011, member PNR until 31 May 2011	9,929	7,447	4,964	0	3,620	25,960
Dr. Constanze Kurz*, member SB as of 1 July 2011, deputy chairman PNR as of 22 July 2011	12,099	0	7,447	0	4,411	23,957
Norbert Zweng, member F&A until 21 July 2011, deputy chairman F&A as of 22 July 2011	24,000	14,482	0	0	8,750	47,232
Günther-Johann Schachner*, member SB until 12 May 2011, deputy chairman SB as of 13 May 2011, member F&A as of 22 July 2011	31,660	4,964	0	0	11,543	48,167
Matthias Pfuhl*	24,000	0	0	12,000	8,750	44,750
Total	333,140	86,005	61,249	66,000	121,458	667,852

* These employee representatives pay the predominant part of their Supervisory Board remuneration to Hans-Böckler-Stiftung, Dusseldorf.

For financial year 2011, the total remuneration of the Supervisory Board amounted to € 667,852 (previous year: € 778,129).

Pursuant to Section 15a of the German Securities Trading Act (WpHG), members of the Supervisory Board or other persons subject to reporting requirements must disclose any purchase or disposal of shares, as well as any related rights of purchase or disposal, such as options or rights that are directly dependent upon the quoted share price of the company. In the reporting year, the following **director's dealings notification** was made to us and was published on our website:

D.05

DIRECTOR'S DEALINGS 2011

Name	Function	Date	Type and place of transaction	Number shares	Share price in €	Trading Volume in €
Hans Henning Offen	Chairman SB	05.04.2011	Purchase of shares by exercising pre-emptive right	4,812	13.66	65,731,92

Mori Seiki Co. Ltd. (Nagoya), which is managed by a member of the Supervisory Board holds an investment of 20.1% of the total number of shares. The remaining members of the Supervisory Board together hold less than 1% of the total shares issued. The deputy member of the Executive Board Christian Thönes owns 1,080 GILDEMEISTER shares. None of the other members of the Executive Board holds any GILDEMEISTER shares.

Insurance for Supervisory and Executive Board members of the GILDEMEISTER group

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

Remuneration of the Executive Board of GILDEMEISTER Aktiengesellschaft

The remuneration of the Executive Board is discussed and decided by the plenary meeting of the Supervisory Board. Members of the Executive Board receive direct and indirect remuneration components, whereby the indirect components primarily consist of pension plan expenses. The direct remuneration of the Executive Board members of GILDEMEISTER Aktiengesellschaft contains fixed and variable components. The variable components comprise a short-term incentive (STI) and a long-term incentive (LTI). Both variable components are fixed in such a way that they represent a clear incentive for the Executive Board members to achieve the targets. In this way they support sustainable and value-based management. The criteria for the appropriateness of the remuneration include in particular the tasks rendered by each Executive Board member, his or her personal performance, and the performance of the Executive Board, as well as the company's economic situation, success and future prospects within the scope of its comparative environment.

Performance-related Executive Board remuneration

Direct remuneration of the Executive Board amounted to € 7,644 K (previous year: € 4,027 K). Of this, € 1,848 K was allocated to the fixed remuneration (previous year: € 1,821 K), € 3,515 K to the STI (previous year: € 1,295 K) and € 900 K to the individual performance remuneration (previous year: € 800 K). The payout value of the LTI amounted to € 816 K (previous year: € 0 K). In total € 450 K were paid out for the successful management of a major project. Benefits in kind accounted for € 115 K (previous year: € 111 K).

In 2011 the direct remuneration of the Executive Board breaks down as follows:

D.06

DIRECT REMUNERATION OF THE EXECUTIVE BOARD

	Fixum	STI	LTI	Performance remuneration	Project remuneration	Payments in kind	**Total**
	€ K	€ K	€ K	€ K	€ K	€ K	**€ K**
Dr. Rüdiger Kapitza, Chairman	800	1,172	326	300	225	42	2,865
Dr. Thorsten Schmidt	392	781	245	200	56	28	1,702
Günter Bachmann	380	781	245	200	56	32	1,694
Kathrin Dahnke	276	781	–	200	113	13	1,383
Total	1.848	3,515	816	900	450	115	7,644

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

Remuneration components with sustainability factors

The STI is based on index-based target values. In the reporting year the earnings after taxes (EAT) provided the reference value. The scale of the target values is re-defined annually. In addition the STI includes a ceiling limit (cap) in an amount of € 900 K for 2011 for an ordinary member of the Supervisory Board. The cap is likewise fixed anew every year. As a pre-condition for the payment of the STI, the sustainability factor of the GILDEMEISTER group (total of expenses for R&D and corporate communication as well as for vocational and further training in relation to total sales revenues) for the respective financial year must lie within a fixed range. This promotes a corporate management focused on sustainability.

As a remuneration component with long-term incentive effect, the LTI combines the achievement of fixed targets in relation to the EBIT of the company with the performance of the GILDEMEISTER share. A cap has been set at 2-times the annual fixed salary of each Executive Board member per tranche for the year in which the award takes place. Should the EBIT of the allocation year not reach a minimum EBIT figure that is set anew upon every new awarding of a tranche, the LTI payment is not applicable.

The LTI involves a performance units plan, which is not associated with any dividend payments or voting rights. In addition, the units may not be traded nor sold to third parties. The performance units awarded at the beginning of each year have a term of three years, respectively four years since 2009. The LTI tranche 2009-2011, which was allocated on 31 December 2011 and will be paid out following the Annual General Meeting of Shareholders in 2012, resulted in a payout of a total of € 816 K.

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

The performance units awarded for financial year 2011 will be allocated on 31 December 2014 and, following the Annual General Meeting of Shareholders 2015, will be paid out taking into account the average EAT (earnings after tax) of the last four years and the respective share price. The following table shows the number of performance units awarded in 2009, 2010 and 2011 and the fair value of the LTI at the time of its granting for each Executive Board member.

D . 07

TRANCHES OF THE LONG-TERM-INCENTIVE

	2009 tranche term 3 years			**2009 tranche** term 4 years		**2010 tranche** term 4 years		**2011 tranche** term 4 years	
	Number of performance units awarded	Fair Value at granting	Amount of allocation for 2011	Number of performance untis awarded	Fair Value at granting	Number of performance untis awarded	Fair Value at granting	Number of performance untis awarded	Fair Value at granting
	shares	€ K	€ K	shares	€ K	shares	€ K	shares	€ K
Dr. Rüdiger Kapitza, Chairman	28,209	207	326	20,790	141	37,879	559	26,858	262
Dr. Thorsten Schmidt	21,157	155	245	13,860	94	25,253	372	17,905	175
Günter Bachmann	21,157	155	245	13,860	94	25,253	372	17,905	175
Kathrin Dahnke	–	–	–	–	–	13,889	205	17,905	175
Total	**70,523**	**517**	**816**	**48,510**	**329**	**102,274**	**1,508**	**80,573**	**787**

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

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

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

D.08

INDIRECT REMUNERATION FOR EXECUTIVE BOARD MEMBERS

	€ K
Dr. Rüdiger Kapitza, Chairman	295
Dr. Thorsten Schmidt	120
Günter Bachmann	180
Kathrin Dahnke	50
Total	**645**

In accordance with the International Financial Reporting Standards (IFRS), a provision expense of € 295 K arose for the defined-benefit contribution commitment in 2011 (previous year: € 258 K), whereby the total amount of provisions is € 6,257 K. This value includes the provision for surviving dependants contained in the commitment.

The special purpose payments to the defined contribution pension plan amounted in total to € 350 K (previous year: € 353 K). Total provision expense for the past financial year amounted to € 645 K (previous year: € 611 K). Advances in favour of the members of the Executive Board – or for the rest also in favour of members of the Supervisory Board – were not granted. There was no share option plan or similar securities-based incentive system.

The companies of the GILDEMEISTER group did not pay any remuneration to any board members for services, in particular consulting and introduction services, which were personally rendered. Former members of the Executive Board and their surviving dependants received € 605 K (previous year: € 618 K) in the form of pensions. The amount of pension obligations (present value of defined benefit obligation) for former members of the Executive Board and their surviving dependants amounted to € 8,499 K (previous year: € 8,635 K).

Responsible management of opportunities and risks

For GILDEMEISTER, the responsible handling of risks is part of good corporate governance. Significant risks and opportunities are identified and regularly monitored with the aid of a systematic risk management system. In this way we ensure that risks are identified and assessed timely. The Executive Board and the Supervisory Board are informed regularly about the risk situation of the group and the individual business units. The early risk identification system set up by the Executive Board pursuant to Section 91 (2) of the German Stock Corporate Act (AktG) is checked by the annual auditors, is continuously further developed by GILDEMEISTER and adapted to meet the changing economic environment. More information on the **opportunities and risk management system** can be found in the chapter Opportunities and risk report on **page 92 et seq.**

Cooperation between the Executive Board and Supervisory Board

The Executive Board and Supervisory Board work closely together for the benefit of the company. Their joint goal is a sustainable increase in the company's value. The Executive Board informs the Supervisory Board regularly, timely and comprehensively of all issues relating to business development, finance, changes in the financial position and corporate planning, as well as the risk situation, risk management and compliance. Any deviations in business development from the set plans and goals, likewise for the strategic focus and further development of the group, are explained in detail and the rationale is described. The Executive Board supplies the Finance and Audit Committee with the half-yearly and quarterly reports, and discusses these prior to their publication with the Finance and Audit Committee. The Articles of Association provide that a number of business procedures are subject to the approval of the Supervisory Board.

Avoidance of conflicts of interest

Any potential conflicts of interest of Executive Board or Supervisory Board members are notified to the Supervisory Board without delay and require the latter's approval.

For in making decisions and in connection with their functions, the members of the Executive Board and of the Supervisory Board may not pursue any personal interests or business opportunities that the company is entitled to, nor may they grant any unjustified advantages to any other person. The Supervisory Board reports to the shareholders' meeting on any conflicts of interest and how these are dealt with. In the reporting year there was neither any conflict of interest of any members of the Executive Board or of any members of the Supervisory Board.

GILDEMEISTER recognises preventive measures against the misuse of **insider information** and insider trading as forming part of good corporate governance. On the one hand when appointing our employees who have access to sensitive material and data, we advise them in detail and in writing of the provisions of the German Securities Trading Act (WpHG). On the other hand, since 2010 a compliance guideline has been in force throughout the group that regulates the handling of insider information and forbids insider trading. GILDEMEISTER's guideline goes beyond the statutory requirements in that, amongst others, within the framework of a voluntary self-imposed obligation it also sets out a blocking period for dealing in securities around the publication dates of quarterly and annual financial reports.

Safeguarding the interests of the shareholders

GILDEMEISTER aspires to ensure the greatest possible transparency in corporate communication as well as timely communication to all target groups such as shareholders, lenders of capital, business partners, employees and the general public. On our website, www.gildemeister.com, we publish, both in German and English, press releases, business and quarterly reports as well as a detailed financial calendar, which is regularly updated. Shareholders and potential investors can obtain information in the Internet at any time on the current situation of the company. Any interested party may subscribe to an electronic newsletter at our website, which reports on the latest news from the group. Shareholders who are unable to attend the annual general meeting personally are given the opportunity of either exercising their voting right by proxy through an authorised person of their choice or by transfer of proxy to a representative of the group acting as per their instructions. In addition, it is possible to obtain information about the annual general meeting timely via the Internet.

Reporting and auditing of annual accounts

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

GILDEMEISTER Share

The trading year 2011

At the start of 2011, the German stock market indices were able to continue the positive performance of the previous year for a short time. This was aided by good business figures, especially those of DAX and MDAX companies. In March the catastrophes in Japan had a noticeably negative impact on international capital markets. Over the further course of the year the overall mood became subdued. In August, in particular, as the rating of the USA was downgraded by the rating agency Standard & Poor's, the stock markets indices recorded dramatic losses. In the second half of the year, the performance of stock markets was governed by the on-going public debt crises in the euro region and in the USA, as well as by the fear that the worldwide economy could remain subdued long-term.

The leading stock market indices developed in a year-on-year comparison as follows: The DAX fell by 14.7%, the MDAX by 12.2%. The European EURO STOXX 50 lost 17.1%. The US DOW JONES gained 5.5%, the S&P 500 Index remained at the previous year's level The British FTSE 100 Index had to note a fall of 5.6%. The Japanese NIKKEI 225 Index lost 17.3%.

Stock market listing, trading volume and shareholder structure

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

The volume of stocks traded at year-end was 127.9 million shares (previous year: 100.6 million shares); on the basis of the number of shares following the capital increases, a weighted turnover of 2.3 time results for the financial year (previous year's period: 2.2 times). The average **trading volume** rose to about 498,000 shares per trading day (previous year: 393,000 shares).

As a result of volatility on the international capital markets, **market capitalisation** of GILDEMEISTER in the reporting period decreased by about 22.9% or € 174.6 million to € 586.6 million.

In 2011 the GILDEMEISTER shares were held by a broad range of investors (about **76% free float**). Since 15 April 2011, Mori Seiki Co. Ltd., Nagoya, Japan, holds a share of 20.1% of the voting rights in GILDEMEISTER Aktiengesellschaft; this corresponds to 12,093,817 rights to vote.

Due to the high free float, information on owners of shares can only be approximated. The following diagram shows the size and composition of the shareholder base:

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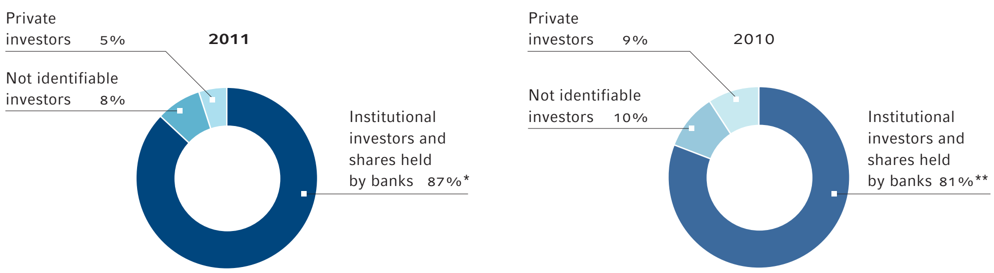
SHAREHOLDER STRUCTURE OF THE GILDEMEISTER GROUP / BREAKDOWN BY INVESTOR GROUPS
in %



* 20.1% Mori Seiki share

** 5% Mori Seiki share

Performance of the GILDEMEISTER share

The GILDEMEISTER share clearly lost in value in financial year 2011 as a consequence of volatility on the international capital markets. The positive branch development in machine tool building was reflected in GILDEMEISTER's good business figures but not in the valuation of the share. In the 2011 stock market year, the share was quoted at the start of the year at € 16.90 (3 Jan. 2011) and reached its highest value of € 17.50 on 3 May 2011. The lowest value of the year was € 8.69 (4 October 2011). The share closed the year on 30 December 2011 at € 9.75. At the time of preparing the financial report on 13 March 2012 the share was being quoted at € 12.13.

Various banks carry out an analysis of the company. The latest assessments are as follows: "Buy" (Close Brothers Sydler, 22 September 2011), "Buy" (Kepler Research, 31 October 2011), "Overweight" (BHF Bank, 27 October 2011), "Buy" (Berenberg Bank, 10 February 2012), "Buy" (Bankhaus Lampe, 10 February 2012), "Buy" (equinet, 25 October 2011), "Buy" (LBBW, 13 February 2012), "Buy" (Baader Bank, 26 January 2012), "Hold" (Commerzbank, 6 March 2012), "Neutral" (WestLB, 7 March 2012), "Neutral" (HSBC, 21 October 2011), "Hold" (Deutsche Bank, 24 October 2011), "Hold" (Montega, 20 February 2012), "Sell" (Metzler, 8 March 2012), "Sell" (DZ Bank, 27 October 2011).

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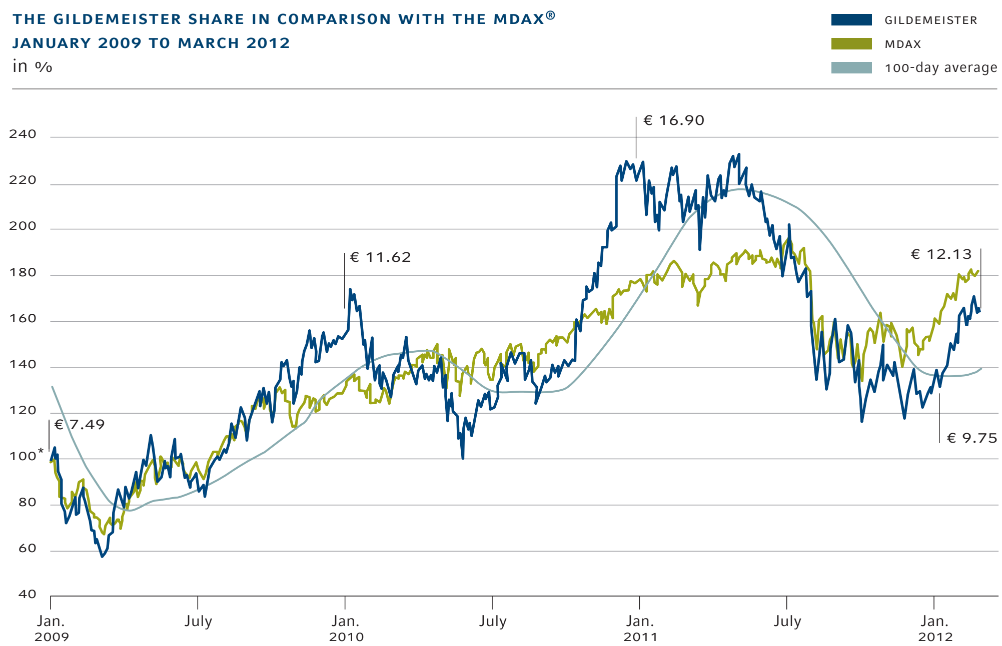
THE GILDEMEISTER SHARE IN COMPARISON WITH THE MDAX®
JANUARY 2009 TO MARCH 2012
in %



*02 Januray 2009 = 100, stock performances indexed, XETRA stock prices
Source: Deutsche Börse Group

The Executive Board and the Supervisory Board of GILDEMEISTER Aktiengesellschaft will propose to the Annual General Meeting of Shareholders, to be held on 18 May 2012, to distribute a **dividend** of € 0.25 per share, following the non-payment of a dividend in the previous year. With regard to the 58.4 million shares entitled to a dividend, the total amount to be distributed is € 14.6 million. Based on the closing price at the end of 2011, this results in a dividend yield of 2.6%. More information on the **dividend** can be found in the **"Financial Statements of GILDEMEISTER Aktiengesellschaft (short form)"** chapter on **page 40.**

BUSINESS REPORT
Corporate situation

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KEY FIGURES OF THE GILDEMEISTER SHARE

		2011	2010	2009	2008	2007	2006	2005
Registered capital	€ million	156.4	118.5	118.5	112.6	112.6	112.6	112.6
Number of shares	million shares	60.2	45.6	45.6	43.3	43.3	43.3	43.3
Year-end price 1)	€	9.75	16.70	11.33	7.85	18.50	9.60	5.89
Annual high 1)	€	17.50	17.19	11.69	23.38	22.80	9.75	6.39
Annual low 1)	€	8.69	7.53	4.25	4.79	9.20	5.86	4.82
Market capitalisation	€ million	586.6	761.2	516.4	339.9	801.1	415.7	255.1
Dividend	€	0.25	–	0.10	0.40	0.35	0.20	0.10
Dividend total	€ million	14.6	–	4.6	17.3	15.2	8.7	4.3
Dividend yield	%	2.6	–	0.9	5.1	1.9	2.1	1.7
Earnings per share 2)	€	0.85	0.09	0.10	1.87	1.16	0.63	0.32
Price-to-earnings ratio 3)	€	11.5	185.6	113.3	4.2	15.9	15.2	18.4
Cash flow per share 4)	€	2.7	1.7	– 1.7	2.5	2.9	2.5	0.63
Price-to-cash-flow ratio 5)	€	3.61	9.82	– 6.66	3.14	6.37	3.84	9.35

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

BUSINESS REPORT
Corporate situation

Capital increases

In March and April 2011, GILDEMEISTER successfully carried out two capital increases. Within the framework of the first, **10% capital increase**, shareholders‘ subscription rights were excluded. The 4,558,200 new shares were subscribed by our cooperation partner, Mori Seiki, at an issue price of € 18.22 per new share; this corresponded to a mark-up of about 27% based on the volume-weighted average price of the GILDEMEISTER share on the date the resolution was passed or 20% measured on the volume-weighted average price on the last ten trading days before the resolution. The capital increase was carried out on 21 March 2011 and entered in the Commercial Register. The registered capital increased to € 130,364,527.80; it is divided into 50,140,203 no par value shares. In the second, **20% subscription rights capital increase**, the 10,028,040 new shares were offered to shareholders at a ratio of 5:1. The subscription price amounted to € 13.66, which corresponded to a discount of 10% on the so-called **“THEORETICAL EX RIGHTS PRICE (TERP)”** of the share on the last three trading days before the resolution on the capital increase. The shareholders made extensive use of their subscription rights; the placement level was 99.7%. The few remaining shares were sold to one shareholder. The capital increase was carried out on 13 April 2011 and entered in the Commercial Register. Since then the registered capital amounts to € 156,437,431.80; it is divided into 60,168,243 no par value shares.

The new shares were included in the existing listing on 15 April 2011. The net proceeds from the two capital increases of € 213.7 million were mainly used to repay financial liabilities and thus to strengthen the equity basis. Furthermore, the remainder was invested for growth in the core business “Machine Tools”.

Share buyback programme

The Executive Board of GILDEMEISTER Aktiengesellschaft passed a resolution on 25 August 2011 to use the authorisation granted by the Annual General Meeting of 14 May 2010 to buy back the company's own shares. Pursuant to the Executive Board resolution, a total of up to 3,068,581 shares may be bought back; this corresponds to about 5.1% of the registered capital of the company.

The buyback commenced as of 26 August 2011 and ended on 31 December 2011. In total, 1,805,048 shares were repurchased. This corresponds to 3.0% of the voting rights. The shares purchased may be used for all purposes stated in the authorisation granted by the annual general meeting; especially the use as acquisition currency is to be mentioned.

Investor Relations and Corporate Public Relations

Our investor relations work serves the continuous and open exchange of information with all participants in the capital market. It is our aim on the one hand to create transparency and, on the other, we would like to give the capital market participants a better understanding of our business model and make its value drivers clearer in order to achieve appropriate evaluation of the GILDEMEISTER share. It is particularly at a time when the international capital markets were uncertain as a consequence of public debt crises and growing economic worries that we have intensified our communication efforts with institutional and private investors. At road shows and capital market conferences both nationally and abroad, in individual interviews and in telephone conferences, GILDEMEISTER presented the company's development and strategy. More than 1,300 shareholders attended our 109th Annual General Meeting of Shareholders in May 2011. 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: 27,419 accesses to our annual and quarterly reports – including 7,452 in English – have been registered at our website www.gildemeister.com

The work of the **Corporate Public Relations** department plays a significant role in maintaining and strengthening GILDEMEISTER's excellent reputation with the general public. It is important for us to maintain a 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. We achieve this by always being competent, fast, open and reliable in providing information on the group's current position and its companies. The value that we place on open communication is shown not least in our financial reports, which have been considered exemplary for years. With their transparency, language quality and innovative design, they have been repeatedly impressing experts and jurors of prestigious rankings. Our 2010 annual report was once again recognised in the manager magazin awards. In the reporting year expenditure in the area of investor and public relations amounted to € 3.1 million including the measures related to the capital increases (previous year: € 2.4 million).

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Organisation and Legal Corporate Structure

GILDEMEISTER Aktiengesellschaft manages the GILDEMEISTER group centrally as the controlling company and holds all key functions across all areas. Further holding functions are assumed 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 **business activities** is included in the **Segment Report** chapter on **page 45 et seq**.

All GILDEMEISTER group companies are managed as profit centres and follow clear guidelines to ensure the best possible performance and results. We present the **management structure** in the **group structure** on **page 14 et seq.** A uniform IT infrastructure throughout the group standardises the main processes and workflows and thus forms an integrative link for the group. The organisational costs of GILDEMEISTER Aktiengesellschaft in the reporting year amounted to € 16.2 million (previous year: € 19.7 million).

Changes to the **legal corporate structure** of the GILDEMEISTER group in the reporting year are primarily as a result of extending the sales and service structure within the framework of the cooperation with Mori Seiki. As of 1 September, the successful cooperation in the Asian and North American cooperation markets was extended to the German market. Specifically, the following significant changes were made:

- In July 2011 DMG Mori Seiki South East Asia Pte. Ltd. founded DMG Mori Seiki (Vietnam) Co., Ltd. with registered office in Hanoi and thereby strengthened the Asian cooperation market.
- To build up sales and service activities in Africa, in July 2011 DMG Europe Holding GmbH founded DMG Egypt for Trading in Machines Manufactured – LLC as well as Mori Seiki Egypt for Trading in Machines & Equipments – LLC; both companies have their registered office in Cairo.
- In September 2011, DMG Vertriebs und Service GmbH founded DMG Holding AG with registered office in Oberuzwil, Switzerland. It is intended to administer the holding functions within the framework of combining the sales and service activities with Mori Seiki in Europe.

- In November 2011, DMG Holding AG founded DMG Scandinavia Denmark APS with registered office in Copenhagen.
- In addition, DMG Holding AG (60%) and Mori Seiki Co. Ltd., Nagoya (40%) jointly founded DMG / MORI SEIKI Europa AG with registered office in Dübendorf, Switzerland, in December 2011. It will act as a joint European holding company within the frame work of expanding the cooperation to the European market.
- In December 2011, in connection with combining the joint sales and service activities in Germany with Mori Seiki, the following companies were founded: DMG / MORI SEIKI Services GmbH, Bielefeld and DMG / MORI SEIKI Hamburg GmbH, Hamburg as well as a further sales and service company, that is responsible for the Stuttgart region (DMG / MORI SEIKI Stuttgart GmbH).

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

DMG is responsible for direct of our products and services. Alongside this, our key accounting handles all internationally operating major customers. a+f GmbH is active in the field of renewable energies. There is no intention to make a fundamental change to the group structure at the current time.

A detailed overview of the shareholding relationships within the GILDEMEISTER group as at 31 December 2011 and further explanations of the changes in the legal corporate structure are set out in the **notes to the consolidated financial statements on page 113 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 113 et seq.**

The GILDEMEISTER group has **no major shareholdings.** Within the framework of a strategic partnership, GILDEMEISTER has a 5.1% shareholding in the Japanese machine tool builder, Mori Seiki Co. Ltd. (Nagoya).

DMG Vertriebs und Service GmbH, Bielefeld, is a 100% subsidiary of GILDEMEISTER Aktiengesellschaft. It operates 93 sales and service locations and sales offices, as well as branch offices abroad that are not legally independent companies.

The sales offices of DMG Technology Trading (Shanghai) Co.Ltd. in Beijing, Guandong, Chongqing, Shenyang and Xi'an are certified to market group products in China. Furthermore, the following companies maintain branch offices that are not legally independent enterprises: DMG Italia S.r.l., Bergamo (Italy), DMG / Mori Seiki Austria GmbH, Klaus (Austria), DMG Czech s.r.o., Brno (Czech Republic) and DMG Mori Seiki South East Asia Pacific Pte. Ltd. (Singapore).

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

GILDEMEISTER must provide the following supplementary information:

- The registered capital of GILDEMEISTER Aktiengesellschaft amounts to € 156,437,431.80 and is distributed in 60,168,243 no-par value bearer shares. 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 (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.
- Mori Seiki has committed itself not to make use of its voting rights insofar Mori Seiki hereby controls the annual meeting.
- Mori Seiki Co. Lts. holds 20.1% of voting rights.
- Pursuant to Section 119 (1)(5) German Stock Corporation Act (AktG), the Annual General Meeting of Shareholders resolves on changes to the Articles of Association. The correspondingly defined rules of procedure are contained in Sections 179, 181 of the German Stock Corporation Act (AktG) in connection with Section 15 (4) of the Articles of Association of GILDEMEISTER Aktiengesellschaft.
- A resolution of the Annual General Meeting passed on 13 May 2011 authorises the Executive Board, with the approval of the Supervisory Board, to increase the registered capital of the company in the period up to 13 May 2015, through a one-time only issue or through several issues of new shares for cash or non-cash contributions to a nominal amount of € 21,332,376.00 (authorised stock). This authorisation is set out in Section 5 (3) of the Articles of Association.
- Moreover, the company is authorised to purchase its own shares until 13 May 2012 up to an amount of € 11,851,321.00 (this corresponds to about 7.5% of the registered capital). 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 no-par value bearer shares (contingent capital I). The conditional capital increase is to be effected only insofar as the options or conversion rights relating to warrant or convertible bonds, issued or guaranteed pursuant to the authorisation resolution of the Annual General Meeting of Shareholders of 15 May 2009 and the owners of options or conversion rights exercise their right to convert or any conversion obligation or obligation to exercise an option is fulfilled.
- The Executive Board is authorised with the consent of the Supervisory Board to exclude the statutory subscription right in Section 5 (3) a) to d) of the Articles of Association specific cases, amongst others for capital increases in exchange for cash if the issue price of the new shares is not significantly lower than the exchange price at the time the issue price is finally set by the Executive Board within the meaning of section 203 (1) and (2), and section 186 (3)(4) of the German Stock

Corporation Act (AktG), and the prorated amount of the share capital relating to the new shares that are subject to the exclusion of the subscription right does not exceed 10% in aggregate of the registered capital at the time the new shares are issued.
- Ultimately, the Executive Board is authorised to issue shares to a value of € 5.0 million to employees of the company and of companies affiliated with the company (cf. Section 5 (3) of the Articles of Association).
- The significant agreements of GILDEMEISTER Aktiengesellschaft are subject to a **change of control** condition (the acquisition of 30% or more of the voting rights) as a result of a takeover offer within the meaning of Section 315 (4)(8) German Commercial Code (HGB).

Pursuant to Section 315 (4) German Commercial Code (HGB), the Executive Board provides the following explanatory information:
- As of 31 December, the registered capital of the company amounts to € 156,437,431.80 and is distributed in 60,168,243 no-par value bearer shares. Each share has a voting right and is the determining factor for the share of profits. The company is not allowed to make use of the voting right from own shares and does not pro rata participate in the earnings.
- The most recent amendment to the Articles of Association took place in April 2011, when Section 5 of the Articles of Association was amended.
- In the reporting year the Executive Board made partial use of the above-referred authorisation (capital increases and purchase of own shares).
- The conditions for a change of control comply with customary agreements. They do not lead to an automatic termination of the above-referred agreements but, in the event of a change of control, merely grant our contractual partners the possibility of terminating these.

Research and Development

The aim of our research and development activities is to increase the added value of our products for our customers even further. We are developing technologically-leading products on the basis of global market requirements and offer our customers a comprehensive full liner range from one source. The overarching priorities that we are focusing on in our research and development are:
- increasing customer benefits through innovative software concepts,
- extending our technological lead in the machining of complex component geometries,
- strengthening our market position in the ECOLINE area as well as
- diversifying our product range in the area of renewable energy sources.

Our research and development costs of € 54.6 million were about 13% above the previous year's figure of € 48.1 million. The innovations ratio in the "Machine Tools" segment was 5.0%; the decline has to be evaluated in relation to the increased sales revenues (previous year: 6.3%). Investments in new developments are listed in the segment reports as capitalised development costs. As a growth driver, research and development activities make a marked contribution to the group's results. However, it is not possible to quantify the contribution made by individual measures.

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

		2011	2010	2009	2008	2007	2006	2005
F&E-employees	number	485	451	435	471	467	421	408
Proportion of R&D employees [1]	in %	15	15	15	13	13	12	13
R&D expense	€ million	54.6	48.1	47.9	57.3	49.5	43.9	45.7
Innovation ratio [2]	in %	5.0	6.3	6.3	4.8	4.6	4.8	5.8
New developments	number	20	17	15	17	19	13	22

1) R&D employees in relation to the number of employees in the "Machine Tools" segment
2) R&D expenses in relation to sales revenues in the "Machine Tools" segment

GILDEMEISTER presents 20 new developments

The success of our work in R&D is evidenced on the one hand by the high customer demand. Overall, machines that were developed in the past three years accounted for about 60% of all orders in the reporting year. On the other hand, it is evidenced by the profusion of our **innovations:** In the reporting year, GILDEMEISTER presented 20 new developments at 63 national and international trade fairs and exhibitions. At the most important machine tool trade fair, the EMO in Hanover, GILDEMEISTER and Mori Seiki jointly displayed 97 high-tech exhibits over a total exhibition area of 7,655 sqm. Moreover, in the reporting year we were able to register 65 patents, utility models and designs, as well as brand names and trademarks (previous year: 60 industrial property rights). In total, the value of our portfolio of protected rights, defined by the market value method, amounts to about € 357 million (previous year: € 329 million).

A total of 485 employees work on developing our products (previous year: 451 employees); this corresponds to 15% of the workforce at the plants (previous year: 15%).

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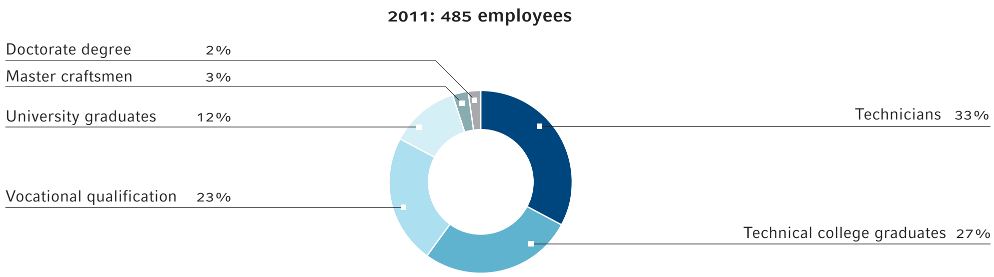
GROUPWIDE QUALIFICATION STRUCTURE IN THE AREA OF DEVELOPMENT / CONSTRUCTION

in %



Innovative software increases customer benefits

The research and development activities at the sites are de-centralised; agreement takes place by way of product development discussions throughout the group. Our development activities are complemented by the close cooperation with our system suppliers as well as the cooperation with Mori Seiki. Within the framework of this cooperation we use licenses. Apart from this we do not purchase third party **development expertise.** We use the services of third parties primarily in the area of industrial design. Through working together with national and international universities, we further benefit from the latest scientific findings.

DMG Electronics coordinates **software** activities throughout the group. In addition to the development and maintenance of software products for production planning and support, agreement between group companies on development topics forms a major priority. With the **DMG process chain** we offer a programming and simulation solution that is unique worldwide and that supports our customers from the idea to the finished workpiece: From the CAD drawing to the CAM programming and the patented 1:1 simulation of the **DMG Virtual Machine** to production on a DMG machine. As the customer's actual machine and the original machine control are digitally mapped, we are able to simulate the production procedures in advance exactly. With the enhanced **DMG Messenger** our customers can call up detailed machine park status information – at any time and from anywhere. Through permanent online monitoring with integrated email notification, our customers can see how their production is doing at all times and are informed of any changes immediately. The **DMG Messenger** thus guarantees our customers fewer machine downtimes and maximum production efficiency.

In the **"Machine Tools"** segment we were able to extend our product range with 20 innovative new developments. Within the **Milling Association** we presented six new developments in the reporting year. With the DMU 600 P, the DECKEL MAHO Pfronten site opened up **XXL machining** of components weighing up to 40 tonnes and with a length of up to 6 metres. The new generation of the monoBLOCK® series was extended by two models with the DMU 85 monoBLOCK® and the DMU 105 monoBLOCK®. In the area of horizontal milling machines, the range of products is supplemented by the NHX 4000. SAUER GmbH offers two new machines for 5-axis milling and laser structuring in one setting with the Lasertec 65 Shape and the Lasertec 210 Shape. Within the **Milling and Machining Association,** DECKEL MAHO Seebach GmbH presented five new machines. A main focus was placed on expanding the eVolution series for 5-axis machining. The highlights presented included the DMU 40 eVo *linear*, the DMU 60 eVo *linear* with pallet changer, the DMU 80 eVo *linear* as well as the DMU 100 eVo *linear*. With the first jointly developed machine by DMG and Mori Seiki, the MILLTAP 700, GILDEMEISTER is making an additional new market segment accessible. The **Turning Association** presented four new developments. The universal turning machines CTX gamma 3000 and CTX gamma 3000 TC extend the product range for turning lengths of up to three metres. The CTX beta 1250 TC 4A complements the CTX series in the area of 4-axis production turning with an integrated milling spindle. With the SPRINT 42 | 8 GILDEMEISTER also presented an automatic lathe for the flexible machining of short and long turning parts with the shortest re-tooling time. In the **ECOLINE** area GILDEMEISTER presented the ECOLINE series new generation. With the CTX 310 eco, the CTX 510 eco, the DMC 635 V eco, the DMC 1035 V eco and the DMU 50 eco, all the products in the series have enhanced and innovative technical features and a trend-setting new design.

MILLTAP 700 – first joint new development with Mori Seiki

We have extended our range further in the **"Industrial Services"** segment in the reporting year. With DMG LifeCycle Services, we offer our customers a unique service portfolio to maximum the productivity of our machines. The solutions cover the entire life cycle – from commissioning to training, innovative software products, expert service on site and to trade-in as a used machine. DMG Automation offers an extensive range of workpieces and pallet handling systems for fast and simple integration in our machine tools. The DMG Microset devices for tool pre-setting enable significant time savings as the tools can be set during machining time. With technical expertise and state-of-the-art logistics, DMG Spare Parts GmbH further ensures the reliable and efficient supply of original spare parts.

In the renewable energies division, GILDEMEISTER showed the performance capability of the latest energy technology at the in-house exhibition in Bielefeld. Solar and wind energy are efficiently used by the SunCarrier and WindCarrier, stored in the CellCube big battery and supplied from the e-filling station. In this way electric vehicles can be operated with electricity from renewable energy sources in an ecologically meaningful way.

At the Intersolar in Munich, GILDEMEISTER presented two additional innovative developments with the CellCube 200-400 big battery and the SunCarrier 70. The long-lasting, low maintenance vanadium redox flow battery CellCube 200-400 offers enormous power reserves for industrial use. Its areas of application range from stabilising network fluctuations to emergency power supply and to smoothing out power output in wind or solar parks. A further highlight of our products is the solar tracking system SunCarrier 70; with its low height of 4.3 metres, it rounds off the product range at the lower end of the SunCarrier series. Just as the other products in the series, the system supplies greater output of up to 35% in comparison with fixed position plants. Moreover, development of the SunCarrier 22 started.

Green energy for tomorrow's mobility

Purchasing and Procurement

Activities in Purchasing and procurement in the reporting year were marked overall by high volatility on the procurement markets. Due to the dynamic development of demand, many suppliers recorded high order intake in part, so that some delivery times for essential components lengthened considerably. One of the main tasks of purchasing, therefore, was ensuring material supply through timely capacity agreements with suppliers. Despite the difficult conditions, due to a global focus and also due to a partnership approach to working with suppliers, it was possible to achieve a stable price level and for the most part to safeguard production.

The aim of the interdisciplinary purchasing activities at GILDEMEISTER is to make a significant contribution to safeguarding the existing market and technological advantage. In doing so, purchase management activities are based on close interaction between the integral focus of the **supply management *co*Supply©,** the **strategic material groups management** and the **integrated global sourcing.** The materials group managers act as coordinators within the GILDEMEISTER material groups management for cooperation throughout the group between purchasing and technology. In this connection, our joint standardisation activities are also being driven forward, for example in the area of control technology.

Furthermore, a comprehensive risk management system has been established to be able to monitor our suppliers continuously. Negative developments can be identified early and counter-measures can be introduced timely.

The suppliers' day, which is now in its eleventh year, took place during the in-house exhibition in Pfronten following tradition. Some approximate 250 representatives from the TOP 60 suppliers to the group were welcomed by the GILDEMEISTER Aktiengesellschaft Executive Board and were invited to design future-oriented technologies together through innovative ideas.

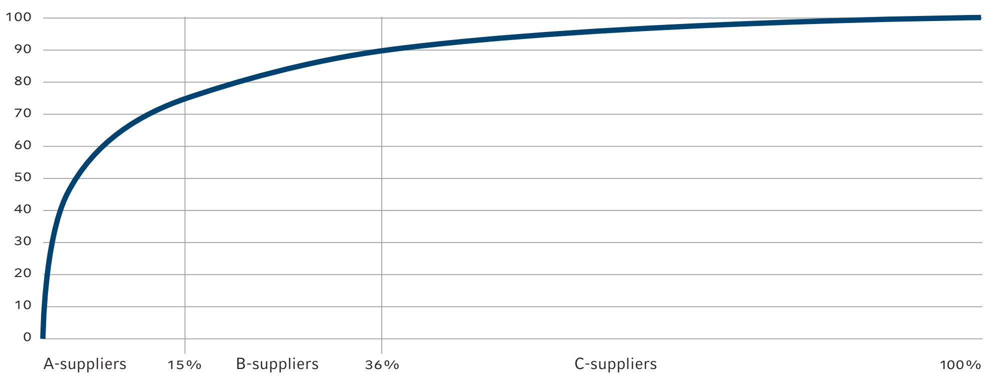
Costs for materials and purchased services amounted to € 952.7 million (previous year € 768.1 million), of which materials and consumables accounted for € 800.8 million (previous year: € 654.7 million).

The **materials quota** decreased to 54.6% (previous year: 55.9%). Our **depth of added value** was 29.5% (previous year: 27.5%). The share of our top 50 suppliers in the purchasing volume rose to 73% (previous year: 75%).

Our supplier structure is shown in the following graph:

D.14

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



A structure analysis shows that 15% of our suppliers cover 76% of the total purchasing volume. We refer to these as our A-suppliers. A further 21% of our suppliers have a share of 14% of the purchasing volume (B-suppliers); 36% of our suppliers thus cover 90% of the entire purchasing volume. The remaining 10% share of materials purchased is spread among the remaining 64% of our suppliers, the C-suppliers.

In addition to the further development of the TOP suppliers in Europe, expanding our **global supply partnerships** within the scope of our **supplier-capital strategy** was a particular focus in the reporting year. We are pursuing the goal of making optimum use of the regional advantages of our sites with respect to quality, costs and time. At the same time we view our strategic supply partners as supply chain partners who not only supply GILDEMEISTER reliably with qualitatively high-value products but also give a considerable impetus to product development. Through joint product development and enhancement, our suppliers contribute to a reduction in manufacturing costs, which in the current times is of decisive importance in safeguarding market shares. Due to the constantly growing volume in Asia, the global sourcing purchase organisation has also been expanded further. In addition to our activities in China and India, in the reporting year Taiwan was also exploited as a new market, especially for complex assemblies. Through a continuously rising share of local procurement **(local content)** – particularly in China, India and Taiwan, we are reducing our exchange risk from sales in foreign currencies **(natural hedge).**

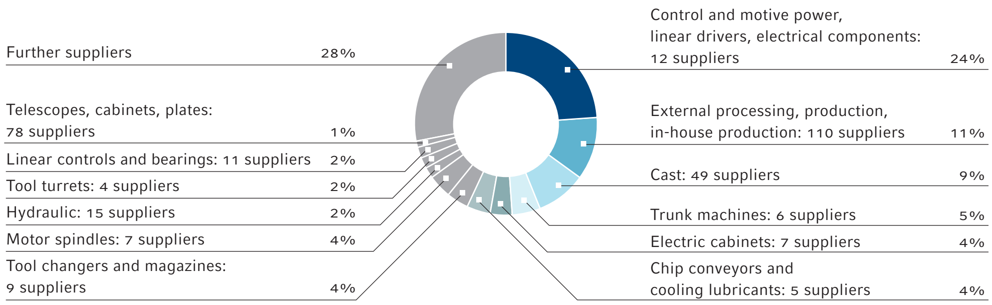
In the reporting year the replacement times for important components lengthened significantly so that **security of supply** formed a priority in our purchasing activities. To secure materials supply, we have been able to fall back on our proven “Front Office” workflow system. The supplier cockpit – a major element of Front Office – provides our suppliers with a long-term preview of delivery and demands. Through a close and timely exchange of information on requirements, both sides were able to respond flexibly to the rise in orders from our end-customers. We also make important information available to our suppliers online at our communications platform www.coSupply.de.

The share of the individual material groups in the purchasing volume can be taken from the following graph:

D . 15

SHARE OF MATERIALS GROUP IN PURCHASING VOLUME
in %

2011: € 952.7 million



Production, Technology and Logistics

GILDEMEISTER 2015
project started

In **production, technology and logistics** we have consistently continued our activities to increase efficiency and introduced new measures. "GILDEMEISTER 2015" is a project we have started in the reporting year across all plants to optimise processes in the areas of production, technology, quality and logistics. In various sub-projects, we are working on numerous optimisation measures. As an example, we are reducing the assembly times of our machines by extending clocked assembly lines. This applies both to extending the progressive assembly principle to other types of machine and additional locations as well as to the upstream assembly of subassemblies. At the same time we are also shortening order lead times in the process steps that take place prior to the actual start of assembly. We are backing this up by increasing transparency in production. In addition to the planned use of standard assembly monitors throughout the group, which make the necessary information available to employees online at their workspace, we are likewise simplifying and standardising the shop floor visual aspects. A clearly arranged presentation of results informs employees of the achievement of the target. This applies likewise to comparison throughout the company by way of a permanent benchmark. The production report, which is prepared graphically and is therefore easy to comprehend, now provides information on the key performance indicators in a compressed format on just a few pages.

The extent of the order backlog and thus the average delivery time in the German machine tool industry has been estimated at 9.5 months by the VDW (German Machine Tool Builders Association). However, this industry average contains a high proportion of specialist machines and project business with high lead times. As GILDEMEISTER mainly operates in the area of standard machines, the average extent of the order backlog is below this figure at five months.

Mori Seiki cooperation progresses successfully

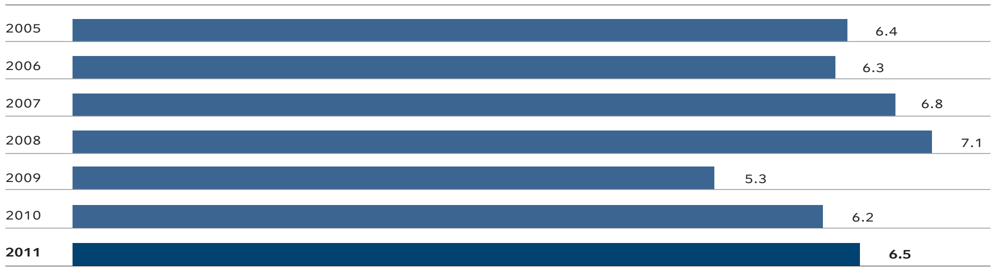
Our **cooperation** with the Japanese machine tool builder Mori Seiki is progressing successfully. We presented the first results of the Mori Seiki cooperation at the EMO – the most important trade fair for the industry – in Hanover. One of the trade fair highlights was the MILLTAP 700, the first jointly-developed machine from Mori Seiki and DMG. In the reporting year DECKEL MAHO Seebach GmbH vigorously pursued its production preparations for the MILLTAP 700 and started the building of additional assembly areas. The production start-up for the NHX 4000 commenced at DECKEL MAHO Pfronten GmbH, the NTX 1000 started up at GILDEMEISTER Drehmaschinen GmbH in Bielefeld. Both machine types are based on the Mori Seiki basic machines. However, the DMG machines differ from the Mori Seiki products in their control technology, for example, and in their drive technology and software. Following the successful production start-up of the joint ECOLINE machines at our production plant in Shanghai last year, this joint machine type already accounted for nearly 20% of the production volume in the reporting year.

GILDEMEISTER winner in ideas management industry ranking

A core component of our integral **PULLplus value added system** is the ideas management, which has won several awards. Within the employee suggestions scheme, our employees have also contributed significantly this year to our success with their wealth of ideas and power of innovation. The number of **improvement suggestions** in the reporting year was 21,346 suggestions (previous year: 19,143) nearly 12% higher than the previous year. With an average 6.5 suggestions for improvement per employee at the production plants, we have once again improved this figure (previous year: 6.2). We increased the accumulated net benefit – benefit of the suggestions less the cost of implementation – to € 2.8 million (previous year: € 2.1 million). By encouraging high-quality suggestions for improvement, we are motivating our employees to increase the group’s **process capital** even further. Evidence of the excellent quality of the GILDEMEISTER ideas management are regular top positions in the industry ranking ideas management of the Deutsche Institut für Betriebswirtschaftslehre e.V. (German institute for business administration). In the reporting year GILDEMEISTER took the first three places in the industry ranking with the DECKEL MAHO Seebach, GILDEMEISTER Drehmaschinen and DECKEL MAHO Pfronten plants.

D . 16

SUGGESTIONS FOR IMPROVEMENT AT PRODUCTION PLANTS
Number per employee



Production associations increase flexibility

The production plants at GILDEMEISTER are organised into so-called production associations across all sites. This allows existing assembly and production capacity to be used optimally within production through the fast and flexible relocation of products. It is especially at times when general conditions and thus demand change quickly that a flexible, worldwide production network is needed as the answer to optimum capacity management. This permits us to avoid building up additional fixed costs, achieve the synergies being aimed at and benefit from standardised, consolidated structures.

In the **Milling Association** DECKEL MAHO Pfronten GmbH and SAUER GmbH are brought together under uniform management. Through a central management, we have achieved synergy potential. For example, through combining the spatial areas of the technology centre and assembly at Sauer GmbH we achieved not only surface area optimisation but also optimisation of the workflow. Through the spatial proximity that has been created between assembly, development and technology centre, agreement processes are no longer time-consuming and thus innovations can find their way to market even faster than before. DECKEL MAHO Pfronten has increased order and cleanliness in assembly through the introduction of standardised loading equipment in the production logistics. Simultaneously, this reduces the floor area needed for material supply in production. As DECKEL MAHO Pfronten acts as the logistics supplier for SAUER GmbH, the improvement likewise benefits SAUER GmbH at its Pfronten location. In the reporting year DECKEL MAHO Pfronten successfully carried out numerous new production start-ups. In addition to the start-up of the NHX 4000, the DMU 340 in the second generation, the series production of the DMU 600 P, the highlight of the year was the start of production of the DMU 65 / 85 and 105 MONOBLOCK. Due to the high demand for these machine types, the final assembly was switched to a two-shift operation. At the same time, assembly line production for the new MONOBLOCK generation was adjusted. Furthermore, DECKEL MAHO in Pfronten updated its own machine production. The high point of the modernisation was the commissioning of a DMC 210 U from its own product range. In addition, within the framework of securing the future of the in-house training centre, DECKEL MAHO Pfronten carried out extensive modernisation work to it. This showcases the high value that the GILDEMEISTER group places on the vocational training of our future skilled workers.

Pfronten modernises training centre

In the **Milling and Processing Association**, DECKEL MAHO Seebach and FAMOT Pleszew support each other in the optimum capacity utilisation of the group's internal assembly and production capacity. Through relocating the final assembly of the DMU 50 eco to Shanghai, China, and Pleszew, Poland, capacity utilisation has increased at both plants. In Seebach new capacity has been created for the start-up of the MILLTAP 700 through the relocation. For the MILLTAP 700 – the first jointly-developed machine from DMG and Mori Seiki – the necessary assembly and logistics capacity was created through a large-scale new building project. Alongside this, the Seebach site coped with the production start-up for the new DMU 60 / 80 eVolution machine generation. By optimising the existing machine park, it was possible to increase production capacity. With the DMF 360 milling centre, developed and produced on-site, mechanical machining in Seebach has been updated. In addition to the successful production start-up of the DMU 50 eco, FAMOT also enhanced its production logistics. FAMOT introduced a two-shift system in the area of logistics. This enables suppliers to deliver materials until 10.00 p.m., which keeps the supply of materials constant in assembly. To ensure materials handling regardless of weather conditions, a covered area of more than 1,600 square metres has been created. As additional support, automatic shelving systems for small parts and a new heavy-duty shelf with 180 storage areas have been set up as part of the surface area optimisation.

FAMOT optimises logistics

In the **Turning Association**, GILDEMEISTER Drehmaschinen GmbH, GRAZIANO Tortona and GILDEMEISTER Italiana combine their core expertise in turning. Under central management synergies in assembly, production, development and administration are jointly achieved. In the reporting year GILDEMEISTER Drehmaschinen GmbH successfully completed production start-up of the CTX beta 1250 4A. Parallel to this, GILDEMEISTER Drehmaschinen GmbH introduced a project organisation for special machines – machines with a high proportion of customised special design. The project managers ensure the smooth order lead times from the order clarification to the start and to implementation in assembly. Through this GILDEMEISTER Drehmaschinen GmbH achieves a clear improvement in lead times for these machines. Within the scope of a PULLPLUS project, GILDEMEISTER Italiana S.p.A. has optimised the assembly process for the SPRINT 65. The turning machine is now no longer assembled in the classic box assembly but instead in a sequence of four consecutive assembly stands. At each individual assembly stand, the precisely defined assembly is carried out.

Project organisation improves lead times

In the **ECOLINE association** we bring together the activities of DMG ECOLINE GmbH and DMG Shanghai Machine Tools Co. Ltd. A highlight was the start-up of assembly of the DMU 50 eco. The DMU 50 eco is assembled in a flexible model mix on three assembly lines together with the DMC 635 / 1035 V eco and the CTX 310 / 510 eco. In the reporting year our Shanghai site assembled 1,071 machines (previous year: 901). This represents an increase in machine production of nearly 20% within one year. DMG Shanghai Machine Tools introduced a four-hour cycle time in the pre-assembly to increase capacity further. This is a pre-condition for the change likewise planned to the final assembly lines to a four-hour cycle. At our Shanghai site in China, we have installed two big CellCube

FB 10-100 storage batteries. DMG Shanghai Machine Tools' most important systems are thereby self-sufficient with regard to the instable electricity supply. The two CellCubes supply electricity to the data servers, the telephone equipment and all the computers. Furthermore, the CellCubes store cheaper electricity during the night-time hours and feed this back into the company grid during the markedly more expensive main hours of consumption.

DMG Shanghai Machines Tools self-sufficient with CellCube

Energy Solutions offers industrial customers solutions in the areas of producing, storing and using 100% green energy. In the area of power generation, GILDEMEISTER Energy Solutions benefits from the experience of more than 115 Megawatt installed SunCarrier systems as well as fixed solar tracking systems in recent years. In Italy alone, solar parks have been constructed that produce total output of 2,500,000 kWh and thus supply about 7,300 households with electricity. This is equivalent to a CO_2 saving of 14,350 tonnes.

Sustainability

GILDEMEISTER invests throughout the group in improved building insulation, automatic lighting systems, energy-efficient ventilation plants and state-of-the-art technology, as well as in projects on the environmentally-friendly generation of energy. One of the measures to **reduce CO_2 emissions** was the replacement of the heat supply at our site in Tortona, Italy. The new system reduced energy consumption and emissions by about 20%. An important element of the new energy concept at the Seebach site is the modern combined heat and power unit (CHP) that has been in operation since November 2011. It serves primarily to generate electricity but in addition provides heating for our assembly halls with its thermal energy. Compared to conventional power generation with boilers and power stations, by using a CHP we avoid the emission of more than 540 tonnes of CO_2 annually.

At the Bielefeld site we are installing a new energy-saving air-conditioning system; it will be commissioned in the first quarter of the current financial year. It operates with indirect evaporative cooling, which heats and cools with little use of energy. Should the test phase be completed successfully, we will replace all the air conditioning systems at the site gradually.

In the meantime, we have installed SunCarriers at five group site for the environmentally-friendly generation of power. In the reporting year, about 395,000 kWh of electricity were produced in this way without any emissions and about 195 tonnes of CO_2 emissions were avoided – we have based the calculation on an average CO_2 emission of 494 g per kWh, which the German Federal Association for Energy and Water (BDEW) determined in Germany for the year 2010.

GILDEMEISTER reduces CO_2 emission

We have identified this as a **"sustainable development key performance indicator"** (SD-KPI). In the medium-term we intend to produce up to 15% of our energy requirements ourselves; in the meantime we will continue to reduce total energy requirements at all our sites systematically. With the aid of detailed site analyses, we have determined the **fields of application of renewable technologies** and drawn up individual energy concepts in order to further optimise energy purchase. Within the scope of this initiative, extensive investments are initially planned at the Bielefeld site. Details of this can be found on **page 106** in the **Forecast**.

From GILDEMEISTER's point of view, sustainable environmental protection not only includes technological innovations and the eco-friendly production of machines but also that the machines themselves should have environmental characteristics. We are a committed member of the German Machine Tool Builders (VDW) **Blue Competence** initiative. The aim of the initiative is to reduce the energy requirement of production machines in Europe by up to 30%. A high value is placed on the **energy efficiency** of machine tools at GILDEMEISTER – for several years we have been setting the benchmarks in the industry in this respect. Under the label DMG ENERGY SAVING we have brought together all our activities to improve energy efficiency. Our activities are integral to the areas of electronics, control technology and mechanics. We are consistently pushing ahead with our own developments and those of our system partners. GILDEMEISTER has been relying on regenerative drives as standard in order to be able to use braking energy for acceleration procedures again. Our thermotechnically enhanced electrical cabinet design is aimed at avoiding the need for additional energy for cooling. In the construction of drives and aggregates, we avoid any unnecessary base loads and use all existing performance reserves. In addition to low friction guideways, weight counterbalance on the axes compensates the vertically moving mass. Both measures reduce the acceleration force required and therefore energy demand. We are also working closely together with manufacturers of control technology in order to achieve the most energy-saving axis control and path planning. Intelligent axis controls avoid energy-intensive acceleration and braking processes.

Member of the VDW initiative Blue Competence

Overall, these measures have reduced the **energy consumption of our machines** on average by 20% over the entire life cycle.

In order to be able to meet the demands of an environmentally aware industrial operation, GILDEMEISTER purposely avoids the use of any damaging materials and consumables. No damaging substances are generated in the production operations.

For energy generation without CO_2 emissions, GILDEMEISTER **energy solutions** presented the WindCarrier at the Intersolar 2011 trade fair in addition to the tried and tested SunCarrier systems. These small wind installations have 10 kW power rating and are based on the principle of the Darrieus rotor with a vertical rotational axis, by which the aerodynamic life is used extremely effectively to produce electricity. This low noise, small wind installation, which is independent of the wind's direction, has already been sold many times in Germany and Europe, as well as in Egypt, Japan and South America.

World novelty WindCarrier

Volkswagen counts on GILDEMEISTER energy solutions

With the "Energy Solutions Park", GILDEMEISTER shows its customers at the Bielefeld site how efficiently the **innovative energy systems** work together. The two installed SunCarriers and the WindCarrier generate electricity that is 100% emission-free, it is stored in the CellCubes and used at the e-fuelling station for the fast charging of electric vehicles. A concept that also impresses the automotive industry. In autumn 2011, Volkswagen AG opened the first electric fuelling station on its company premises in Wolfsburg, which comprises a SunCarrier, WindCarrier and CellCube FB 10-100.

Corporate Communication

In the reporting year, GILDEMEISTER relied on dedicated and diverse corporate communication both externally and internally. This included trade fairs and exhibitions, as well as print information, advertising and our internet presence, likewise corporate public relations activities and investor relations. At the same time, the industry highlight of the EMO, the most important trade fair worldwide for machine tools, was the main focus. Furthermore, we announced innovations and additions to product lines. Activities in the areas of corporate design, sales, pricing and innovations strategy were closely synchronised with our marketing actions as usual. Overall corporate communication played a role in enhancing the public image of the company. In the reporting year we expanded our activities and could thus make greater use of market potential. Expenditure in the area of corporate communication amounted to € 45.4 million (previous year: € 33.1 million).

Trade fairs and exhibitions are of essential importance to GILDEMEISTER as marketing instruments as this is where our products can be experienced close-up and information exchanged with our specialists. Our DMG and DMG / MORI SEIKI sales companies were represented at a total of 63 trade fairs and exhibitions, both nationally and abroad, during the reporting year. The trade fair highlight was the EMO in Hanover. As the largest exhibitor, DMG / MORI SEIKI presented their exhibits at the EMO jointly for the first time in their own hall. There we displayed 97 exhibits including 25 world premieres over a display area of 7,655 square metres. During the EMO some 1,029 machines were sold; the order intake was € 256.2 million. In total, 708 turning, milling and ultrasonic / laser machines were demonstrated in operation in the reporting year. Alongside this, GILDEMEISTER energy solutions exhibited combined for the first time at trade fairs and exhibitions. The total display area at trade fairs amounted to 16,422 square metres.
Our strong presence was effective: We registered 73,767 visitors representing 50,071 companies at trade fairs and exhibitions. At these events they ordered 2,790 machines in

total and generated direct order intake through this of € 628.3 million. In the reporting year we spent € 27.0 million on trade fairs and exhibitions – including EMO – (previous year: € 18.6 million), which is 59% of the total marketing and corporate communication expense (previous year: 56%). On the other hand we have receipts amounting to € 9.0 million through the participation of third parties in our events.

Advertising at GILDEMEISTER is primarily product marketing. In the reporting year two issues of our popular customer journal appeared in 47 countries in 38 versions and 18 languages. Total circulation was 625,000 copies; in addition, the journal was accessed more than 50,000 times at our Internet site. The total quantity of brochures, which appeared in 17 languages, was 885,000 items. Here, too, the trend towards downloads from the Internet has gained pace. In 2011, direct marketing was also pushed with innovative product and event mailings such as the "SunnyDays", CTX and ECOLINE mailing. Total worldwide circulation was 2 million items, spread among 43 direct mail campaigns. A maximum of 18 different language versions were generated for 47 countries. GILDEMEISTER was also able to leave its mark on the trade press in the reporting year: 166 advertisements placed in 90 different trade journals provided information in 29 countries on our products and services. GILDEMEISTER invested a total of € 15.0 million in product marketing (previous year: € 12.0 million). This represents 34% of marketing and corporate communication expense (previous year: 37%).

D.17

DISTRIBUTION OF CORPORATE COMMUNICATION COSTS AT THE GILDEMEISTER GROUP
in %

Supplementary Report

The world economy recovery slowed in the first months of the year. The momentum of the German machine tool industry also reduced at the start of the year.

Economic Development 2012

Overall economic development remained restrained in the first months of the current year. The Institute for the World Economy (IfW) expects worldwide production to grow in the year 2012 by 3.3%. A mild recession is expected for the eurozone. The IfW deemed the risk that the banks in the eurozone would reduce loans as particularly high. In Germany the Institute for Economic Research (Ifo) views the risk of recession as having been averted for the time being. The Ifo business climate index climbed for the fourth consecutive month in January 2012 to its highest level since August 2011.

Sources: Institute for the World Economy (IfW), Institute for Economic Research (Ifo)

Demand in the **German machine tool industry** was likewise subdued at the start of the year. The German machine tool builders' association (VDW) estimates order backlog to about 9 months.

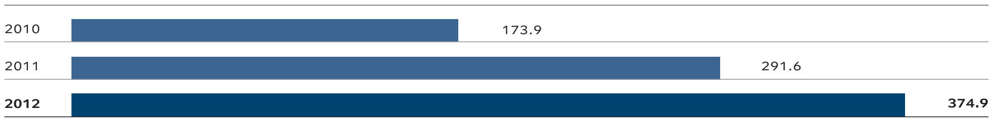
Source: VDW (German machine tool builders' association)

Corporate situation at the end of the reporting year

GILDEMEISTER made a good start to **financial year 2012. Order intake** progressed according to plan in January and February. Orders rose by 29% to € 374.9 million (previous year: € 291.6 million). The satisfactory performance at the NORTEC in Hamburg, our traditional in-house exhibition in Pfronten as well as the METAV in Dusseldorf all made a decisive contribution to this. Also **sales revenues** in January and February were also above the level of the comparable previous year's months. They amounted to € 256.1 million (previous year: € 205.1 million). Due to the high order intake order backlog as of 31 December 2011 increased until 29 February 2012 by € 118.8 million to € 930.0 million. Due to the long time to market in the machine tool business the increased order backlog will only be reflected in increasing sales revenues with a delay of time in the financial year 2012. Earnings before tax (EBT) developed positively according to plan in January and February. At this moment in time, we consider a more detailed statement to be premature. Further information is given in the **Forecast report** on **page 102.**

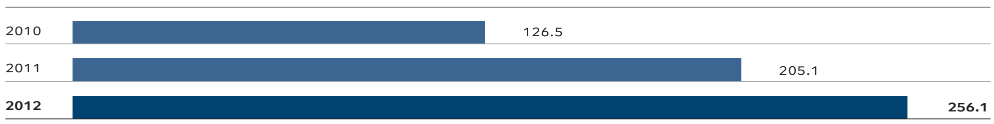
E . 01

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



E . 02

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



Trade fairs and exhibitions are a key instrument in our **marketing measures.** Following the first joint trade fair appearance with our cooperation partner, Mori Seiki, at the EMO 2011 in Hanover, we also presented the latest technologies of both partners at joint trade fair stands at the annual kick-off events. We have already been able to record good results at the start of the year. In addition to the NORTEC in Hamburg, our traditional in-house exhibition at DECKEL MAHO in Pfronten and the METAV in Dusseldorf were the first special highlights. At the **NORTEC**; GILDEMEISTER displayed 13 exhibits to mainly north German trade visitors. With order intake of € 163.4 million and 530 machines sold, the **traditional in-house exhibition** at DECKEL MAHO Pfronten in February ended with a record result. DMG / MORI SEIKI presented 63 innovative high-tech machines, including six world premieres. In total, 5,113 national and international trade visitors sought information on integrated solutions for trend-setting production processes. In addition, GILDEMEISTER energy solutions presented complete concepts for the generation, storage and application of energy for industrial customers. A further highlight was the opening of the joint DMG / MORI SEIKI Technology Center in Singapore on 21 February 2012.

At the **METAV** in Dusseldorf, we presented 28 exhibits as one of the largest exhibitors. 40,000 visitors sought information on integrated technological solutions, innovative software developments and the full range of DMG LifeCycle services. In addition, we participated in the “Special Youth Show” of the VDW Nachwuchsstiftung (VDW Foundation for Youth). With order intake of € 41.5 million and 181 machines sold, GILDEMEISTER takes positive stock of this important industry trade fair.

The 12th GILDEMEISTER **Suppliers' Day** took place on 7 February 2012 during the in-house exhibition in Pfronten. The "Supplier of the Year Award" was presented before the invited TOP suppliers in the categories of quality, supply performance, innovation and overall winner.

The priority for investments in the first two months was placed on making production and operations equipment available.

Sales prices for "Machine Tools" have been raised at the start of the year by two to four percent depending on the market and product. In the first two months there were no changes to the **legal corporate structure** or to the organisational structure. In February 2012, we have inreased our majority holding in Cellstrom GmbH by 10%. We are thus strengthening our strategic position in the area of energy storage. Nor were any **equity investments** acquired.

We received the following **notification of voting rights** according to Section 21, para. 1, clause 1 Securities Trading Act (WpHG): Mori Seiki International S.A., Le Locle, Switzerland, has fallen below the threshold of 3% as at 9 March 2012. Now the share of the parent company Mori Seiki Co. Ltd., Nagoya, Japan, amounts to 20.1% directly.

Opportunities and Risk Management Report

Systematic opportunities and risk management is an important element of corporate management for us. GILDEMEISTER compiles and uses opportunities timely without losing sight of risks. In this way we can act optimally and initiate any measures necessary.

In its business activities, GILDEMEISTER is exposed to various opportunities and risks. Our opportunities and risk management assists us in identifying and assessing these timely. The Executive Board and the Supervisory Board are informed regularly about the current risk situation of the group and of the individual business units. Our opportunities and risk management system comprises five elements:

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

Opportunities Management System (OMS)

Opportunities are identified and analysed within the opportunities and risk management system, in which we also simulate positive deviances from plan assumptions. With the Marketing Information System (MIS) we identify significant individual opportunities by compiling customer data worldwide and evaluating market and competitor data. On this basis we measure, assess and check all sales and service activities and other activities 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.

General economic opportunities: We intend to make use of potential in the growth markets. In the BRIC countries and several other countries the effects of the financial and debt crisis in Europe can hardly be felt. Despite a slowing down in the rate of growth in China, the growth rates there are still comparatively high. In the medium-term we are planning to set up a production in Russia. The shorter delivery times, customer care in line with needs and faster availability of spare parts from the planned new production site in Ulyanovsk will result in decisive advantages for GILDEMEISTER and its customers in southwest Russia. This region forms an important sales market for us. We are further expanding sales in the areas of machine tools and industrial services.

At the same time, we are consolidating our position in the established markets as a market leader in the machine tools business. As the basis for this we are consistently strengthening our innovative power as well as our technological position and are placing our main focus on the growth markets and sectors.

Industry-specific opportunities are opened up to us by Energy Solutions. GILDEMEISTER is participating in the market for renewable energies with innovative products for energy generation and energy storage. In doing so, we combine environmentally-friendly and CO_2- free energy generation with energy storage and the use of energy, for example through the use of an e-filling station. We are aiming to make an increased effort to offer our solutions for optimising energy management to industrial customers. We are taking advantage of market opportunities in the world markets with our ECOLINE series, with which we serve the demand for favourably-priced machines with innovative technology. For this purpose, GILDEMEISTER is presenting all the ECOLINE machines in a trend-setting new design and with even more enhanced performance. With the MILLTAP 700, jointly developed with Mori Seiki, GILDEMEISTER is additionally tapping into a new market segment. Following the worldwide economic slump in 2009, GILDEMEISTER is now recording growing interest in products in the machine tools business.

Corporate strategy opportunities present themselves to GILDEMEISTER through a sustained leadership in innovations and technology, as well as through market-leading product quality. We plan to continue to bring innovative products and services in all business areas to the market regularly. In the “Machine Tools” segment we will offer innovative or enhanced, high-quality products in the technology fields of turning and milling as well as in ultrasonic / lasertec. We intend to increase the systems efficiency that we offer in the Energy Solutions area continuously through new products. This gives rise to opportunities to further strengthen our position in numerous markets. In order to make use of these opportunities, we consistently pursue research and development activities that are especially focused on an increase in customer benefits through innovative software concepts, extending our technological leadership in the machining of complex component geometries and on strengthening our market position in the ECOLINE area. Please refer also in this respect to the **research and development** section on **page 76 et seq.** In addition, we ensure the quality of our production processes and products through our quality management system. The MIS provides a variety of operational early indicators, such as market potential or order intake. As a full-liner we are constantly expanding our services and extending our advanced technologies in the field of ultrasonic / lasertec. Furthermore, we also see opportunities in the automation of machine tools.

We are continuing to build upon the long-term successful cooperation with Mori Seiki. For this purpose we have extended our cooperation in the Asian and North American cooperation markets to the German market. At the beginning of 2012, the cooperation will be further extended by combining sales and service activities in Europe. In the first half year 2011 our financing was re-arranged with the participation of Mori Seiki. This allowed us to strengthen our equity base and repay our financial liabilities. Through MG Finance GmbH, GILDEMEISTER and Mori Seiki offer tailor-made financing solutions.

Performance-related opportunities arise through the fact that we involve our suppliers actively in the value added process. The optimisation approaches connected with this enable us to counter price increases, in particular for materials in the machine tools business. In addition, in principle a minimum of two suppliers are sourced for all essential structural parts, subassemblies and modules. We serve our customers worldwide with our direct sales and service network. We see growth opportunities in the service area and will benefit in machine tools from the current excellent order backlog.

Other Opportunities: With the "GILDEMEISTER 2015" project, we have started a project in the reporting year across all plants to optimise processes in the areas of production, technology, quality and logistics. At the same time, we are working on numerous optimisation measures in various sub-projects. Here we are reducing lead times. Through investment throughout the group in improved building insulation, automatic lighting systems, energy-efficient ventilation installations and products on environmentally-friendly power generation, we will reduce our energy consumption markedly and will generate a considerable part of our energy requirement ourselves. Under DMG ENERGY SAVING we are combining our activities for greater energy efficiency of our machine tools. GILDEMEISTER is setting the benchmarks here for the industry.

Risk Management System (RMS)

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

- Local risks are individual risks that the group companies are exposed to and that can be assessed locally
- Central risks are risks that can only be assessed centrally – at least in part. These include, for example, risks arising out of the group's financing.
- Group effects usually arise from consolidation requirements; these include, for example, the double counting of risks, which have then to be adjusted correspondingly.

The **accounting-related internal control system** is part of the entire internal control system (IKS) of the GILDEMEISTER group, which is embedded in the risk management system throughout the company. It comprises the organisational as well as the control and monitoring structures to ensure the legal collection, preparation and assessment of entrepreneurial content and their ultimate inclusion in the IFRS consolidated financial statements. The analyses carried out by risk management contribute to identifying risks with an impact on financial reporting and to initiate measures to minimise risks. The accounting-related internal control system includes basis principles, procedures and measures to ensure the correctness of the group accounting. In this respect we analyse new legislation, accounting standards and other communiques with respect to their effect on the consolidated financial statements. Throughout the group, we have codified relevant regulations in guidelines, such as those in the accounting handbook. These guidelines, together with the financial statement calendar valid throughout the group, form the basis for the preparation of the financial statements. The local companies are responsible for compliance with the relevant regulations and in this respect are supported and monitored by the group accounting department. In addition, there are local regulations that have to be harmonised with the group accounting in each case. This also includes compliance with local accounting regulations. The internal audit department checks the effectiveness of the accounting-related internal controls. Consolidation is carried out centrally by the group accounting department. As required, GILDEMEISTER avails itself of external service providers, for example in measuring pension obligations. The employees entrusted with drawing up the financial reports undergo regular training. The control system covers both preventive as well as discovery control activities, which include plausibility checks, separation of functions and the "four-eyes" principle (dual control). Additionally, the analyses carried out by risk management contribute to identifying risks with an impact on financial reporting and to introduce measures to minimise such risks. Evaluating effectiveness takes place on the basis of self-evaluation of the group companies and areas responsible; effectiveness is checked and assessed on a random basis by the internal audit department. The results of the effectiveness checks are reported regularly to the Executive Board and Supervisory Board.

General economic risks arise for GILDEMEISTER from cyclical developments. Up to now we have not seen any serious signs of a economic slump in our industry, nevertheless economic development can be negatively affected by the debt crisis in numerous European countries and likewise by political changes in North Africa and in the Middle East. Further prospects for growth depend essentially on whether and how the European debt crisis will be resolved. Should it not be possible to contain the crisis, this could have a considerable impact on the economy. Another slump in the economy could lead to a marked reduction in sales volumes or in the margins achievable. Moreover, changes in exchange rates may also have an effect on our future competitive position (economic currency risk). In particular, a possible devaluation of the US dollar or Chinese renminbi could lead to GILDEMEISTER products becoming more expensive in the countries affected as well as in the markets dependent on the dollar and thus negatively impact GILDEMEISTER's competitive position. We counteract this risk through international sourcing as well as through increasingly regional production. We consider the probability of occurrence of losses from general economic risks to be slight.

Industry-specific risks The machine tools market is characterised by competition between a few large, internationally-operating providers and a number of smaller providers. In addition, it can be expected that China's industrial strategy is aimed at promoting machine tool building, in particular, and that this could be to the detriment of foreign and German manufacturers especially. For GILDEMEISTER this results in greater competitive pressure that we are counteracting with a technological advance and by focusing on our customers and markets. In the field of Energy Solutions we will shift our previous focus on setting up turnkey solar parks to the sale of complete energy solutions. For existing major orders especially in Southern Europe, as before these are still subject to bureaucratic hurdles, which may result in time delays in constructing solar plants and thus also to delayed sales recognition and possibly to contractual penalties. Overall we consider the probability of occurrence of losses from industry-specific risks as slight.

Corporate strategic risks comprise the risk of false estimations of future market development and of erroneous technological developments. In the area of research and development, the risk exists of budget excesses, misguided developments, increased start-up costs for new products and delayed market launches of innovations. In order to avoid false estimations of the market, we monitor the market and the competition very closely. Likewise we avoid false market estimations through holding regular strategy talks with customers and suppliers and by having an extensive trade fair presence in all the important markets. Our early warnings system, MIS, informs us of changes in the market. Through development partnerships with customers, suppliers and universities, we counteract the risk of false technological developments. We consider the probability of occurrence of losses from corporate strategic risks to be slight.

Procurement and purchasing risks are those that we are primarily exposed to due to the possibility of price increases for materials in machine tool building as well as price volatility in solar modules. Further risks exist in possible supplier shortfalls and quality problems. We counteract these by standardising construction of parts and components as well as international sourcing. We have calculated potential losses from purchasing and procurements risks at about € 13 million. The probability of occurrence is slight.

Production risks are subject to permanent control by GILDEMEISTER by means of key performance indicators for assembly and manufacturing progress, lead times and throughput continuity. In principle, we avoid incalculable projects so that we consider these risks to be manageable and controllable. Moreover, GILDEMEISTER uses numerous other quality and product-related indicators to monitor potential risks. These include, for example, the contribution margin per machine type and the turnover rate of raw materials and consumables, as well as of other inventories. We strive to counteract plagiarism with our innovations-focused product strategy, by which we ensure a technological lead through our high speed of development. GILDEMEISTER bears the standard project business risks in the construction of solar plants. We estimate any possible losses arising out of production risks at about € 18 million with a low probability of occurrence.

Personnel risks: To secure our innovative strength and future success we need highly-qualified management staff and employees. If it is not possible to hire and retain employees, this can have a long-term influence on the group's development. GILDEMEISTER limits these risks through an intensive further training and junior staff programmes to increase employee qualifications as well as performance-related remuneration with a profit-related incentive scheme, deputising arrangements that cushion the loss of key personnel and early successor planning. On the basis of the above-mentioned measures, we consider the probability of occurrence of estimated losses in an amount of about € 5 million as slight.

IT risks exist due to the increasing networking of our systems, parts 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 hardware and software, by the use of virus scanning programs, firewall systems, and by controlling access and authorisations. Possible losses arising out of this area amount to about € 1 million at the current time and are controllable. We consider the probability of occurrence to be slight.

Risks from operations-related activities result from the fact that our products continue to be subject to constant price competition on the international markets, which we are counteracting through cost reductions, improved manufacturing and procurement processes, and by optimising product start-ups. We consider the probability of occurrence of losses from the above risks to be slight.

Financial risks: Currency-related risks arise out of our international activities, which we hedge through our currency strategy. The essential components of GILDEMEISTER's financing are a syndicated loan, which comprises a cash and an aval tranche and is agreed for five years, and an invoicing factoring scheme. All financing agreements include an agreement on compliance with standard covenants. GILDEMEISTER's liquidity is sufficiently measured. A risk exists with respect to payment dates in the project business. The agreed financing framework can absorb any time delays that are identifiable today. In principle GILDEMEISTER bears the risk of bad debt which may result in value adjustments or in individual cases even to default. Possible losses from financial risks amount in total to € 15 million. The probability of occurrence of a loss is low.

Other risks arise out of operating activities. Legal risks grow in particular out of possible warranty claims due to customer complaints in the sale of machine tools and services as well as in the project business. Through effective quality management, GILDEMEISTER tries to monitor the corresponding risks, nevertheless pertinent claims by customers cannot always be completely avoided. To maintain the existing risks at a manageable and calculable level, GILDEMEISTER limits the term of warranty and liability obligations. We have an up-to-date contract management system and in addition regularly train our employees in the area of effective contractual terms and the minimisation of risks. Insofar as deferred tax assets have not been impaired on loss carryforwards or interest carry forwards, GILDEMEISTER assumes the usability of this potential tax reduction on taxable income. We assume that the tax and social insurance declarations we submit are complete and correct. Nevertheless, due to a differing assessment of the facts, additional charges may arise within the scope of an audit. Overall, we have calculated any possible losses arising out of this at about € 8 million with a low probability of occurrence.

SWOT-Analysis

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

E . 03

SWOT ANALYSIS OF THE GILDEMEISTER GROUP

company-specific

Strengths
- high innovative strength,
- customised range of services over the entire life cycle of the machine (full service supplier),
- worldwide direct sales and services network to gain market shares,
- presence in the BRIC countries,
- extensive analyses of the market and competition data through the Marketing Information System (MIS),
- independent production company in the Chinese growth market,
- long-term, sound financial framework and equity base,
- offer of individual financing solutions for customers through MG Finance,
- consistent market and customer focus through highly-integrated multi-channel marketing,
- large and diverse customer base,
- modern product range focused on customer needs,
- full range of products for turning and milling,
- global sourcing through tapping into new procurement markets,
- profitable service business,
- modular products / standard parts concept,
- high production flexibility,
- highly-integrated control and software products for comprehensive customer process support.

Weaknesses
- global presence requires extensive management resources,
- high readiness costs through reserved capacity in the production area,
- low margin products as part of the full-line range,
- high start-up costs for a number of new products,
- logistics and quality demands through global purchasing activities,
- funds tied up in inventories through long throughput times in part for innovative machines.

market-specific

Opportunities
- higher customer benefits through extending the product portfolio and improved regional availability through the cooperation with Mori Seiki,
- new ECOLINE series,
- new MILLTAP 700,
- advanced consolidation process in the industry, for which GILDEMEISTER is well-positioned,
- planned expansion of production capacity in Russia,
- focusing on growth industries, such as automotive, aerospace and medical technology,
- dynamic growing market of renewable energies,
- promising future market of energy storage which GILDEMEISTER is serving with the vanadium redox flow CellCube large battery,
- fast use of local market opportunities through global presence.

Threats
- cyclical risks due to the financial and debt crisis in Europe,
- price increases in materials for machine tools business and price volatility for solar modules,
- project risks in Energy Solutions area,
- dependency on volatile machine tools market,
- instability of national economy in crisis regions.

General Statement of the Executive Board on the Risk Situation

The total risk is determined by a risk simulation procedure, a so-called Monte Carlo simulation. This allows the reciprocal effect between risks to be taken into account. The simulation encompasses both individual risks of group companies as well as possible deviances from planning measures (of a positive and negative nature). Risks associated with special purpose entities in the Energy Solutions area are centrally included under a+f GmbH and are entered in the simulation in this way. Once the overall risk position has been determined, the equity requirement is calculated that given a pre-defined probability, the confidence level, can bear any possible risk-related losses. The GILDEMEISTER equity exceeds the overall risk position determined at a probability level of 97.5%. We therefore consider the risks to be manageable and from today's point of view these risks do not jeopardise the continued existence of the GILDEMEISTER group as a going concern. Compared to the last report as of the third quarter 2011 the risk situation is nearly unchanged.

Forecast Report

Economic growth will slow down in 2012 according to economic experts. Current forecasts for machine tool building likewise expect a slowing down in individual markets. The VDW expects consumption to rise by a mere 2.5%; for Germany a decline of 4% is expected.

Future Business Environment

Overall economic development will continue with less impetus in 2012. The Institute for the World Economy (IfW) predicts an increase in global gross domestic product of 3.4%; an increase of 4.0% is expected for 2013. An economic revival will depend to a large extent on how the European public debt crisis can be controlled. In the **USA** the rate of growth remains moderate: Structural problems, such as the high indebtedness of the state and of private households, as well as saturation of the real estate market, stand in the way of a strong recovery. According to IfW estimates, the gross domestic product in the USA will grow by 1.9%, for 2013 growth of 2.2% is expected. A weaker trend is expected in **Asia. China** keeps its role as the strongest driver of the world economy. It is predicted that China will see a rise in gross domestic product of 8.0% for 2012 and of 8.5% for 2013. The rate of growth of the Japanese economy will increase after overcoming the catastrophes. The IfW forecast for 2012 is 1.8% and for 2013 it is 1.4%. In **Europe** a recession is imminent for this year; economic researchers expect gross domestic product in the euro countries to fall in 2012 by 0.1% and that it will only pick up again in 2013 by 1.2%.

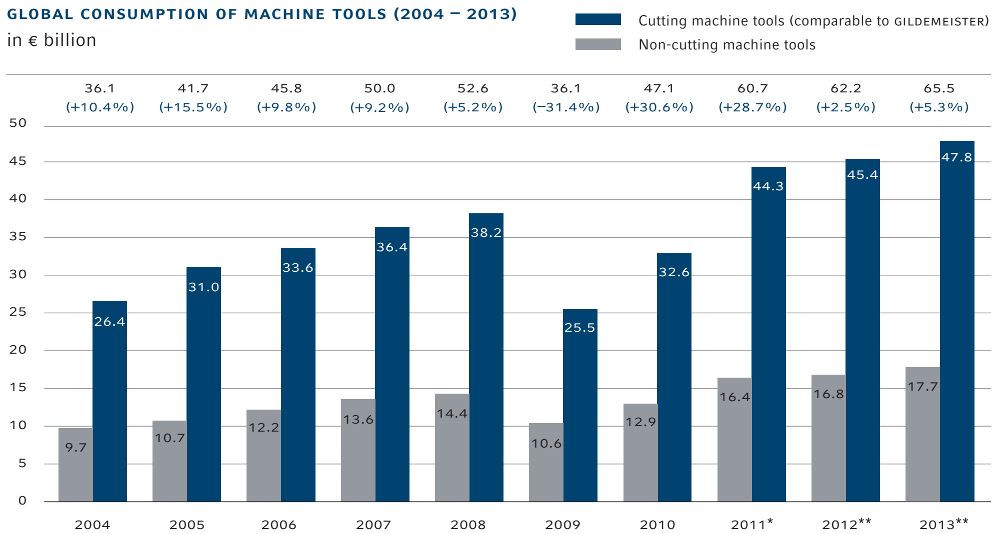
In **Germany** the economy will only grow weakly; individual forecasts differ. The current IfW forecast is for 0.5% for the current year and 1.7% for the coming year; the ifo Institute estimates a slight rate of growth of 0.4% for 2012. In comparison, in its autumn report the German Council of Economic Experts on the Assessment of Economic Trends (Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung) considers growth of 0.9% as probable in the current year. The situation on the unemployment market will ease further. The same applies to state debt; it is likely that the fixed deficit threshold of 3.0 will not be reached.

Sources: Institute for the World Economy (IfW), Kiel, ifo Institute, Munich; German Council of Eonomic Experts on the Assessment of Economic Trends, Berlin

The **worldwide market for machine tools** will probably stagnate in 2012. The current forecasts of the VDW and the British economic research institute, Oxford Economics, expect **productive capacity** and **market volume** in value terms to grow by a mere 2.5% respectively. In 2013, the VDW expects a rise in consumption of 5.3% (as at November 2011). Current statements on the development of **industry profitability** and of **prices and wages** are not available. The **world machine tool consumption** and the **market potential** are represented in the following graph:

E.04

GLOBAL CONSUMPTION OF MACHINE TOOLS (2004 – 2013)
in € billion



* Figures provisional
** Estimate of the VDW and Oxford Economics
Source: World machine tools statistics of the VDW (without parts and accessories)

The **German machine tool industry** is starting the year 2012 with moderate expectations of the **industry's economy.** Based on the high order backlogs, the VDW and the economic research institute, Oxford Economics, are expecting a rise in production of 5% in Germany. However, consumption will weaken slightly at −4.2%. For the year 2013 Oxford Economics anticipates a decline in consumption of about 5.6%. The risk factors taken into account in these assumptions are the European financial crisis, price changes for raw materials and energy, changes in exchange rates and the political framework.

Source: "Global Machine Tool Outlook", Oxford Economics

The **mergers and acquisitions process** in the machine tool industry will continue in 2012. The market entry of significant competitors and the introduction of fundamentally new **replacement products and services** are not expected.

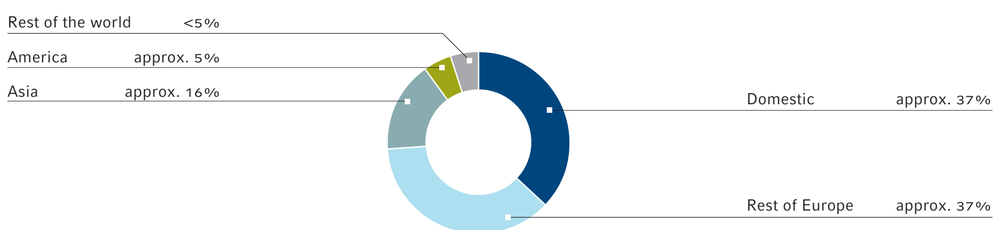
Future Development of the GILDEMEISTER group

GILDEMEISTER intends to expand its global market presence further, especially in the fast-growing BRIC markets. A significant part of this is extending the cooperation with Mori Seiki to the European markets and to China, too. Further reinforcement of our innovations strength forms the basis for extending our leading international market position in the manufacture of cutting machine tools. In the field of renewable energies – in view of the dramatic increase in energy costs – GILDEMEISTER will focus on offering complete energy solutions to industrial customers. A consistent focus on service additionally forms the basis for strengthening earning capacity long-term and thereby securing the future of the company.

We consider the BRIC countries, above all, to be **future sales markets** with growth potential. The current forecast of the VDW and the British economic research institute, Oxford Economic, expects a growth rate of 6% for these four markets and a share in global consumption of about 44%. In 2012 we plan to extend our sales and service cooperation with Mori Seiki to the markets in China and Russia and to share disproportionately high in this growth with an increase in order intake of more than 25%. In following this process, we will focus increasingly on growing sales sectors such as aerospace, medical technology and renewable energies.

E.05

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



Order intake at the start of the year 2012 developed in line with plan. In the first quarter of 2012 we are expecting order intake of more than € 500 million (previous year's quarter: € 445.9 million). For the whole year we are actually expecting order intake of more than € 2 billion for the first time. We expect further growth stimulus to come from sales of Mori Seiki machines in Germany and Europe as for the first time this will significantly be incorporated in our order intake. Also in "Industrial Services" we are expecting growth.

The forthcoming lead fairs in 2012 will be a core element of our worldwide sales activities once again. At the the **IMTS** in Chicago, the **AMB** in Stuttgart, the **BIMU** in Milan and the **JIMTOF** in Tokyo, together with our partner, Mori Seiki, we will present our products to a broad trade audience.

For the first quarter 2012 we are planning **sales revenues** of more than € 400 million (previous year's quarter: € 377.4 million). Taking into account the high order backlog, we intend to increase sales revenues in the "Machine Tools" segment once again over the whole year. In the "Industrial Services" segment we are also planning growth in sales revenues. Overall for financial year 2012 we are planning sales revenues of more than € 1.9 billion.

In the first quarter the **order backlog** should again rise clearly due to the successful trade fairs (31. Dec. 2011: € 811.2 million). Due to the long time to market in the machine tool business the increased order backlog will only be reflected in increasing sales revenues with a delay of time in the current financial year.

Our goal is to achieve clear growth in the key performance indicators. In the first quarter of 2012, **earnings** should improve significantly in a year-on-year comparison. Over the whole year we are planning an EBT of more than € 100 million and annual profit of more than € 65 million. Based on the positive outlook for business and earnings, we are planning to distribute a higher dividend per share for financial year 2012.

In absolute terms, the materials expense will rise based on the planned increase in sales revenues. The **materials ratio** should presumably rise due to the changed sales mix, as sales of Mori Seiki machines are booked as trade sales. Trade sales have a higher materials ratio as sales with machines we are producing ourselves. In absolute terms employee expenses and other operational expenses will rise in particular a consequence of the planned sales growth and the integration of Mori Seiki employees in Germany and Europe. We plan a small improvement in the **personnel ratio** and in the proportion of other operating expenses to total operating revenue.

Essential investment projects for building up production capacity in strategically important markets will commence in 2012 and will negatively impact cash flow. For the whole year 2012, we anticipate positive **free cash flow** of more than € 50 million. The **financing structure** that has been achieved should remain unchanged for the most part and we are aiming for a positive net finance balance by year-end. We are continuing to work on optimising our net working capital.

Our sound financing framework will provide the necessary liquidity in the year 2012 according to our planning and correspondingly we expect good leeway in the financing lines. The interest income and the costs of capital will decrease noticeably in 2012 due to the refinancing.

Our **Value Reporting** will continue to form an essential part of our value-based corporate management. We expect an improvement in the ROCE given the currently assumed business development. We are planning for the weighted average cost of capital (WACC) to be at the level of financial year 2011.

For financial year 2012 we plan **investments** in property, plant and equipment and in intangible assets of some € 78 million. The planned volume of investments will be higher than the level of depreciation anticipated. A priority will be extending our production capacity throughout the group. In Seebach on the one hand we will complete the construction of the "Technical Innovation Center", the new development center and, on the other, the extension of the assembly area. In Russia we are planning to build a production plant. A further investment emphasis will be placed on optimization measures. Thus we will set up progressive assembly systems at two production sites and our central spare parts supply will be enhanced. In addition, we are planning to redesign the energy supply at the Bielefeld site in order to generate, store and use even cleaner energy.

In the **"Machine Tools"** segment capital expenditure of about € 47.7 million is planned. At the Seebach site we are completing the construction of the "Technical Innovation Center" and the expansion of the assembly area. In Ulyanovsk, Russia, we are planning to commence construction work on a state-of-the-art GILDEMEISTER assembly plant in the current year. There we will produce milling and turning machines in the ECOLINE series for the Russian market. In addition to the planned capacity extensions, we will also further optimise our production processes. The progressive assembly system that is being introduced at the Pleszew site in Poland will be completed. We are likewise planning to set up a progressive assembly system at our Bielefeld site. In the future universal turning machines will be assembled here with throughput times reduced even further. The focus will also continue to be placed in the future on developing innovative products.

New production plant planned in Russia

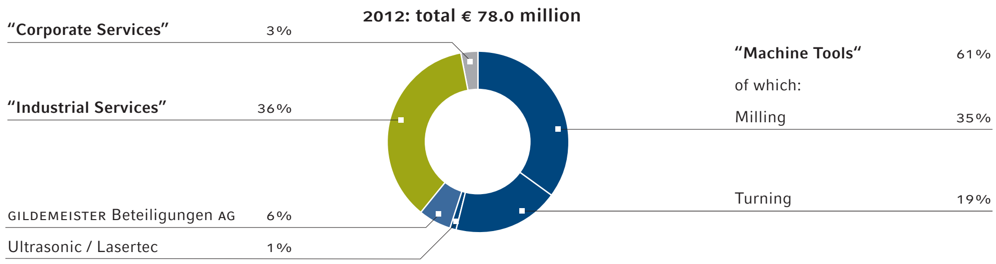
For the **"Industrial Services"** segment we are planning capital expenditure of about € 27.6 million. The main priority is strengthening our sales and service activities on the European market together with our cooperation partner Mori Seiki. Moreover, we will further optimise the central spare parts supply through structural extension of DMG Spare Parts in order to offer our customers a high availability of spare parts in the future. In Energy Solutions we will primarily invest in enhancing our products in the field of renewable energies and will further build upon the solar and energy storage technology.

In the **"Corporate Services"** segment we are planning an investment volume of about € 2.7 million. At the Bielefeld site with self-produced regenerative energy we will implement a new energy concept. At the centre of this concept is the self-sufficient, regenerative energy supply of the site: in the future up to 15% of its energy requirement is to be sourced from emission-free energy. In the future, regenerative power will be generated, stored and used around the clock.

The **investment structure** remains well-balanced. All the segments have been taken into account with respect to capital expenditure. There are no identifiable risks arising out of planned investments according to current estimates

E.06

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



The number of **employees** will rise in financial year 2012. On the one hand this increase results from the consolidation of sales and service companies within the frame of the cooperation with Mori Seiki in Europe. On the other hand we are planning to take on additional personnel due to business development and capacity utilisation at our production sites.

Employee expenses will rise, due to extending sales and service capacity as well as due to collective pay agreement wage and salary increases in 2012.

In the financial year 2012 we will continue to pursue our innovations-oriented strategy in **Research and Development.** The constant enhancement and development of our product range forms the basis for our sustainable corporate development. The volume of expenditure for research and development will probably be about € 57 million. In total, some 15% of the workforce at the plants will be working in research and development on further extending our technological lead.

GILDEMEISTER plans 17 new developments

In the **"Machine Tools"** segment we are planning 17 new developments for the current financial year. Within the Milling Association, the further development of our universal milling machines and machining centres is the emphasis of activities. The Milling and Production association is concentrating on further extending the product range of the new eVolution series. Within the Turning Association we will enhance the universal turning machines and the CNC automatic lathes with innovative concepts.

In the **"Industrial Services"** segment we will work on building up and optimising our extensive range of LifeCycle products. Our activities are targeted at improving processes within our up-to-date spare parts center as well as enhancing our products in the field of automation and tool management.

Energy Solutions extends product range

In the Energy Solutions division we are pushing ahead with the technological development of solar and wind power systems as well as of energy storage technology. A priority will be placed on optimising the costs of existing photovoltaic systems. For this the new SunCarrier 22 was developed; it can deliver about 30% more output compared to fixed systems. For the WindCarrier we are planning enhancements as well as further cost optimisation and standardisation. In order to be able to produce higher quantities efficiently in the future in the field of storage technology, the production of battery components will likewise be further standardised and partially automated. Over the course of the year we will place the focus on developing other energy solutions applications and launching them in the market – for example applications for the communications sector.

In the current financial year we will consistently push the optimisation of processes in **production, technology and logistics.** We will place the main emphasis on implementing the measures in the GILDEMEISTER 2015 Project, which we had already defined in the reporting year. The partnership style of cooperation with Mori Seiki will be further intensified.

Within our **Production Associations** we are introducing a clocked assembly line in motor spindle construction in the **Milling Association** in 2012. Besides this, the production start-up of a horizontal machine as well as another MONOBLOCK machine will be implemented.

Seebach increases assembly capacity by 40%

In the **Milling and Machining Association** we will complete the extensions to the assembly and logistics areas in Seebach. Through this we will increase the assembly capacity by more than 40%. In addition, we will move into our new development center – the "Technical Innovation Center" – with integrated prototypes and test construction.

In doing so, we will speed up the development process in Seebach. The MILLTAP 700 will start up production in Seebach. At FAMOT in Pleszew, Poland, we will update and extend the internal group machining capacity. In addition, the focus will be placed on the start-up of the ECOLINE machines in the new design.

In the **Turning Association** we will set up progressive assembly for our universal turning machines. Through this we intend to reduce throughput times significantly. Furthermore, we will use the flexibility in the Turning Association and manage the existing capacity even better than before. This includes greater capacity utilisation of production capacity at GILDEMEISTER Italiana S.p.A. through machining pre-assembled basements for Turning Association products.

In the **ECOLINE Association** the ECOLINE machines are starting up at DMG Shanghai Machine Tools and at FAMOT Pleszew in the new design. After having already converted the assembly line four-hour cycle in the pre-assembly in the reporting year, we now want to change the final assembly lines into a four-hour cycle. This will allow DMG Shanghai Machine Tools to assemble about 1,500 machines per year on three assembly lines in one shift – and only through optimising the assembly procedure and without any major capital expenditure.

Cost optimisation in production materials

In **Purchasing and Procurement** emphasis is placed in particular on measures to reduce costs of production materials and in the area of other operating costs. The structures of the group-wide **material groups management** will be strengthened. In the future, the targets and measures within the individual materials groups will be agreed by a central committee and their sustainability followed there. Moreover, material contract awards in the area of other operating costs will be decided by a round of approvals led by the Executive Board and Central Purchasing.

In close collaboration with our **long-term supply partners** value analysis measures will be stepped up in order to achieve long-term improvement in the cost situation for both partners. The standardisation of components is to be further intensified with our cooperation partner Mori Seiki. The global direction of the purchasing organisation will also be pushed forward to make it possible to respond to the constant changes in market circumstances and to consistently take advantage of local procurement benefits. Furthermore, we will measure our suppliers more on their innovative capability and quality and will check their financial situation continuously.

For the current financial year we are assuming pressure on prices on the procurement markets. This can be traced back, amongst others, to the rising world market prices for rare earths, which are used in our components.

In **Logistics** it is our goal to maintain transport costs at a constant. In the process we are counting on savings potential through pooling transport volume with Mori Seiki. We are continuing to work on **optimising throughput times** in assembly in order to improve our delivery times and at the same to reduce our inventories.

In Energy Solutions the main emphasis in financial year 2012 will lie on system solutions for industrial customers and the expansion of the service business. This includes the full scope of producing, storing and the intelligent application of renewable energies.

In financial year 2012 we will bring together our entire European sales activities with those of Mori Seiki in the new DMG / MORI SEIKI Europe AG in Switzerland. The entire European sales activity will also be consolidated completely in future at GILDEMEISTER. Other than this, there are no other material changes planned to the **legal corporate structure.**

General Statement of the Executive Board on the Future Business Development 2012 and 2013

In **financial year 2012** we are primarily expecting further growth in the "Industrial Services" segment. The noticeable weakening of the German and European business can be offset according to our current estimates by the development in the Asian growth markets and in Russia and Brazil, which is still progressing well. We intend to increase sales of Mori Seiki machines in Europe and Germany. For the whole year we are expecting order intake for the first time of more than € 2 billion, in which order intake with the Mori Seiki machines at a value of more than about € 300 million is planned.

Due to this order intake expectation and based on the sound order backlog, we are planning to increase sales revenues in the year 2012 to more than € 1.9 billion. With regards to costs we are expecting increases of purchase and personnel prices, on the other hand interest income should decrease significantly due to the restructuring of our capital structure.

On condition that market development is in line with our expectations, we plan to increase EBT to more than € 100 million. For financial year 2012 we want to pay a higher dividend per share. We assume a positive cash flow of more than € 50 million.

The general conditions for **2013 and 2014** are difficult to be foreseen from today's point of view. The European financial and debt crisis may lead to a worldwide economic crisis. For 2013 VDW and Oxford Economics are forecasting growth in worldwide consumption of machine tools of 5.3%. We, too, are anticipating to achieve moderate increases in the **financial year 2013**. However, we are preparing for a possible economic downturn with measures to be flexible on costs and production processes. At the current time, however, we see no need to implement further cost reduction measures.

THE MAGAZINE ACCOMPANYING
THE GILDEMEISTER ANNUAL REPORT 2011

Creating the future – forming real value
Our machines will continue to
move the world as they lie at the start
of the worldwide process chains.
The magazine offers you an insight into
the GILDEMEISTER world.

THE WORLD OF GILDEMEISTER (MAGAZINE REMOVABLE) →

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Consolidated Income Statement for the period 1 January to 31 December 2011 of GILDEMEISTER Aktiengesellschaft

F.01

	Notes	2011 € K	2010 € K
Sales revenues	6	1,687,657	1,376,825
Changes in finished goods and work in progress		44,766	–12,115
Own work capitalised	7	11,133	8,832
Total work done		**1,743,556**	**1,373,542**
Other operating revenues	8	68,859	55,321
Operating performance		**1,812,415**	**1,428,863**
Cost of materials	9		
Cost of raw materials, consumables and goods for resale		800,791	654,707
Cost of purchased services		151,902	113,441
		952,693	768,148
Personnel costs	10		
Wages and salaries		326,326	279,490
Social security contributions, pensions and other benefits		58,378	53,660
		384,704	333,150
Depreciation	11	33,605	29,456
Other operating expenses	12	328,916	253,129
Operating result		112,497	44,980
Financial income	13		
Interest receivable		1,905	1,281
Other income		1,209	1,122
		3,114	2,403
Financial expenses	14		
Interest payable		27,925	34,288
Interest expense from pension provisions		1,914	2,004
Other financial expenses		19,351	4,156
		49,190	40,448
Financial result		–46,076	–38,045
Share of profits and losses of at equity-accounted investments	15	472	–403
Earnings before taxes		66,893	6,532
Income taxes	16	21,354	2,232
Annual profit		**45,539**	**4,300**
Profit share of shareholders of GILDEMEISTER Aktiengesellschaft		46,846	4,205
Profit share attributed to minority interests	17	–1,307	95
Earnings per share pursuant to IAS 33 in €	18		
Undiluted		0.85	0.09
Diluted		0.84	0.09

Reconciliation to comprehensive Income of the GILDEMEISTER group for the period from 1 January to 31 December 2011

F.02

	Notes	2011 € K	2010 € K
Annual profit		**45,539**	4,300
Remaining result			
Differences from currency translation		3,787	12,915
Changes in market value of derivative financial instruments	37	13,396	1,435
Change in the fair value measurement of available-for-sale assets	21	– 12,729	11,681
Income tax expense on other comprehensive income	28	– 3,838	– 413
Remaining result for the period after taxes		**616**	**25,618**
Total comprehensive income for the period		**46,155**	**29,918**
Profit share of shareholders of GILDEMEISTER Aktiengesellschaft		47,386	29,835
Profit share attributed to minority interests		– 1,231	83

Consolidated Balance Sheet as at 31 December 2011 of GILDEMEISTER Aktiengesellschaft

F.03

ASSETS	Notes	31.12.2011 € K	31.12.2010 € K
Long-term assets			
Goodwill	19	83,017	81,451
Other intangible assets	19	49,337	31,306
Tangible assets	20	218,025	201,807
Equity-accounted investments	22	6,686	6,214
Other equity investments	21	46,860	44,561
Trade debtors	23	6,294	1,739
Other long-term assets	23	11,711	10,136
Deferred taxes	28	41,342	41,265
		463,272	**418,479**
Short-term assets			
Inventories	24	451,986	410,289
Trade debtors	25	208,908	304,313
Other short-term assets	25	98,873	112,677
Cash and cash equivalents	26	105,151	111,769
Long-term assets held for sale	27	43,618	0
		908,536	**939,048**
		1,371,808	**1,357,527**

EQUITY AND LIABILITIES	Notes	31.12.2011 € K	31.12.2010 € K
Equity			
Subscribed capital	29	151,744	118,513
Capital provision	29	257,177	80,113
Revenue provisions	29	234,137	207,704
Total equity of shareholders of GILDEMEISTER Aktiengesellschaft		**643,058**	**406,330**
Minority interests' share of equity	29	12,100	6,563
Total equity		**655,158**	**412,893**
Long-term liabilities			
Long-term financial debts	32	14,506	220,180
Pension provisions	30	21,636	26,316
Other long-term provisions	31	16,658	19,856
Trade creditors	33	682	417
Other long-term liabilities	33	19,018	24,057
Deferred taxes	27	7,727	5,880
		80,227	**296,706**
Short-term liabilities			
Short-term financial debts	32	19,492	100,057
Tax provisions	31	13,367	7,145
Other short-term provisions	31	145,042	125,972
Payments received on account		127,775	97,023
Trade creditors	34	267,472	264,431
Other short-term liabilities	34	51,336	53,300
Liabilities in connection with assets held für sale	35	11,939	0
		636,423	**647,928**
		1,371,808	**1,357,527**

Consolidated Cash Flow Statement of GILDEMEISTER Aktiengesellschaft from 1 January to 31 December 2011

F . 04

CASH FLOW FROM OPERATING ACTIVITIES	Notes	2011 € K	2010 € K
Earnings before taxes (EBT)		66,893	6,532
Depreciation		33,605	29,456
Financial result	14	46,076	38,045
Change in long-term provisions		– 7,878	– 14,093
Other expense not affecting payments		– 10	694
Change in short-term provisions	31	22,788	8,788
Income from the disposal of fixed assets		958	– 1,740
Income tax refunds		228	273
Income taxes paid		– 19,020	– 12,334
Interest received		1,060	878
Interest paid		– 27,095	– 33,221
Dividends received	13	959	799
Changes in asset and liabilities items			
Inventories	24	– 40,986	– 12,693
Trade debtors	23, 25	90,499	– 61,018
Other assets not from investments or financing activity		– 34,606	– 52,296
Trade creditors		– 2,550	122,474
Other liabilities not from investments or financing activity		30,077	54,072
	39	**160,998**	**74,616**
CASH FLOW FROM INVESTMENT ACTIVITY			
Amounts received from the disposal of tangible assets and intangible assets		3,755	4,408
Amounts paid out for investments in tangible assets		– 44,117	– 22,285
Amounts paid out for investments in intangible assets		– 25,514	– 11,512
Amounts paid out for the disposal of financial assets		– 14,806	– 10,976
		– 80,682	**– 40,365**
CASH FLOW FROM FINANCING ACTIVITY			
Proceeds from capital increase	29	220,047	0
Payments for the costs of the capital increase	29	– 6,352	0
Payments made for repaying the return of the borrowers' notes	32	– 201,500	0
Payments made for repaying of financial debts		– 86,083	– 3,787
Payment for the purchase of own shares	29	– 20,686	0
Payments received from changes in interests in subsidiaries		7,919	0
Dividends paid		0	– 4,558
	39	**– 86,655**	**– 8,345**
Changes affecting payments		– 6,339	25,906
Effects of exchange rate changes on financial securities		– 279	1,423
Cash and cash equivalents as at 1 January	26	111,769	84,440
Cash and cash equivalents as at 31 December	**26**	**105,151**	**111,769**

See explanatory notes included to the Consolidated Financial Statements

Development of Group Equity of GILDEMEISTER Aktiengesellschaft for the period 1 January 2011 to 31 December 2011

F . 05

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

See explanatory notes included in the Consolidated Financial Statements page 165 et seq.

			Revenue provisions						
	Subscribed capital €K	Capital provison €K	Revenue provisions €K	Difference from currency translation €K	Changes in the value of available-for-sale-assets €K	Market valuation of financial derivates €K	Shareholders equity of GILDEMEISTER Aktiengesellschaft €K	Minority interest share of equity €K	**Total €K**
As at 01 Jan. 2011	118,513	80,113	204,609	6,414	8,586	– 11,905	406,330	6,563	412,893
Total comprehensive income									
Annual profit			46,846				46,846	– 1,307	45,539
Other comprehensive income									
Differences from currency translation				3,711			3,711	76	3,787
Change in fair value of derivative financial instruments (after taxes)						9,558	9,558		9,558
Change in fair value of available-for-sale-assets					– 12,729		– 12,729		– 12,729
Other comprehensive income for the period after taxes				**3,711**	**– 12,729**	**9,558**	**540**	**76**	**616**
Total comprehensive income for the period			46,846	3,711	– 12,729	9,558	47,386	– 1,231	46,155
Transactions with owners									
Capital increase from authorised capital	37,924	177,064					214,988		214,988
Changes in capital interest of subsidiaries			– 4,959				– 4,959	6,439	1,480
Capital invested								329	329
Buyback of own shares	– 4,693		– 15,994				– 20,687		– 20,687
Sum of transactions with owners	**33,231**	**177,064**	**– 20,953**				**189,342**	**6,768**	**196,110**
As at 31 Dec. 2011	**151,744**	**257,177**	**230,502**	**10,125**	**– 4,143**	**– 2,347**	**643,058**	**12,100**	**655,158**

See explanatory notes included in the Consolidated Financial Statements page 165 et seq.

Fixed Asset Movement Schedule
as at 31 December 2011 of GILDEMEISTER Aktiengesellschaft
(Part of the notes)

F . 06

ACQUISITION AND PRODUCTION COSTS

Intangible assets	
Goodwill	
Assets arising from development	
Industrial property and similar rights	
Tangible assets	
Land and buildings	
Technical equipment and machinery	
Other equipment, factory and office equipment	
Construction in progress	
Financial assets	
Investments in associates accounted for at equity	
Other equity investments	
Securities	
Total fixed assets	

DEPRECIATION

	As at 01 Jan. 2011 € K	Other changes € K
Intangible assets		
Goodwill	0	0
Assets arising from development	55,260	– 12
Industrial property and similar rights	49,992	193
	105,252	**181**
Tangible assets		
Land and buildings	84,450	– 65
Technical equipment and machinery	49,254	– 1,099
Other equipment, factory and office equipment	104,961	5
Construction in progress	4	0
	238,669	**– 1,159**
Financial assets		
Investments in associates accounted for at equity	403	– 472
Other equity investments	– 8,468	11,514
Securities	0	0
	– 8,065	**11,042**
Total fixed assets	**335,856**	**10,064**

As at 01 Jan. 2011 € K	Other changes € K	Change in the group of consolidated companies € K	Additions € K	Disposals € K	Book transfers € K	As at 31 Dec. 2011 € K
81,451	– 20	0	1,586	0	0	83,017
81,698	152	0	10,603	– 25	142	92,570
54,860	191	0	17,225	– 503	145	71,918
218,009	**323**	**0**	**29,414**	**– 528**	**287**	**247,505**
225,517	– 1,079	0	7,327	– 4,349	5.822	233,238
68,030	– 1,689	0	3,101	– 1,401	1,212	69,253
137,761	124	0	16,062	– 4,601	1,403	150,749
9,168	– 290	0	19,027	– 125	– 8,724	19,056
440,476	**– 2,934**	**0**	**45,517**	**– 10,476**	**– 287**	**472,296**
6,617	0	0	0	0	0	6,617
36,092	– 989	0	14,806	– 4	0	49,905
1	0	0	0	0	0	1
42,710	**0**	**0**	**14,806**	**– 4**	**0**	**56,523**
701,195	**– 3,600**	**0**	**89,737**	**– 11,008**	**0**	**776,324**

Change in the group of consolidated companies € K	Additions € K	Disposals € K	Book transfers € K	As at 31 Dec. 2011 € K	NET BOOK VALUE As at 31 Dec. 2011 € K	As at 31 Dec. 2010 € K
0	0	0	0	0	83,017	81,451
0	6,831	0	0	62,079	30,491	26,438
0	3,159	– 261	– 11	53,072	18,846	4,868
0	**9,990**	**– 261**	**– 11**	**115,151**	**132,354**	**112,757**
0	7,251	– 1,297	0	90,339	142,899	141,067
0	3,897	– 1,238	– 8	50,806	18,447	18,776
0	12,467	– 4,326	19	113,126	37,623	32,800
0	0	– 4	0	0	19,056	9,164
0	**23,615**	**– 6,865**	**11**	**254,271**	**218,025**	**201,807**
0	0	0	0	– 69	6,686	6,214
0	0	0	0	3,046	46,859	44,560
0	0	0	0	0	1	1
0	**0**	**0**	**0**	**2,977**	**53,546**	**50,775**
0	**33,605**	**– 7,126**	**0**	**372,399**	**403,925**	**365,339**

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

F . 06

ACQUISITION AND PRODUCTION COSTS

Intangible assets
Goodwill
Assets arising from development
Industrial property and similar rights
Tangible assets
Land and buildings
Technical equipment and machinery
Other equipment, factory and office equipment
Construction in progress
Financial assets
Investments in associates accounted for at equity
Other equity investments
Securities
Total fixed assets

DEPRECIATION

	As at 01 Jan. 2010 € K	Other changes € K
Intangible assets		
Goodwill	0	0
Assets arising from development	49,594	3
Industrial property and similar rights	48,722	37
	98,316	**40**
Tangible assets		
Land and buildings	77,363	364
Technical equipment and machinery	48,339	384
Other equipment, factory and office equipment	98,531	1,186
Construction in progress	4	0
	224,237	**1,934**
Financial assets		
Investments in associates accounted for at equity	0	403
Other equity investments	3,213	– 11,681
Securities	0	0
	3,213	**– 11,278**
Total fixed assets	**325,766**	**– 9,304**

As at 01 Jan. 2010 € K	Other changes € K	Change in the group of consolidated companies € K	Additions € K	Disposals € K	Book transfers € K	**As at 31 Dec. 2010 € K**
75,740	432	0	5,279	0	0	81,451
71,070	7	1,974	9,207	–397	–163	81,698
51,655	74	543	2,298	–341	631	54,860
198,465	**513**	**2,517**	**16,784**	**–738**	**468**	**218,009**
220,796	1,986	57	1,321	–895	2,252	225,517
63,780	3,910	413	2,155	–3,137	909	68,030
131,837	2,266	163	10,615	–7,385	265	137,761
5,178	132	133	8,194	–575	–3,894	9,168
421,591	**8,294**	**766**	**22,285**	**–11,992**	**–468**	**440,476**
0	0	0	6,617	0	0	6,617
31,733	0	0	4,359	0	0	36,092
1	0	0	0	0	0	1
31,734	**0**	**0**	**10,976**	**0**	**0**	**42,710**
651,790	**8,807**	**3,283**	**50,045**	**–12,730**	**0**	**701,195**

Change in the group of consolidated companies € K	Additions € K	Disposals € K	Book transfers € K	**As at 31 Dec. 2010 € K**	NET BOOK VALUE **As at 31 Dec. 2010 € K**	As at 31 Dec. 2009 € K
0	0	0	0	0	81,451	75,740
0	5,776	–113	0	55,260	26,438	21,476
0	1,478	–245	0	49,992	4,868	2,933
0	**7,254**	**–358**	**0**	**105,252**	**112,757**	**100,149**
0	7,193	–480	10	84,450	141,067	143,433
0	3,344	–2,874	61	49,254	18,776	15,441
0	11,665	–6,350	–71	104,961	32,800	33,306
0	0	0	0	4	9,164	5,174
0	**22,202**	**–9,704**	**0**	**238,669**	**201,807**	**197,354**
0	0	0	0	403	6,214	0
0	0	0	0	–8,468	44,560	28,520
0	0	0	0	0	1	1
0	**0**	**0**	**0**	**–8,065**	**50,775**	**28,521**
0	**29,456**	**–10,062**	**0**	**335,856**	**365,339**	**326,024**

Segmental Reporting in the Consolidated Financial Statements 2011 of GILDEMEISTER Aktiengesellschaft

(Part of the notes)

F . 07

SEGMENTATION BY BUSINESS SEGMENTS

	"Machine Tools" 2011 € K	2010 € K	Changes against previous year € K	%	"Industrial Services" 2011 € K	2010 € K
Sales revenues with other segments	676,183	462,903	213,280	46.1	81,356	68,163
Sales revenues with third parties	1,088,019	769,941	318,078	41.3	599,432	606,658
EBIT	73,347	6,216	67,131	1,080.0	56,920	59,080
Financial result	– 13,673	– 12,055	– 1,618	– 13.4	– 17,464	– 16,137
thereof interest receivable	2,075	1,615	460	28.5	8,087	5,673
thereof interest payable	– 15,282	– 13,637	– 1,645	12.1	– 24,851	– 21,465
Share of profit for the period of associates included at equity	0	0	0	0.0	130	– 565
EBT	59,674	– 5,839	65,513	1,122.0	39,586	42,378
Carrying amount of associates included at equity	0	0	0	0.0	1,133	1,003
Segment assets	760,651	657,440	103,211	15.7	980,442	915,057
Investments	47,903	22,423	25,480	113.6	24,226	20,674
Scheduled depreciation	23,906	20,611	3,295	16.0	7,871	7,079
Employees	3,397	3,097	300	9.7	2,564	2,280

F . 07

INFORMATIONS ON GEOGRAPHICAL AREAS

	Germany 2011 € K	2010 € K	Changes against previous year € K	%	Rest of Europe 2011 € K	2010 € K	Changes against previous year € K	%	North America 2011 € K	2010 € K	Changes against previous year € K	%
Sales revenues with third parties	826,377	723,354	103,023	14.2	493,539	439,552	53,987	12.3	82,087	47,620	34,467	72.4
Long-term assets	202,140	176,641	25,499	14.4	121,441	118,735	2,706	2.3	1,112	785	327	41.7

Note: The business segments have been adjusted (Details on this can be found in the segmental reporting on page 194 ff).

Changes against previous year		"Corporate Services"		Changes against previous year		Transition		Group		Changes against previous year	
		2011	2010			**2011**	2010	**2011**	2010		
€ K	%	**€ K**	€ K	€ K	%	**€ K**	€ K	**€ K**	€ K	€ K	%
13,193	19.4	11,222	10,337	885	8.6	–768,761	–541,403	0	0	0	0.0
–7,226	–1.2	206	226	–20	–8.8	0	0	1,687,657	1,376,825	310,832	22.6
–2,160	–3.7	–17,510	–20,341	2,831	13.9	–260	25	112,497	44,980	67,517	150.1
–1,327	–8.2	–14,939	–9,853	–5,086	–51.6	0	0	–46,076	–38,045	–8,031	–21.1
2,414	42.6	29,685	25,374	4,311	17.0	–37,867	–31,195	1,980	1,467	513	35.0
–3,386	–15.8	–27,616	–32,708	5,092	15.6	37,592	30,793	–30,157	–37,017	6,860	18.5
695	123.0	342	162	180	111.1	0	0	472	–403	875	217.1
–2,792	–6.6	–32,107	–30,032	–2,075	–6.9	–260	25	66,893	6,532	60,361	924.1
130	13.0	5,553	5,211	342	6.6	0	0	6,686	6,214	472	7.6
65,385	7.1	893,128	891,681	1,447	0.2	–1,314,047	–1,158,289	1,320,174	1,305,889	14,285	1.1
3,552	17.2	17,608	6,948	10,660	153.4	0	0	89,737	50,045	39,692	79.3
792	11.2	1,828	1,766	62	3.5	0	0	33,605	29,456	4,149	14.1
284	12.5	71	68	3	4.4	0	0	6,032	5,445	587	10.8

Asia		Changes against previous year		Other		Changes against previous year		Transition		Group		Changes against previous year	
2011	2010			**2011**	2010			**2011**	2010	**2011**	2010		
€ K	€ K	€ K	%	**€ K**	€ K	€ K	%	**€ K**	€ K	**€ K**	€ K	€ K	%
261,545	147,842	113,703	76.9	24,109	18,457	5,652	30.6	0	0	1,687,657	1,376,825	310,832	22.6
24,009	17,122	6,887	40.2	458	575	–117	–20.3	1,219	706	350,379	314,564	35,815	11.4

Notes to the Consolidated Financial Statements of gildemeister Aktiengesellschaft

Accounting policies of the financial statements

1 APPLICATION OF REGULATIONS

The Consolidated Annual Financial Statements for gildemeister Aktiengesellschaft as at 31 December 2011 were prepared in accordance with the International Financial Reporting Standards (ifrs), as adopted by the European Union and their interpretation by the International Accounting Standards Board (iasb), London, Great Britain, applicable on the reporting date. The Notes to the Consolidated Financial Statements include further explanations pursuant to Section 315a of the German Commercial Code (hgb).

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

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

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. As a manufacturer of cutting machine tools gildemeister is a worldwide leader and offers innovative machine technologies, expert services, needs-based software products and energy solutions. The Consolidated Financial Statements and the Group Management Report of gildemeister Aktiengesellschaft for the end of the reporting period as at 31 December 2011, 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 27 February 2012 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. 2011	31 Dec. 2010
National	29	28
International	85	96
Total	**114**	**124**

At the end of the reporting period, the GILDEMEISTER Group, comprised 117 (previous year: 127) companies, including GILDEMEISTER Aktiengesellschaft, 114 (previous year: 124) of which are subsidiaries, that within the framework of full consolidation were included in the Consolidated Financial Statements. Three companies were included at equity in the Consolidated Financial Statements. GILDEMEISTER Aktiengesellschaft has the direct or indirect majority of voting rights in, or has a dominant influence over, the fully consolidated companies. This includes two lease object companies ("Special Purpose Entities"). Compared to the end of the financial year 2010, the consolidated group has changed due to the first-time inclusion of the following companies as well as subsidiaries that were not fully consolidated in the previous year:

- DMG Mori Seiki (Vietnam) Co., Ltd., Hanoi, Vietnam,
- DMG Egypt for Trading in Machines Manufactured – LLC., Cairo, Egypt,
- Mori Seiki Egypt for Trading in Machines & Equipment – LLC., Cairo, Egypt,
- DMG Holding AG, Oberuzwil, Switzerland,
- DMG Scandinavia Denmark ApS, Copenhagen, Denmark,
- DMG MORI SEIKI Europe AG, Dübendorf, Switzerland,
- DMG MORI SEIKI Stuttgart Vertriebs und Service GmbH, Leonberg,
- DMG MORI SEIKI Hamburg Vertriebs und Service GmbH, Hamburg,
- DMG MORI SEIKI Services GmbH, Bielefeld,
- 11 additional subsidiaries of a+f GmbH, Wurzburg.

The following companies wer fully consolidated from the date of their foundation or aquisition of shares:

On 24 July 2011, DMG Mori Seiki South East Asia Pte. Ltd founded DMG Mori Seiki (Vietnam) Co., Ltd., which has its registered office in Hanoi, Vietnam. As a 100% subsidiary, this company is intended to strengthen sales and service activities in the Asian cooperation market. The share capital amounts to VND 23,000,000 K (€ 1,037 K) and was fully paid up.

On 28 July 2011, DMG Europe Holding GmbH, Klaus founded DMG Egypt for Trading in Machine Manufactured – LLC and Mori Seiki Egypt for Trading in Machines & Equipment – LLC as 100% subsidiaries too. Both companies have their registered office in Cairo, Egypt and are intended to build up sales and service activities in Africa. In each case, the share capital of EGP 200 K (€ 26 K) was fully paid up.

On 16 September 2011, DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER founded DMG Holding AG, Oberuzwil, Switzerland as a 100% subsidiary. The share capital amounts to CHF 1.000 K (€ 823 K) and was fully paid up. This company is intended to assume a holding function within the scope of sales and service activities being grouped together with Mori Seiki in Europe.

On 23 November 2011, DMG Holding AG, Oberuzwil founded DMG Scandinavia Denmark ApS, which has its registered office in Copenhagen, Denmark. DMG Holding AG holds 100% of the equity. The share capital amounting to DKK 7,574 K (€ 1,019 K) is fully paid up.

On 14 December 2011, dmg Holding ag, Oberuzwil, together with Mori Seiki Co. Ltd., Nagoya, founded mori seiki Europe ag, which has its registered office in Dübendorf, Switzerland. dmg Holding ag holds 60.0% of equity, while Mori Seiki Co. Ltd. holds 40.0% of equity. The share capital amounting to chf 1,000 k (€ 823 k) is fully paid up. This company is to act as a joint Europe holding as part of the expansion of the cooperation on the European market.

On 2 December 2011, dmg mori seiki Deutschland GmbH, Leonberg, founded dmg mori seiki Hamburg Vertriebs und Service GmbH, Hamburg, as well as dmg mori seiki Stuttgart Vertriebs und Service GmbH, Leonberg. The share capital of dmg mori seiki Hamburg GmbH amounts to € 200 k, the share capital of dmg mori seiki Stuttgart Vertriebs und Service GmbH, Leonberg amounts to € 1,000 k. Both amounts were fully paid up.

Likewise on 2 December 2011, dmg Vertriebs und Service GmbH deckel maho gildemeister, Bielefeld founded dmg mori seiki Services GmbH, Bielefeld. The share capital of € 1,000 k was fully paid up.

The previous dmg Stuttgart Vertriebs und Service GmbH deckel maho gildemeister, Leonberg was renamed to dmg mori seiki Deutschland GmbH and is to perform the function of a holding company for all German sales companies.

The following named companies were classified pursuant to ias 31 as joint ventures. Pursuant to the option under ias 31.38, the equity interests are accounted for "at equity" in the consolidated financial statements from the date of their formation or purchase. The acquisition of equity interests takes place in fiscal year 2010:

- dmg / mori seiki Australia Pty. Ltd., Clayton Victoria, Australia,
- sun carrier omega Pvt. Ltd., Bhopal, India.

Apart from this, mg Finance GmbH was classified as an associated company and from the date of the purchase of the investment in 2010 was also included in the consolidated financial statements at equity.

As of 31 December 2011, compared to the previous year, the following companies were no longer included in the group of consolidated companies:

saco S.p.A., Castelleone, retrospective to 1 January 2011, was merged with gildemeister Partecipazioni S.r.l., Tortona.

36 project companies belonging to a+f Italia S.r.l. intended for the construction and sale of solar parks on the Italian market were liquidated during the fiscal year.

In December 2011, the 100% investments in an Italian subsidiary of a+f Italia S.r.l. and four subsidiaries of a+f GmbH were disposed of to investors. The equity interests in these companies were acquired during the reporting year and were fully consolidated from the date of their acquisition. With the sale of equity interests in these companies, all assets and liabilities are de-consolidated from the group. Overall this resulted in a disposal loss for the group of € 489 k.

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

A **complete overview of all GILDEMEISTER group companies,** classified according to consolidated companies, jointly-controlled entities (joint ventures) or associates, is presented on **page 202 et seq.**

3 CONSOLIDATION PRINCIPLES

Accounting for subsidiaries purchased is carried out in accordance with the acquisition method. The acquisition costs correspond to the fair value of the assets surrendered and the liabilities incurred or assumed at the date of the transaction. Furthermore, they include the fair value of any assets or liabilities recognised, which arise out of a contingent consideration agreement. Costs related to the acquisition are recognised as an expense when they accrue. Within the scope of a merger, identifiable assets, liabilities and contingent liabilities will be measured at fair value at the time of acquisition at initial consolidation.

The group decides on an individual basis with respect to each company acquisition as to whether the non-controlling interests in the company acquired are recognised at fair value or by means of a pro rata interest in the net assets of the company acquired. Goodwill is recognised at the value that arises from the surplus of the acquisition costs, from the amount of the non-controlling interests in the company acquired, as well as from the fair value of any previously held equity interests as of the acquisition date above the equity interest of the group in the net assets measured at fair value. Should the acquisition costs be less than the net asset value measured at fair value of the subsidiary acquired, the difference in amount shall be recognised directly in the income statement.

IFRS 3 "Business Combinations" and IAS 36 "Impairment of Assets" do not allow amortisation of goodwill according to plan, but only if a valuation adjustment requirement was determined. Any shares in the equity of the subsidiaries that the parent company is not entitled to are shown as shares of non-controlling interests within equity.

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

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

4 ACCOUNTING AND VALUATION PRINCIPLES

All annual financial statements of the companies included in the Consolidated Financial Statements were prepared at the end of the reporting period of the Consolidated Financial Statements and in accordance with group uniform accounting and valuation principles. For this purpose, those accounts that were prepared in accordance with local regulations were adjusted to the group standardised accounting and valuation principles of GILDEMEISTER Aktiengesellschaft, provided they do not comply with IFRS and substantial valuation differences exist. The accounting and measurement principles applied correspond to the same principles applied in the previous year.

Changes in accounting and valuation methods due to new standards

In the financial year 2011, the following new and revised standards, as well as IASB / IFRIC interpretations, had to be applied for the first time:

Various	Improvements to IFRS 2010
IAS 24 (REV. 2009)	Related party disclosures
IAS 32	Amendment to IAS 32 – Classification of rights issues
IFRS 1	Limited exemption from comparative IFRS 7 disclosures for first-time adopters
IFRIC 14	Amendment to IFRIC 14 – Prepayments of minimum funding requirements
IFRIC 19	Extinguishing financial liabilities with equity instruments

GILDEMEISTER has applied the following new and revised IFRS as of 1 January 2011 which are relevant to the consolidated financial statements:

Improvements to IFRS 2010

As part of the "annual improvement project", eleven amendments were made to six standards and one interpretation. The adjustment of statements in individual IFRS should result in a clarification of existing regulations. Moreover, amendments also exist which affect accounting, the approach or measurement. The standards IAS 1, IAS 27 (in conjunction with IAS 21, 28 und 31), IAS 34, IFRS 1, IFRS 3 and IFRS 7 are affected, as well as the interpretation IFRIC 13.

These amendments have no significant effect on the consolidated financial statements of GILDEMEISTER AG.

IAS 24 – Related Party Disclosures (revised 2009)

As a result of the amendment to IAS 24, the definition of a related party was modified to the effect that symmetry is achieved: Two companies, which are related parties from the point of view of one of the companies, are now also related parties from the point of view of the other company. As a result of the amended definition, the group of related parties has increased: for the first time all subsidiaries of Mori Seiki Co. Ltd., Nagoya, are now considered as related parties of GILDEMEISTER Aktiengesellschaft.

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

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

New accounting principles

GILDEMEISTER is not planning early adoption of the following new or revised Standards and Interpretations, which will become mandatorily effective in future financial years. Unless otherwise stated, any effects on the GILDEMEISTER financial statements are currently being examined.

Amendments to IFRS 7	Disclosure requirements when transferring financial assets

Amendments to IFRS 7 – Disclosures – Transfers of Financial Assets

The amendments made to IFRS 7 apply to disclosure requirements for the transfer of financial assets. As a result, the relationship between financial assets that cannot be fully derecognised and their corresponding financial liabilities should be easier to understand. Furthermore, it should be possible to improve assessment of the type and particularly the risks of a continuing involvement for derecognised financial assets. As a result of these amendments, additional disclosures are required, if a disproportionally high number of transfers with continuing involvement should occur e.g. near the end of a reporting period. This amendment first needs to be applied in financial years which start on or after 1 July 2011.

Furthermore in 2011, the following standards and interpretations issued by the IASB have not yet been adopted by the European Union:

Amendments to IAS 1	Presentation of items of other comprehensive income
Amendments to IAS 12	Deferred taxes on investment property
IAS 19 (rev. 2011)	Employee benefits
Amendments to IAS 27	Separate financial statements
Amendments to IAS 28	Investments in associates and joint ventures
Amendments to IAS 32	Offsetting financial assets and financial liabilities
Amendments to IFRS 1	Hyperinflation and exemption at the date of transition for first-time adopters of IFRS
Amendments to IFRS 7	Offsetting financial assets and financial liabilities

The following IFRS standards are relevant to the GILDEMEISTER group financial statements:

Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income

This new regulation has changed the presentation of other comprehensive income in the statement of comprehensive income. In the future, other comprehensive income items, which are recycled in the income statement at a later date, must be presented separately from other comprehensive income items, which are never recycled. Provided the items are disclosed as gross items, i.e. without netting with deferred tax consequences, the deferred taxes no longer need to be disclosed in a single sum, but should be allocated to both item groups.

The amendment – still subject to EU endorsement – must first be applied in financial years, which start on or after 1 July 2012.

IAS 19 – Employee Benefits (revised 2011)

In addition to more extensive disclosure requirements for employee benefits, the following amendments, in particular, have resulted from the revised standard:

There is currently an option on how unexpected changes in pension obligations, the so-called actuarial gains and losses, can be presented in the consolidated financial statement. These can either (a) be recognised in the income statement, (b) in other comprehensive income (OCI) or (c) be entered with deferred recognition in accordance with the so-called corridor approach. The new version of IAS 19 means that this option will be eliminated to gain a more transparent and comparable representation, so that in the future, gains and losses will only be allowed to be recognised immediately in other comprehensive income.

At present, the expected return on plan assets will be determined based on the subjective expectations of management regarding the performance of the investment portfolio. The application of IAS 19 (revised 2011) means that only a defined return on plan assets to the amount of the current discount rate of pension obligations is allowed.

The amendment – still subject to EU endorsement – first needs to be applied to financial years, which start on or after 1 January 2013.

As GILDEMEISTER currently uses the corridor approach, the amendment – if applied under the conditions as of 31 December 2011 – would result in an increase in pension provisions. The changeover from the corridor approach to the amended approach means that in the future, the income statement of GILDEMEISTER will not be affected by actuarial gains and losses (e.g. due to interest rate fluctuations), as these must then be recognised in other comprehensive income.

Amendments to IAS 27 – Separate Financial Statements

As part of the adoption of IFRS 10 Consolidated Financial Statements, the regulations for the principle of control and requirements for preparing consolidated financial statements have been removed from IAS 27 and finally dealt with in IFRS 10. As a result, in the future, IAS 27 will only contain regulations regarding the accounting of subsidiaries, joint ventures and associates in IFRS separate financial statements.

The amendment – still subject to EU endorsement – must first be applied in financial years, which start on or after 1 January 2013.

Amendments to IAS 32 und IFRS 7 – Offsetting Financial Assets and Financial Liabilities

This amendment to IAS 32 clarifies which requirements exist for offsetting financial instruments. In this amendment, the meaning of the current right to set-off is explained and it is also clarified which procedures with gross settlement as net settlement can be considered in terms of the Standard. In conjunction with these clarifications, the regulations concerning disclosures in the notes to the financial statement have also been extended in IFRS 7.

The amendment of IAS 32 – still subject to EU endorsement – first needs to be applied in financial years, which start on or after 1 January 2014.

The amendment of IFRS 7 – still subject to EU endorsement – first needs to be applied in financial years, which start on or after 1 January 2013.

The other revised standards and interpretations referred to above – still subject to EU endorsement – are not relevant for GILDEMEISTER and therefore have not been further discussed.

Use of estimates and assumptions

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

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

Impairment of goodwill

The group reviews goodwill at least once a year for impairment and whenever there is an indication to do so. This requires an allocation of goodwill to the cash-generating units as well as the higher of the two values of fair value less purchase costs and the value in use of the cash-generating units, to which the goodwill is allocated. To assess the value in use, the company management must assess the foreseeable future cash flow of the cash generating unit and, moreover, select an appropriate discount rate in order to determine the cash value of this cash flow. As of 31 December 2011, the carrying amount of **goodwill** amounted to € 83,017 K (previous year: € 81,451 K). Further information is given on **page 155 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 2011, **provisions for pension obligations** amounted to € 21,636 K (previous year: € 26,316 K). Further information is given on **page 169 et seq.**

Intangible assets arising from development

Intangible assets arising from development are capitalised according to the accounting and valuation method presented on **page 135 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 2011, intangible assets arising from development had a carrying amount according to the best possible assessment of € 30,491 K (previous year: € 26,438 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 152 et seq.).

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

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

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

Intangible and tangible assets

USEFUL ECONOMIC LIFE OF ASSETS

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

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

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

Effective as of 1 September 2011, GILDEMEISTER has assumed responsibility for Mori Seiki’s operating activities in Germany through an asset deal.

Acquisition costs amounted to € 10,387 K. More specifically, the following assets and liabilities were acquired and recognised at fair value: € 6,500 K intangible assets (of which € 1,586 K is goodwill as well as € 4,914 K for assumed customer relations), € 2,269 K tangible assets, € 1,927 K inventories, € 57 K other assets, € 366 K other provisions. The assumed net assets amount to € 10,387 K. Of the intangible assets amounting to € 6,500 K, € 1,586 K were recognised as goodwill and result from synergy effects expected from the integration of operating activities into the GILDEMEISTER group. An amount of € 4,914 K was capitalized for the customer relations acquired under industrial property rights and similar rights. These rights shall be depreciated over an eight-year period from the date of acquisition, using the straight-line method. In the reporting year, depreciation resulting from this amounted to € 205 K. Cash and cash equivalents were not assumed. There were incidental acquisition costs of € 51 K which were recorded as expense. An amount of € 3,887 K of the acquisition costs was paid immediately in 2011. A partial amount of € 6,500 K was due for payment in January 2012.

The acquisition of intangible and tangible assets is shown in the fixed assets movement schedule in the “Acquisitions” column.

Since 1 September 2011, additional sales revenues in the amount of € 8,429 K have been added to group sales revenues. The share of pre-tax earnings for the same period amounted to € 255 K.

Tangible assets were measured at cost, reduced by regular depreciation over the useful life of the asset. Borrowing costs are recognised as part of the cost of the asset, if the conditions of IAS 23 are met (see page 146 Borrowing costs). Depreciation was carried out by the straight-line method in accordance with the useful life. A re-measurement of tangible assets pursuant to IAS 16 “Property, Plant and Equipment” was not carried out. No property was held as a financial investment pursuant to IAS 40 “Investment Property”.

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

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

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

Impairment

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

Pursuant to IAS 36 "Impairment of Assets", goodwill has to be tested for impairment at least once a year and whenever criterion arises for an impairment test. GILDEMEISTER Aktiengesellschaft carried out an impairment test on 31 December 2011. In the impairment test, the carrying amount of a cash-generating unit is compared with the recoverable amount. The recoverable amount of the cash-generating unit is the higher of the asset's fair value less costs to sell and its value in use.

In the GILDEMEISTER group, the recoverable amount equals the value in use and was determined as the present value of future cash flows. The future cash flows were derived from the planning of the GILDEMEISTER group. The calculation of cash values for estimated future cash flow is based primarily on assumptions as to future sales prices or volume and costs. Planning is based on a detailed planning period extending up to the financial year 2014 in which increasing cash flows are expected. A growth rate of 1% was assumed for the period following the detailed planning period, which is in line with general expectations of future business development.

For purposes of impairment testing, the cash-generating unit, “Machine Tools” was allocated goodwill in an amount of € 39,072 K (previous year: € 39,072 K) and the cash-generating unit “Industrial services” was allocated goodwill in an amount of € 43,945 K (previous year: € 42,707 K).

The cash flows determined were discounted at a pre-tax weighted average cost of capital rate (WACC) of 12.9% (previous year: 11.9%) for the cash-generating units “Machine Tools” and 12.2% (previous year: 11.9%) for “Industrial Services”. If the recoverable amount of a cash-generating unit is lower than its book value, the value of goodwill allocated to the cash-generating unit will, initially, be reduced at an amount equal to the remaining balance. In financial year 2011 there was no need for impairment. In the cash-generating units “Machine Tools” and “Industrial services”, a long-term reduction in the EBIT margin of 1%, a reduction in the long-term growth rate of 1% or a rise in the weighted average cost of capital (WACC) before tax of 1% would not lead to a need for impairment on the goodwill allocated to the cash-generating units.

Associates

Associates are entities over which the group can exercise significant influence but cannot exercise any control. Significant influence is basically assumed to be if GILDEMEISTER has a share of at least 20% to 50% of the voting rights either directly or indirectly. Interests in associates are accounted for at the equity method of accounting and at cost upon acquisition.

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

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

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

Equity investments

Equity investments recognise interests in enterprises, over which GILDEMEISTER does not exercise any significant influence.

Equity investments for which a quoted price is available are classified as "available for sale" and are measured at this value. Equity investments for which there is no active market are classified as "available for sale" and recognised at amortised cost (see page 142 et seq Financial Instruments). There is no active market for these enterprises; therefore it is assumed that the carrying amount corresponds to the fair value. A reliable evaluation of the fair value would only be possible within the scope of specific purchase negotiations. At the present time there are no prospects of disposal.

Inventories

Valuation of inventories was carried out at the acquisition or production costs or the lower net selling price. Pursuant to IAS 2 "Inventories" elements of the production costs include, along with production material and manufacturing labour, prorated materials and production overheads. Expenses for administration and expenses arising in the social contribution area are included insofar as these are allocated to production. The proportion of overheads is evaluated on the basis of ordinary employment. Borrowing costs are recognised as part of the cost of the asset, provided the pre-conditions of IAS 23 are met (see page 146 Borrowing costs). When determining the net realisable value, inventory risks arising from the period of storage and reduced usability were recognised through appropriate reductions in values. If the causes that led to a reduction in value no longer exist, the original value will be reinstated.

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

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

Receivables and other assets

Receivables and other assets were shown in the statement of financial position at their amortised acquisition cost. Long-term non-interest bearing or low-interest bearing receivables have been discounted. Impairments in the form of individual value adjustments make adequate allowance for the expected risk of default. Specific cases of default lead to derecognition of the respective receivables. Within the scope of individual impairments, receivables, for which there is a potential devaluation requirement, will be tested for impairment and, if necessary, impaired. The calculation of impairment for doubtful receivables is based to a large extent on estimates and assessments of individual receivables, which, in addition to credit worthiness and late payment of the respective customer, also take into account the current cyclical trend and previous cases of deficit. Impairments of trade receivables are recognised in some cases using value adjustment accounts. The decision to account for deficit risks using an allowance account or by directly reducing the receivable will depend on the reliability of the risk assessment. Reclassification among the individual categories of financial assets was not carried out either in financial year 2011 or in the previous year.

Within the scope of factoring agreements, selected trade receivables are sold on a revolving basis to a bank. A total volume of € 157.2 million as of 31 December 2011 (previous year: € 159.6 million) has been agreed for factoring. Trade receivables sold under these arrangements are excluded from accounts receivable at the time of sale insofar as all risks and rewards have been substantially transferred to the acquirer and the transmission of the cash flows related to those receivables is assured.

Non-current assets held for sale and discontinued operations

As defined in IFRS 5, non-current assets or groups of assets and liabilities must be classified as held for sale, if their carrying amounts are recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of their carrying amount and fair value less costs of sale and recognised separately in the balance sheet under current assets or liabilities.

Income and expenditure relating to non-currents assets held for sale are recognized in profit and loss under other operating income or other operating expenses.

Cash and cash equivalents

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

Deferred taxes

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

Provisions and liabilities

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

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

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

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

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

Selected suppliers of the GILDEMEISTER group finance trade receivables against individual subsidiaries in advance on the basis of reverse factoring agreements concluded with individual subsidiaries and factoring companies. Through this agreement, the subsidiaries involved are guaranteed longer payment periods in principle. The reverse factoring agreement leads neither under civil law nor pursuant to the provisions of IFRS to a reclassification of the trade liabilities to another type of liability, as due to the contractual arrangement, no novation exists under the law of obligations. As of 31 December 2011, a total of € 23,539 K (previous year: € 52,701 K) trade liabilities had been purchased through the respective factoring company.

Financial instruments

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

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

Financial assets are measured at fair value on initial recognition. At the same time, the directly attributable transaction costs must be taken into account for financial assets, which, as a result of measurement at fair value, do not affect net income. The fair values recognised in the balance sheet generally correspond to the market prices of the financial assets. If these are not directly available through recourse to an active market, they are calculated by applying recognised valuation models and on the basis of standard market interest rates. In financial year 2011 and in the previous year, financial asset conditions were not re-negotiated.

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

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

The "available for sale" category represents for GILDEMEISTER the residual amount of original financial assets, which fall under the application of IAS 39 and have not been assigned to any other category. Essentially, this comprises equity securities such as equity interests in joint ventures, as well as equity interests in associates and other equity investments. Measurement takes place in principle at fair value. Any gains or losses from measuring at fair value are recognised in equity. This does not apply if it involves a permanent or significant impairment, which is recognised in profit or loss. Only upon the divestiture of the financial assets are the accumulated profits and losses in equity recognised from the measurement at fair value in the income statement. The fair value of non-listed equity instruments and options on shares purchases 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 2011, changes in the value of financial assets held for sale in an amount of € −12,729 K (previous year: € 11,681 K), were recognised directly in equity and no changes in value arose that were recognised in the income statement.

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

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

Conversion of financial instruments to other measurement categories did not occur either in the financial year 2011 or in the previous year.

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

Derivative financial instruments

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

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

In doing so, the market interest rates applicable for the remaining term of the contract are taken as a basis.

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

Fair Value Hedge

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

Cashflow Hedge

Changes in the 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 Statement of comprehensive income as soon as the hedged underlying transaction affects profit and loss.

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

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

Government grants

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

Borrowing costs

Pursuant to IAS 23.5, borrowing costs must be capitalised, if a qualifying asset exists, i.e. an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. At GILDEMEISTER, a period of more than 12 months is considered a substantial period of time. Borrowing costs for assets generated by development that can be directly attributed to the acquisition, construction or production of a qualifying asset amounted to € 151 K (previous year: € 0 K) in financial year 2011. Hereby a cost percentage of outside capital of 4.0% was obtained. Other borrowing costs were therefore directly recognised as expense in the period.

Sales revenues

Pursuant to the criteria laid down in IAS 18 “Revenues”, sales revenues arising from the sale of goods are recognised at the time of transfer of the relevant risks and rewards, if a price has been agreed or can be determined and it can be assumed that such a 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 receivables. Sales revenues from services are recognised when the services are rendered. Recognition in accordance with the percentage of completion method is not carried out as the requirements of IAS 11 are not met. Interest earnings are realized after the end of the term taking into consideration effective interest payment. Dividend income is recognised at the time the right to receipt of dividend payment arises. Interest and dividend income is recognised in the financial result.

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

5 FOREIGN CURRENCY TRANSLATION

The currency translation of all Annual Financial Statements of the international group companies that were prepared in foreign currencies was carried out in accordance with the functional currency principle pursuant to IAS 21 "The Effects of Change in Foreign Exchange Rates". Since all subsidiaries operate their business independently in financial, economic and organisational respects, their respective currencies represent the respective local currency. Assets and liabilities of foreign subsidiaries were translated at the average rate of exchange of the euro as of the end of the reporting period, and all revenue and expenses at the average annual market price of the euro pursuant to IAS 21.40.

The translation differences arising from items being translated at different rates in the balance sheet and income statement were recognised directly in equity. In the individual financial statements monetary items (cash, receivables and liabilities) in a foreign currency were valued at the exchange rate at the reporting date. Non-monetary items in foreign currencies were assessed at historical values. The differences arising from the currency translation of monetary items were shown in the Income Statement. Goodwill resulting from the acquisition of international companies was translated at the exchange rates at the time of the transactions. Accounting in accordance with the regulations contained in IAS 29 "Financial Reporting in Hyper-inflationary Economies" was not required, as the GILDEMEISTER group has no significant subsidiaries with registered offices in a hyper-inflationary economy.

The exchange rates of the major currencies developed as follows:

CURRENCIES

		Exchange rate on reporting date = 1 €		Average exchange rate = 1 €	
	ISO-Code	**31 Dec. 2011**	31 Dec. 2010	**2011**	2010
British pound	GBP	0.83530	0.86075	0.87044	0.85848
Swiss franc	CHF	1.21560	1.25040	1.23325	1.37870
Polish zloty	PLN	4.45800	3.97500	4.12544	4.01255
Czech crowns	CZK	25.78700	25.06100	24.63508	25.35615
US dollar	USD	1.29390	1.33620	1.39511	1.32990
Canadian dollar	CAD	1.32150	1.33220	1.37680	1.37731
Mexican pesos	MXN	18.05120	16.54750	17.35454	16.88475
Brazilian real	BRL	2.41590	2.21770	2.32871	2.33789
Japanese yen	JPY	100.20000	108.65000	111.11539	116.63615
Singapore dollar	SGD	1.68190	1.71360	1.75075	1.81191
Malaysian ringgit	MYR	4.10550	4.09500	4.26152	4.29283
Indian rupee	INR	68.59676	59.89583	65.08621	60.73130
Chinese Renminbi	CNY	8.15880	8.82200	9.01405	8.99747
Taiwan dollar	TWD	39.18562	39.04376	41.02398	41.81734
Korean Won	KRW	1,498.69000	1,499.06000	1,542.26077	1,540.28462
Australian dollar	AUD	1.27230	1.31360	1.34116	1.45143

Source: Deutsche Bank AG, Frankfurt / Main

Notes to individual items in the Income Statement

6 SALES REVENUES

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

	2011 € K	2010 € K
Germany	632,577	499,328
EU (excluding Germany)	488,905	504,705
USA	93,892	54,211
Asia	317,170	208,295
Other countries	155,113	110,286
	1,687,657	**1,376,825**

A breakdown and further additional explanations of the sales revenues from the sale of goods and provision of services are given in **segment reporting** on **pages 194 et seq.** and in the Segment Reporting chapter of the Group Management Report on **page 45 et seq.**

7 OWN WORK CAPITALISED

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

8 OTHER OPERATING INCOME

INCOME UNRELATING TO ACCOUNTING PERIOD	2011 € K	2010 € K
Retransfer of provisions	13,716	13,936
Retransfer of value adjustments	3,218	3,448
Profit on asset disposals	283	2,015
Receipt of payment for written off delinquent accounts	136	72
Other income unrelated to accounting period	1,678	2,826
	19,031	22,297
OTHER OPERATING INCOME		
Changes in exchange rates	23,818	22,026
Refund of expenses and on-debiting	6,737	4,857
Compensation for damages	978	1,006
Letting and leasing	523	436
Bonuses and allowances	229	201
Earnings from granting licenses	5,000	0
Other	12,543	4,498
	49,828	33,024
Total	**68,859**	**55,321**

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

A breakdown of the **dissolution of provisions** can be found on **page 174** of the notes to the consolidated financial statements.

Exchange rate and foreign currency gains 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 € 2,090 K (previous year: € 3,090 K) and refunds of charges from the German Unemployment Office for part-time retirement agreements of € 729 K (previous year: € 187 K). Income from licenses granted in the previous year resulted from the granting of licenses for specific rights of use for a certain duration of use.

Other income includes electricity revenues in the reporting year from turnkey solar parks of € 4,176 K (previous year: € 0 K).

Other income includes € 291 K (previous year: € 431 K) of accrued earnings from sale-and-lease back transactions that are classified as financial lease arrangements where GILDEMEISTER is the lessee and € 276 K (previous year: € 276 K) income from subletting arrangements where GILDEMEISTER is the lessor.

9 COST OF MATERIALS

The purchased services relate predominantly to expenses for external production.

10 PERSONNEL COSTS

For financial year 2011, the total remuneration of the Executive Board amounted to € 8,289 K (previous year: € 4,638 K). The direct remuneration of Executive Board members accounted for € 7,644 K (previous year: € 4,027 K), the fixed remuneration accounted for € 1,848 K (previous year: € 1,821 K), the STI for € 3,515 K (previous year: € 1,295 K) and the LTI for € 816 K (previous year: € 0 K). Some € 1,350 K was awarded as payment for services rendered in 2011 (previous year: € 800 K). Benefits in kind accounted for € 115 K (previous year: € 111 K). In addition, an amount of € 645 K (previous year: € 611 K) was spent on pension commitments. Former members of the Executive Board and their surviving dependants received € 605 K (previous year: € 618 K). Pension provisions for former members of the Executive Board and their surviving dependants amounted to € 8,499 K (previous year: € 8,635 K).

The **remuneration structure** for the Executive Board and the Supervisory Board is explained in the Management Report on **page 60 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 60 et seq.**

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

In the financial year 2011, pension plan expenses in the group, including employer's contributions to the statutory pension insurance, amounted to € 22,769 K (previous year: € 20,479 K). This includes the employers' contributions to the statutory pension insurance amounting to € 19,164 K (previous year: € 17,473 K).

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

	Average number of persons employed		At the balance sheet date	
	2011	2010	**31 Dec. 2011**	31 Dec. 2010
Wage earners	1,689	1,579	1,719	1,595
Salary earners	3,887	3,608	4,091	3,637
Trainees	195	214	222	213
	5,771	**5,401**	**6,032**	**5,445**

11 DEPRECIATION

A distribution of **amortisation / depreciation and write-downs of intangible assets, assets and plant, property and equipment** is provided in the asset movement schedule on **page 120 et seq**.

12 OTHER OPERATING EXPENSES

EXPENSES UNRELATED TO ACCOUNTING PERIOD	**2011 € K**	2010 € K
Losses from the disposal of fixed assets	1,241	275
Other taxes	36	275
Other expenses unrelated to accounting period	3,153	2,281
	4,430	**2,831**
OTHER OPERATIONAL EXPENSES		
Corporate communication, trade fairs and other advertising expenses	45,355	33,080
Rental and leases	26,158	25,162
Travelling and entertainment expenses	29,768	24,977
Freight out, packaging	34,970	26,216
Other external services	44,378	22,023
Sales commissions	25,384	21,822
Cost of preparation of accounts, legal and consultancy fees	20,400	15,706
Stationery, post and telecommunication expenses	9,638	8,440
Exchange rate and currency losses	22,114	20,439
Transfer to provisions	8,315	7,354
Other personnel costs	8,105	6,802
Monetary transactions and capital procurement	2,630	1,751
Impairments on receivables	6,896	5,991
Insurance	4,998	4,695
Other taxes	2,290	1,628
Investor and Public Relations	3,143	2,441
Licences and trademarks	2,212	2,105
Other	27,732	19,666
	324,486	250,298
Total	**328,916**	**253,129**

Expenses for corporate communication, trade fairs and other advertising expense have risen compared to the previous year due to an increase in trade fair appearances. The EMO in Hanover, the world's largest machine tool trade show, was particularly significant in the reporting year.

An increase in outward freight and packaging compared to the previous year is due to a rise in sales and the associated higher transport costs. In addition to the rise in the number of machines sold, the proportionate increase in transport volume to Asia has also increased outward freight and packaging costs.

Other external services include expenses for temporary and freelance workers of € 20,228 K (previous year: € 5,156 K).

The increase is primarily due to the increase in total operating performance. Exchange rate and currency losses in connection with exchange rate and currency gains can be seen in other operational income. On balance, exchange rates and currency gains arose in an amount of € 1,704 K (previous year: € 1,587 K).

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

An increase in the financial statements, legal and advisory expenses resulted mainly from more advisory services in the area of Energy Solutions for closing projects.

The administration and sales costs are included pro rata in the other expenses and in the personnel expenditures.

In the financial year 2011, € 668 K (previous year: € 778 K) accrued for the total remuneration of Supervisory Board members; this was recognised under other external services. Further details on the remuneration of the Supervisory Board are given in the Group Management Report. An individual and detailed presentation of the **Executive Board remuneration** in the financial year is set out in the **Corporate Governance Report page 60 et seq.**

13 FINANCIAL INCOME

Interest receivables and other income of the GILDEMEISTER group amounted to € 3,114 K (previous year: € 2,403 K). Other income includes income from equity investments of € 992 K (previous year: € 831 K). Of these, € 959 K (previous year: € 799 K) arose from dividend payments made by Mori Seiki Co. Ltd. An amount of € 75 K (previous year: € 186 K) includes interest income from discounting long-term provisions.

14 FINANCIAL EXPENSES

Interest expenses of € 27,925 K (previous year: € 34,288 K) are related primarily to interest expenses for group financial liabilities. Interest expenses for the use of syndicated credit fell as a result of the repayment of financial liabilities from capital increase proceeds in the first half of the financial year, and due to significantly better terms for the new financing arrangement.

Finance expenses also include an interest component of € 1,914 K (previous year: € 2,004 K) from allocations to pension provisions. In addition, € 318 K (previous year: € 725 K) from the interest accrued on long-term other provisions have been taken into account.

In contrast to the decrease in interest, other expenses increased, primarily from a one-time expense amounting to € 12,445 K, which arose from a release to income of the interest rate hedge relating to the discharge of borrowers' notes.

Under other financial expenses, the costs from scheduled and unscheduled amortisation of transaction costs are recognised. In conjunction with the restructuring of our financial liabilities, unscheduled transaction costs for the restored borrowing facilities amounting to € 2,979 K (previous year: € 677 K) and repayment of the borrowers' notes amounting to € 1,039 K (previous year: € 798 K) have arisen. In addition, further transaction costs from taking up the new syndicated loan in an amount of € 285 K (previous year: € 793 K) have arisen.

15 RESULT OF AT EQUITY ACCOUNTED INVESTMENTS

Result from equity accounted investments amounts to a total of € 472 K (previous year: € –403 K). This includes losses of € –23 K (previous year: € –564 K), resulting from the pro rata result in the reporting year of SUN CARRIER OMEGA Pvt. Ltd. (previous year: € –3 K). In addition , in financial year 2011, pro rata income from the equity investment in MG Finance GmbH in the amount of € 342 K (previous year: € 161 K) was recognized, as well as in DMG / Mori Seiki Australia Pty. Ltd. in the amount of € 153 K (previous year: € –561 K).

16 INCOME TAXES

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

	2011 € K	2010 € K
Current taxes	**21,660**	**6,869**
of which domestic	9,898	1,510
of which foreign	11,762	5,359
Deferred taxes	**– 306**	**– 4,637**
of which domestic	2,680	– 2,539
of which foreign	– 2,986	– 2,098
	21,354	**2,232**

For domestic companies, corporate income and trade tax (incl. the solidarity surcharge) are recognised under current taxes and for international companies comparable earnings-linked taxes. The computation was made on the basis of the tax regulations applicable to the individual companies.

In the accounting period 2011, an amount of € 957 K (previous year: € 417 K) resulted from tax income for prior years. An amount of € 5,396 K (previous year: € 1,198 K) is included for tax expenses for prior years.

Deferred tax income unrelated to the accounting period of € 727 K (previous year: € 1,595 K) is set off against deferred tax expenditure unrelated to the accounting period of € 0 K (previous year: € 204 K).

Current income tax expense was reduced due to the use of tax loss carry forwards not yet recognised from previous accounting periods by € 2,912 K (previous year: € 32 K), for which no taxes had yet been accrued. In addition, a tax reduction of deferred tax expense took place due to tax losses not yet recognised from previous periods in the amount of € 727 K (previous year: € 1,298 K).

As in the previous year, no write-downs of prior years' deferred tax assets from tax loss carryforwards were made. Write-downs arose from the reversal of temporary differences on deferred taxes in an amount of € 0 K (previous year: € 204 K) and income arose from the accrual of temporary differences on deferred taxes in an amount of € 0 K (previous year: € 297 K). Current taxes relating to the discontinuation of business divisions or non-operating activities did not occur in the reporting period. Due to the continued application of the accounting methods, no additional tax expenditure or income arose. No material errors occurred in the past so that no consequences arose in this respect.

Deferred taxes are calculated on the basis of income tax rates which are applied or expected in the individual countries on the valuation date, in accordance with the legal status at the time. In the financial year 2011, the corporation tax charge comprised corporation tax rate of 15.0% 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 13.6% (previous year: 13.0%), the total tax rate amounted to 29.4%.

This results in the tax rate for the measurement of deferred taxes for domestic companies (previous year: 28.8%).

International tax rates are between 17% and 41%.

The deferred tax assets recognised in equity amounted at the end of the reporting period to € 977 K (previous year: deferred tax assets of € 4,815 K). In financial year 2011, the recognised income tax expense of € 21,354 K (previous year: € 2,232 K) is some € 2,089 K higher (previous year: € 351 K) when compared to the expected income tax expense of € 19,265 K (previous year: € 1,881 K), which would arise in theory if the national tax rate of 28.8% (previous year: 28.8%), applicable for financial year 2011, had been applied at group level. The difference between current and expected income tax expenditure is due to the following:

	2011 € K	2010 € K
Results of ordinary activities before taxes	66,893	6,532
GILDEMEISTER Aktiengesellschaft tax rate in percent	28.8	28.8
Theoretical tax income / expenditure	19,265	1,881
Tax consequences of the following influences		
Adjustment due to differing tax rate	–2,254	–776
Effects from changes in tax rate	–731	–32
Tax reduction due to revenues exempt from taxation	–941	–2,399
Deferred taxable losses	–1,991	–1,303
Temporary differences	0	–93
Tax increase due to non-deductible expenses	3,964	4,325
Tax income or expenditure for prior years	4,439	781
Other adjustments	–397	–152
Income taxes	**21,354**	**2,232**

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

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

17 PROFIT SHARE ATTRIBUTED TO MINORITY INTERESTS

A proportionate net loss was allotted to non-controlling interests in equity of € –1,307 K (previous year: € 95 K). This includes mainly the proportionate share in profit or loss in Cellstrom GmbH as well as in DMG Mori Seiki India Pvt. Ltd. and DMG Mori Seiki South East Asia Pte Ltd. In the reporting year, DMG Europe Holding GmbH, Klaus, divested 49% of its interest in this company to Mori Seiki Co. Ltd., Nagoya.

18 EARNINGS PER SHARE

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

		2011	2010
Group result excluding profit share of other shareholders	€ K	46,846	4,205
Average weighted number of shares (pieces)		**54,964,602**	45,582,003
Earnings per share	€	0.85	0.09

Earnings result exclusively from continued business. The divergent diluted earnings per share amounted to € 0.84. The pre-emptive rights capital increase of 10,028,040 new shares carried out on 24 March 2011 resulted in dilutive effects. The weighted average number of shares increased as a result to 55,541,557 shares. In the previous year there were no diluted earnings per share.

Notes to individual Balance Sheet items

19 INTANGIBLE ASSETS

The goodwill shown relates, in the amount of € 78,186 K (previous year: € 78,453 K) to the revaluation difference from the consolidation of investments and in the amount of € 4,831 K (previous year: € 2,998 K) to goodwill from the individual financial statements. The rise in goodwill in individual financial statements resulted with € 1,586 K primarily from the acquisition of Mori Seiki's German operations. Moreover, changes occurred in the currency translation of goodwill into the group's euro currency.

Intangible assets arising from development relate to new machine tool projects in domestic and international product companies, to service products of DMG Vertriebs und Service GmbH and to specific software solutions. Intangible assets arising out of development at the end of the reporting period amounted to € 30,491 K (previous year: € 26,438 K). Research and development costs are immediately shown as an expense and amounted to € 42,400 K in the financial year 2011 (previous year: € 35,437 K).

The amount stated for industrial property rights and similar rights includes acquired patents, design patents and trademarks as well as data processing software. An amount of € 4,914 K was capitalised under industrial property rights and similar rights for the customer relations acquired from the transfer of Mori Seiki's operational activities in Germany. These rights will be depreciated over an eight-year period from the date of acquisition, using the straight-line method. In the reporting year, depreciation resulting from this amounted to € 205 K. 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 43 et seq**.

20 TANGIBLE ASSETS

Changes and a breakdown of items in the group's tangible assets are illustrated in the consolidated fixed-asset movement schedule. **Investments** are explained in further detail in the **Group Management Report** on **page 43 et seq**.

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

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

Land and buildings are mortgaged for the security of long-term financial debt in an amount of € 13,382 K (previous year: € 14,616 K).

Tangible assets include leased assets to the value of € 3,086 K (previous year: € 4,170 K) that, due to the structuring of the underlying leases ("finance lease"), must be charged to the respective group company as the beneficial owner. The carrying amounts of capitalised lease items are broken down as follows:

	31 Dec. 2011 € K	31 Dec. 2010 € K
Land and buildings	1,066	1,140
Technical equipment and machinery	1,618	2,039
Other equipment, factory and office equipment	402	991
	3,086	**4,170**

21 OTHER EQUITY INVESTMENTS

The development of group investments is shown in the group assets schedule.

The recognition of investments involves an interest in an amount of € 270 K in VR Leasing Frontania GmbH & Co. KG and an interest of € 80 K in Pro-Micron GmbH & Co. KG Modular System. GILDEMEISTER does not exercise any significant influence over these companies.

GILDEMEISTER Aktiengesellschaft acquired an equity interest in Mori Seiki Co. Ltd. in financial year 2009. In the reporting period, a further 1,614,841 ordinary shares were acquired on the stock exchange at acquisition costs of JPY 1,024 to JPY 1,029 per share. Payments for the share acquisition amounted to € 14,806 K (incl. incidental costs of acquisition). The fair value as at 31 December 2011 amounted to € 41,923 K (previous year: € 39,846 K). As at the reporting date, GILDEMEISTER held 5.1% of Mori Seiki Co. Ltd., Nagoya.

a+f GmbH has a 2.7% equity investment in Younicos AG, Berlin. The fair value as at 31 December 2011 amounted to € 4,338 K. a+f GmbH also has an interest in Sonnenstromalpha GmbH & Co. KG, Hamburg. The equity investment amounts to 40% and as at the reporting date, has a fair value of € 21 K.

As in the previous year, no impairment losses on financial assets were made in the reporting year.

An **overview of all GILDEMEISTER companies** and information on registered offices, equity and equity interests in financial year 2011 are set out on **page 202 et seq**.

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

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

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

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

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

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

- DMG MORI SEIKI Deutschland GmbH (former: DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER),
- DMG Berlin Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER,
- DMG Service Fräsen GmbH,
- DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER,
- DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER,
- a+f GmbH,
- DMG Microset GmbH.

DMG MORI SEIKI Deutschland GmbH has entered into profit and loss transfer and control agreements with the following subsidiaries:

- DMG MORI SEIKI München Vertriebs und Service GmbH (former: 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 MORI SEIKI Frankfurt Vertriebs und Service GmbH (former: DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER).

22 EQUITY ACCOUNTED INVESTMENTS

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

	31 Dec. 2011		31 Dec. 2010	
	Equity interest %	Carrying amount € K	Equity interest %	Carrying amount € K
DMG / Mori Seiki Australia Pty. Ltd.	50.0	659	50.0	506
MG Finance GmbH	33.0	5,553	33.0	5,211
SUN CARRIER OMEGA Pvt, Ltd,	50.0	474	50.0	497
		6,686		6,214

Details concerning the income of the equity-accounted investments are found in the explanation of individual items of the income statement under income of equity-accounted investments on page 152.

	31 Dec. 2011 € K	31 Dec. 2010 € K
Short-term assets	91,768	80,310
Long-term assets	46,273	1,116
Short-term liabilities	60,634	33,938
Long-term liabilities	50,110	29,100
Sales revenues	26,218	8,018
Other revenues	387	237
Expenses	25,544	9,006

23 LONG-TERM RECEIVABLES AND OTHER ASSETS

	31 Dec. 2011 € K	31 Dec. 2010 € K
Trade debtors	6,294	1,739
Other long-term assets	11,711	10,136
	18,005	**11,875**

Trade debtors are assigned to financial assets. In long-term trade receivables, receivables from at equity investments amounted to € 4,923 K.

Other long-term financial assets include the following items:

	31 Dec. 2011 € K	31 Dec. 2010 € K
Discounted customers' bills	2,170	5,767
Security deposits and other security payments	788	519
Purchase price receivables from disposals	239	345
Other assets	7,182	740
	10,379	**7,371**

The increase over the previous years results from the aquisition of an option to buy shares amounting to € 6,540 K. This was measured at fair value.

Other long-term assets include the following items:

	31 Dec. 2011 € K	31 Dec. 2010 € K
Tax refund claims	374	2,015
Other assets	958	750
	1,332	**2,765**

As in the previous the tax refund claims result essentially from claims for tax on sales.

24 INVENTORIES

Inventories are made up as follows:

	31 Dec. 2011 € K	31 Dec. 2010 € K
Raw materials and consumables	192,223	183,061
Work in progress	118,923	100,358
Finished goods and goods for resale	139,386	114,893
Payments on account	1,454	11,977
	451,986	**410,289**

Of inventories recorded on 31 December 2011, € 148,794 K (previous year: € 95,324 K) were recognised at their net realisable value. In the financial year, adjustments of inventories in an amount of € 17,947 K (previous year: € 13,951 K) were recognised as expense in the income statement. In the financial year, revaluations amounting to € 1,840 K arose (previous year: € 1,766 K), primarily resulting from the increase in net realisable values.

25 SHORT-TERM RECEIVABLES AND OTHER ASSETS

	31 Dec. 2011 € K	31 Dec. 2010 € K
Trade debtors	208,908	304,313
Other short-term assets	98,873	112,677
	307,781	**416,990**

In the reporting year, GILDEMEISTER had a factoring program. German receivables with a volume of up to € 88,000 K (previous year: € 75,019 K) and foreign receivables with a volume of up to € 69,223 K (previous year: € 84,550 K) are sold within the framework of this agreement. As of the close of the reporting period, German receivables to a value of € 77,500 K (previous year: € 56,257 K) and foreign receivables to a value of € 46,713 K (previous year: € 36,881 K) were sold without recourse and as such are no longer included in receivables as of the close.

Trade debtors include receivables against the company evaluated at equity in an amount of € 3,788 K (previous year: € 3,877 K).

Receivables against related companies amounted to € 10,526 K (previous year: € 3,767 K), receivables against affiliated companies amounted to € 5,845 K (previous year: € 1,249 K).

The terms of long-term and short-term receivables are shown in the following table:

	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 debtors						
31 Dec. 2011	215,202	184,354	19,640	4,930	1,967	2,436
Trade debtors						
31 Dec. 2010	306,052	274,157	18,126	4,495	1,486	2,422

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

Trade debtors and accumulated value adjustments have developed as follows:

	2011 € K	2010 € K
Trade debtors not value adjusted	213,327	300,686
Carrying amount of trade debtors before value adjustment	14,003	16,942
Accumulated value adjustments	12,128	11,576
Value adjusted trade debtors	1,875	5,366
Trade debtors	**215,202**	**306,052**

Value adjustments of trade receivables have developed as follows:

	2011 € K	2010 € K
Value adjustments as at January 1	11,576	13,986
Allocations (expenses for value adjustments)	5,034	3,598
Consumption	– 1,264	– 2,560
Dissolution	– 3,218	– 3,448
Value adjustments as at December 31	**12,128**	**11,576**

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

	2011 € K	2010 € K
Expenses for full write-off of receivables	1,862	2,393
Income from recoveries on trade debtors written off	136	72

Expenses relating to impairments and write downs of trade debtors are reported under other operating expenses. These involve a large number of individual cases. Income from receipt of payments for derecognised trade debtors are reported under other operating income. Impairments or derecognition of other financial assets were made neither in the financial year nor in the previous year.

Other short-term financial assets include the following items:

	31 Dec. 2011 € K	31 Dec. 2010 € K
Creditors with debit balance	8,133	11,093
Receivables from factoring	9,394	8,943
Discounted customers bills	7,609	6,636
Security deposits and other security payments	4,107	2,534
Fair market value of derivative financial instrumentse	2,062	2,148
Loans to third parties	288	28,370
Receivables from employees and former employees	343	354
Purchase price receivables from asset disposal	230	371
Other short-term financial assets	37,215	27,160
	69,381	**87,609**

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

Loans to third parties amounting to € 28,149 K were included in the previous year, which essentially related to current loans in the Energy Solutions segment to project subsidiaries. These loans were repaid within the scope of the settlement of solar park projects.

The overdue periods of other long-term 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. 2011	79,837	78,482	239	0	4	24
Other financial asset						
31 Dec. 2010	94,980	94,337	345	0	0	283

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

Other short-term assets included the following items:

	31 Dec. 2011	31 Dec. 2010
	€ K	€ K
Tax refund claim	23,115	21,579
Prepayments	2,183	0
Receivables from compensation claims	14	63
Other assets	4,180	3,426
	29,492	**25,068**

Tax refund claims include primarily receivables from value added tax. The remaining other assets include refund claims of € 729 K (previous year: € 187 K) with respect to additional compensation paid from part-time retirement agreements against the Federal Labour Office (Bundesagentur für Arbeit). Claims for the refund of partial unemployment benefits did not occur in the year reported (previous year: € 2 K); income from the refund of € 30 K (previous year: € 1,190 K) was recognised under employee expenses.

26 CASH AND CASH EQUIVALENTS

At the end of the reporting period, bank credit balances amounted to € 105,151 K (previous year: € 111,769 K). Of these, credit balances of subsidiaries in Germany were recognised in an amount of € 61,583 K (previous year: € 81,585 K), in Europe in an amount of € 24,381 K (previous year: € 19,296 K), in Asia in an amount of € 17,853 K (previous year: € 8,884 K) and in America in an amount of € 1,334 K (previous year: € 2,004 K).

The development of cash and cash equivalents constituting the financial resources pursuant to IAS 7 "Statement of cash flows" is illustrated in the **statement of cash flows** on **page 117.**

27 LONG-TERM ASSETS HELD FOR SALE

As of December 31, 2011, long term assets to be sold in the short term amounted to € 43,618 K. This is the equivalent of the turnkey solar park of the Energy Solutions business area. The shares of the relevant project subsidiaries are to be divested to investors in the short term. The amounts in the financial statement stemming from these assets are included under other operating income in the amount of € 2,988 K. Other operating expenses include expenses in the amount of € 2,177 K as well as financing expenses in an amount of € 106 K. The pre-tax profit totalled € 705 K.

The assets and profit share of long-term assets held for sale are reported in the segment report of the "Industrial Services" segment.

28 DEFERRED TAXES

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

	31 Dec. 2011 Assets € K	Liabilities € K	31 Dec. 2010 Assets € K	Liabilities € K
Intangible assets	994	7,034	1,124	5,947
Tangible assets	5,917	3,349	6,869	2,704
Financial assets	0	39	0	23
Inventories	8,082	1,422	6,188	6,743
Receivables and other assets	8,055	5,633	4,167	1,539
Provisions	5,298	6,492	6,480	1,898
Liabilities	13,465	397	16,280	2,407
Tax loss carried forward	16,170	–	15,538	–
	57,981	24,366	56,646	21,261
Balancing	– 16,639	– 16,639	– 15,381	– 15,381
Total	**41,342**	**7,727**	**41,265**	**5,880**

A determining factor for the valuation of the recoverability of deferred tax assets is the evaluation of the probability of sufficient future taxable income. 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 2011, tax loss asset carry forwards amounted to € 16,170 K (previous year: € 15,538 K). Deferred tax assets are allocated to German corporate tax loss carry forwards in an amount of € 1,393 K (previous year. € 870 K); no deferred tax assets were allocated to trade tax loss carry forwards. Due to the German earning stripping rules, deferred taxes for purposes of corporate tax in an amount of € 870 K (previous year: € 3,444 K) and for purposes of trade tax in an amount of € 560 K (previous year: € 2,117 K) were capitalised on interest carry forwards; recognition took place under deferred tax assets on loss carry forwards. Deferred tax assets for tax loss carry forwards are attributable to foreign subsidiaries in an amount of € 13,347 K (previous year: € 9,107 K). The loss carry forwards are either usable for an indefinite period or may be carried forward up to 20 years. In the reporting year active deferred taxes amounting to € 6,448 K (previous year: € 6,106 K) were newly capitalized to losses carried forward and € 5,816 K (previous year: € 336 K) were cleared with current tax income. 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 € 63,456 K (previous year: € 66,661 K), of which € 4,968 K (previous year: € 12,068 K) have not been taken into account. The theoretically possible deferred tax assets on tax loss carryforwards not taken into account amounts to € 1,245 K (previous year: € 2,980 K). Tax loss carry forwards that are not taken into account do not expire. Deferred taxes are calculated on the basis of income tax rates that apply or are expected in the individual countries at the time of realisation, 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 29.4% (previous year: 28.8%) for domestic companies. International tax rates are between 17% and 41%.

Income tax on other comprehensive income in an amount of € –3,838 K (previous year: € –413 K) relate – as in the previous year – exclusively to changes in fair value of derivative financial instruments included in other earnings.

29 EQUITY

The movement of individual components in group equity for the financial years 2011 and 2010 is illustrated in the Consolidated Statement of Changes in **Group Equity** on **page 118 et seq**. Business transactions are presented under "Transactions with owners" in which the owners have acted in their capacity as owners.

Subscribed Capital

GILDEMEISTER increased its capital twice in March and April of 2011. For the first capital increase of 10% of the share capital, the statutory subscription rights of the shareholders was excluded. 4,558,200 new shares were subscribed to by Mori Seiki Co. Ltd. for an issued amount of € 18.22. The share capital was increased to € 130,364,527.80, divided into 50,140,203 shares. The capital increase was entered in the Trade Register on 21 March 2011. For the second 20% subscription rights capital increase where statutory subscription rights apply, 10,028,040 new shares were offered. The subscription price was € 13.66. The increase of the share capital was € 26,072,904.00. The capital increase was entered in the Trade Register on 13 April 2011.

The share capital of GILDEMEISTER Aktiengesellschaft now amounts to € 156,437,431.80 and is fully paid up.

The share capital is unchanged and divided into 60,168,243 bearer shares with an accounting par value of € 2.60 per share.

The following statements have essentially been taken from the articles of association of GILDEMEISTER Aktiengesellschaft (version as of April 2011).

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital by up to € 21,332,376.00 in nominal terms during the period until 13 May 2015 by issuing up to 8,204,760 new no-par value bearer shares for contributions in cash and / or in kind (authorised capital). This authority can be exercised on one occasion or, in partial amounts, on more occasions.

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

The Executive Board is authorised to issue shares to company employees and business persons affiliated with the company with respect to a partial amount of € 5,000,000.00. In this respect the shareholders' statutory subscription rights are to be excluded with the approval of the Supervisory Board.

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

a) a non-cash capital increase through non-cash capital contribution so as to acquire, in applicable cases, companies, parts of companies or equity interests in companies or other assets in return for the transfer of shares,

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

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

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

The Executive Board is authorised, with the approval of the Supervisory Board, to lay down further details for the capital increase and its implementation.

The share capital has been conditionally increased by up to a further € 37,500,000.00 through the issue of up to 14,423,076 bearer shares (conditional capital I). The contingent capital increase is for granting new no-par bearer shares to the holders of options or warrants issued by the company or by a group company controlled by the company under the authorisation passed by resolution of the Annual General Meeting of 15 May 2009 under agenda item 7 against cash payment and grants a warrant or option right to the new no-par bearer shares of the company or provides for a conversion requirement.

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

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

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

The board of the GILDEMEISTER Aktiengesellschaft decided on 25 August 2011 to exercise its right to buy back company shares. This was announced at the general assembly of 14 May 2010. According to the buy-back decision, a total of 3,068,581 shares were able to be repurchased. The buyback began on 26 August 2011. 1,805,048 shares with a nominal value of € 4,693,124.80 of company shares were repurchased as of 31 December 2011. This corresponds to 3.0% of voting rights. The aquired shares can be used for all purposes mentioned in the authorisation of the annual meeting; especially the use as aquisition currency has to be mentioned. According to IAS 32.33 own shares reduce equity. At the reporting date an amount of € 4,693,124.80 was subtracted form subscribed capital.

Capital Provision

The group's capital reserves include the premiums for the issue of shares of GILDEMEISTER Aktiengesellschaft in the financial year 2011 in an amount of € 182,122,880. At the balance sheet date the total value of the premiums amounted to € 265,570,477 including the amount of the previous years in an amount of € 83,447,597. Transaction costs of € 12,454,747 (previous year: € 5,288,362) that are allocated directly to capital procurement reduced by related tax benefits on income of € 4,060,939 (previous year: € 1,954,022) were deducted from the capital reserves. The capital reserves amount to € 257,176,670 as of 31 December 2011 (previous year: € 80,113,257).

Retained Earnings

Statutory provision

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

Other Retained Earnings

Other retained earnings include prior-period profits generated by the companies included in the Consolidated Financial Statements as far as they were not distributed. Other retained earnings also include the offset of liabilities-side differences from the consolidation of investments of those subsidiaries that were consolidated before 1 January 1995, and the adjustments directly in equity in accordance with the first application of IFRS rules. Finally, other retained earnigns recognise the differences arising from foreign currency translation of international subsidiaries' financial statements not recognised in the income statement and the post-tax effects from the valuation of financial instruments in equity. Deferred taxes recognised directly in equity amount to € 977 K (previous year: € 4,815 K).

As of December 31, 2011, an amount of € 15,994 K pursuant to IAS 33.32 was deducted from the retained earnings for own shares. This was the difference between the face value and the acquisition costs of own shares.

A detailed overview on the composition of, or changes in, other retained earnings in the financial year 2011 and in the previous year is included in the Development of Group Equity.

Proposed appropriation of profits

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

- The financial year 2011 of GILDEMEISTER Aktiengesellschaft closes with net income for the year of € 13,793,700.97. It will be proposed to the annual general meeting of shareholders on 18 May 2012, taking into account the profit carry forward from the previous year in an amount of € 2,983,993.58 to use the remaining net retained profits of € 16,777,694.55 as follows:
- Distribution of € 14,590,798.75 to the shareholders through dividends of € 0.25 per share;
- Carry forward the remaining net retained profits of € 2,186,895.80 to new account.

Non-Controlling Interests

Non-controlling interests include non-controlling interests in the consolidated equity of the companies included and, as of 31 December 2011, amounts to € 12,100 K (previous year: € 6,563 K). The increase resulted from the following changes from the previous year:

In financial year 2011, DMG Europe Holding GmbH, Klaus, sold 49.0% of its equity interest in DMG Mori Seiki South East Asia Pte. Ltd., Singapore, to Mori Seiki Co. Ltd., Nagoya, accounted for as an equity transaction. The minority interests were recognised under non-controlling interests in equity.

Capital Management Disclosure

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

		31 Dec. 2011	31 Dec. 2010
Cash and cash equivalents	€ K	105,151	111,769
Financial debts	€ K	33,998	320,237
Net financial debts	€ K	– 71,153	208,468
Total equity	€ K	655,158	412,893
Equity ratio	%	47.8	30.4
Gearing	%	–	50.5

Total equity has risen in absolute terms by € 242,265 K. This is primarily due to the capital increases which were carried out in 2011 as well as the profits made during the financial year. As a result, the equity ratio rose to 47.8% (previous year: 30.4%) as of 31 December 2011. Due to the payback of borrowers' notes as well as decrease of financial obligations, net financial liabilities were fully eliminated in the reporting year. Thus there is no more gearing.

30 PENSION PROVISIONS

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

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

In the case of contribution-oriented pension plans (“defined contribution plans”) the respective company does not assume any further obligations which go beyond the payment of contributions into an earmarked reserve fund. In financial year 2011, the related expenses amounted to € 3,955 K (previous year: € 3,359 K).

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	
	2011	2010	**2011**	2010
	%	%	**%**	%
Interest rate	4.40	4.60	2.00 – 2.25	2.25 – 2.75
Salary trend	0.00	0.00	1.00 – 5.00	1.00 – 3.00
Pension tren	2.00	2.00	0.00	0.00

The pension development includes expected future increases in salary that are assessed annually and are subject to, amongst other things, inflation and the duration of employment at the company. Since the pension commitments that were entered into at the national subsidiaries are not subject to future increases in salary, salary development was not taken into account when determining the relating company pension provisions. Due to increases or reductions in the present value of defined-benefit obligations, actuarial gains or losses may arise, which may result, amongst others, from changes in the calculation parameters or changes in the risk development assessment relating to the pension commitments.

The pension provisions net value can be derived from the following:

		31 Dec. 2011 € K	31 Dec. 2010 € K
	Cash value of unfunded pension commitments	33,146	36,920
+	Cash value of funded pension commitments	15,807	9,706
–	Current value of the pension plan assets	– 16,456	– 8,759
=	Cash value of the pension commitments (after deduction of the plan assets)	32,497	37,867
–	Balance of actuarial profits / losses not yet recognised in the balance sheet		
	Profits / Losses	– 13,214	– 11,551
=	Net value of amounts shown in the balance sheet on the reporting date	19,283	26,316
	of which pensions	21,636	26.316
	of which assets (–)	– 2,353	0

The plan assets takes into account on the one hand risk payments that depend on the insured salary. On the other hand they include retirement benefits that are dependent on the accumulated retirement assets at the time of retirement. The pension plan assets comprise shares in an amount of € 1,841 K or 19.89% (previous year: € 1,792 K or 20.46%), obligations in an amount € 3,169 K or 34,23% (previous year: of € 3,048 K or 34.80%), real estate in an amount of € 1,100 K or 11.88% (previous year: € 1,090 K or 12.44%) as well as qualifying insurance contracts and other assets in an amount of € 10,346 K or 62.9%. (previous year: € 2,829 K or 32.29%). When assessing the plan assets, an expected interest rate of 3.5% is applied (previous year: 4.0%).

The principle for determining the expected long-term returns is based on past experience. The actual return on plan assets amounts to € 160 K (previous year: € 1,099 K)

The current value of the pension plan assets can be derived from the following:

		31 Dec. 2011 € K	31 Dec. 2010 € K
	Fair value of the assets at the start of the year	8,759	6,190
+/–	Exchange rate changes	250	1,154
+	Expected revenues from the plan assets	317	300
+/–	Actuarial profits (+) and losses (–)	– 157	799
+	Employer contributions	7,502	330
+	Pension plan participant contributions	269	262
+/–	Benefits paid	– 484	– 276
=	Fair value of the assets at the end of the year	16,456	8,759

The benefits actually granted including the insureds' contributions are disclosed as benefits paid.

Of the company pension provisions in an amount of € 21,636 K (previous year: € 26,316 K), of which € 21,240 K (previous year: € 25,841 K) are attributable to domestic group companies; this corresponds to about 98% (previous year: 98%) of the total amount. The changes in the cash value compared to the previous year are due to an adjustment of the underlying interest rate from 4.60 to 4.40% and to the change in the number of pensioners included in the calculations.

The part of the new actuarial profit and loss that is due to experience-based adjustments can be derived from the following table:

	2011 € K	2010 € K	2009 € K	2008 € K	2007 € K
Profits (–) and losses (+) on obligations	1,089	887	2,158	937	406
Profits (+) and losses (–) on plan assets	– 157	799	– 41	– 791	– 122

In financial year 2011, total expenditure amounted to € 3,033 K (previous year: € 2,898 K), which breaks down into the following components:

		2011 € K	2010 € K
	Current length of service expense	542	566
+	Amortisation of past service cost	1	0
+	Interest expense	1,914	2,004
–	Expected revenues from the plan assets (–)	– 317	– 300
+/–	Actuarial profits (–) and losses (+)	893	628
=	Total expense for defined contribution pension plans	3,033	2,898

The book value of the provisions has changed as follows:

		2011 € K	2010 € K
	Carrying amount as at 1 January	26,316	26,331
–	Allocation to funded pension obligations	– 4,845	0
+	Current length of service expense	542	566
+	Retroactive service cost	1	0
+	Interest expense	1,914	2,004
–	Expected revenues from the plan assets (–)	– 317	– 300
+/–	Actuarial profits (–) and losses (+)	893	628
–	Pension payments made	– 2,868	– 2,913
=	Carrying amount as at 31 December	21,636	26,316

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:

	2011 € K	2010 € K	2009 € K	2008 € K	2007 € K
Cash value of all pension commitments	48,953	46,626	41,747	36,608	37,816
Current value of the pension plan assets of all funds	– 16,456	– 8,759	– 6,190	– 5,172	– 4,999
Funding statu	32,497	37,867	35,557	31,436	32,817

Payments to beneficiaries from unfunded pension plans next year are expected to amount to about € 2,506 K (previous year: € 2,498 K), while payments to funded pension plans in the financial year 2012 are estimated to amount to about € 294 K (previous year: € 283 K).

31 OTHER PROVISIONS

The following lists the major contents of provisions:

	31 Dec. 2011 Total € K	of which short-term € K	31 Dec. 2010 Total € K	of which short-term € K
Tax provisions	13,367	13,367	7,145	7,145
Obligations arising from personnel	68,192	55,452	61,505	45,479
Risks arising from warranties and retrofitting	33,256	29,859	29,350	26,425
Obligations arising from sales	40,332	39,906	36,909	36,137
Legal and consultancy fees and costs of preparation of accounts	4,882	4,882	4,042	4,042
Other	15,038	14,943	14,022	13,889
	161,700	145,042	145,828	125,972
Total	**175,067**	**158,409**	**152,973**	**133,117**

Tax provisions include current taxes on income and returns of € 8,580 K (previous year: € 3,914 K) and other operating taxes, which have been accumulated for the reporting period and for previous years.

Provisions for employee expenses in the group include profit-sharing and staff bonuses of € 24,225 K (previous year: € 15,583 K), part-time retirement payments of € 7,581 K (previous year: € 9,823 K), holiday pay of € 10,482 K (previous year: € 9,300 K) and anniversary payments of € 4,982 K (previous year: € 5,453 K). The provisions for anniversary bonuses and part-time retirement will be discounted and carried as liability at their present value. Obligations arising from part-time retirement are secured against potential insolvency through a mutual trust relationship. To secure the pension plan, cash assets are transferred into a trust property. The members of this trust property are domestic group companies.

The assets are "plan assets" pursuant to IAS 19.7 and are balanced against the related provision proceeds arising from the pension plan assets are balanced against the related expenses. As of 31 December 2011, liquid assets of € 2,677 K (previous year: € 3,020 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. The measurement of provisions was carried out on the basis of previous experience, taking into account the conditions at the end of the reporting period and taking into account possible price increases on the closing date. The other obligations primarily include provisions for installations to be carried out, invoiced sales and other various services.

The remaining provisions primarily include liabilities for outstanding commencement of operations as well as for various other services. For the short-term provisions, it can be assumed that the obligations have for the most part been fulfilled in financial year 2012.

The movement in the other provisions is illustrated in the analysis of provisions:

	1 Jan. 2011	Transfers	Other Used	Retransfers	changes	**31 Dec. 2011**
	€ K	€ K	€ K	€ K	€ K	**€ K**
Tax provisions	7,145	12,015	5,802	0	9	13,367
Obligations arising from personnel	61,505	39,478	31,734	1,049	– 8	68,192
Risks arising from warranties and retrofitting	29,350	15,659	7,234	4,290	– 229	33,256
Obligations arising from sales	36,909	32,321	26,870	2,529	501	40,332
Legal and consultancy fees and costs of preparation of accounts	4,042	4,622	3,359	370	– 53	4,882
Other	14,022	14,136	7,514	5,478	– 128	15,038
	145,828	106,216	76,711	13,716	83	161,700
Total	**152,973**	**118,231**	**82,513**	**13,716**	**92**	**175,067**

The other changes include currency adjustments and transfers.

Obligations arising from personnel include provisions for the long-term incentive totalling € 1,200 K (previous year: € 1,465 K). A detailed description of the **long-term incentive** can be found in the **Corporate Governance** chapter on **page 60** et seq. of the Group Management Report.

Obligations in the sales area include obligations for commission, contractual penalties and other obligations.

The following table shows the number of performance units awarded in 2009, 2010 and 2011, and the amount of the provisions:

	2009 tranche term 3 years		2009 tranche term 4 years			2010 tranche term 4 years			2011 tranche term 4 years		
	Number of performance units awarded	Amount of allocation for 2011	Number of performance units awarded	Fair value 31 Dec. 2011	Provision 31 Dec. 2011	Number of performance units awarded	Fair value 31 Dec. 2011	Provision 31 Dec. 2011	Number of performance units awarded	Fair value 31 Dec. 2011	Provision 31 Dec. 2011
	shares	€ K	shares	€ K	€ K	shares	€ K	€ K	shares	€ K	€ K
Dr. Rüdiger Kapitza	28,209	326	20,790	206	154	37,879	465	232	26,858	283	72
Dr. Thorsten Schmidt	21,157	245	13,860	137	103	25,253	310	155	17,905	190	47
Günter Bachmann	21,157	245	13,860	137	103	25,253	310	155	17,905	190	47
Kathrin Dahnke	–	–	–	–	–	13,889	170	85	17,905	190	47
Total	**70,523**	**816**	**48,510**	**480**	**360**	**102,274**	**1,255**	**627**	**80,573**	**853**	**213**

From the tranche issued in 2011, an expense arose in 2011 in an amount of € 213 K. From the tranches issued in 2010 with a term of three years, expense arose in an amount of € 627 K, from the tranche with a term of four years, expense of € 360 K arose.

32 FINANCIAL DEBTS

Details of short-term and long-term financial debts are listed in the following tables:

	31 Dec. 2011 € K	Of which due within 1 year € K	Of which due within 1 to 5 years € K	Of which due after 5 years € K
Bank loans and overdrafts [1]	24,726	12,390	3,705	8,631
Discounted customers' bills	9,272	7,102	2,170	0
	33,998	**19,492**	**5,875**	**8,631**

[1] of which secured by mortgages: € 13,382 K

	31 Dec. 2010 € K	Of which due within 1 year € K	Of which due within 1 to 5 years € K	Of which due after 5 years € K
Borrowers' notes	200,705	0	200,705	0
Bank loans and overdrafts [1]	107,129	93,421	4,254	9,454
Discounted customers' bills	12,403	6,636	5,767	0
	320,237	**100,057**	**210,726**	**9,454**

[1] of which secured by mortgages: € 14,616 K

In May 2011, all borrowers' notes were discharged ahead of schedule from the revenue generated from both capital increases. The borrowers' notes had a total volume of € 201,500 K. One borrower's note had a volume of € 119,500 K, apart from this another borrower's note with a volume of € 52,000 K and a third borrower's note amounting to € 30,000 K were subscribed. All borrowers' notes had a maturity date of 2013 and bear interest at a 6-month-EURIBOR rate plus a maximum premium of 4.75%.

To safeguard the variable interest rate, interest rate swaps have been concluded (see page 186 et seq.).

Set out below are the major liabilities to financial institutions:

	31 Dec. 2011				31 Dec. 2010			
	Currency	**Book value** € K	Remaining period in years	effective interest rate %	Currency	Book value € K	Remaining period in years	effective interest rate %
Loan	EUR	13,657	up to 15	3.2 – 6.25	EUR	14,896	up to 8	3.2 – 6.8
Loan	CZK	0	up to 1		CZK	80	up to 1	5.82
Overdrafts	various	11,069	up to 5	3.85 – 13.2	various	92,153	up to 3	0.34 – 8.45
		24,726				**107,129**		

Liabilities towards credit institutes reduced in comparison with the previous year by € 82,403 K. Long-term loans reduced within the framework of the planned repayment of € 1,239 K whilst making use of overdraft loans fell compared to the previous year by € 81,084 K.

The short and medium term resource requirements of GILDEMEISTER Aktiengesellschaft and, as part of the intra-group cash management system, of the majority of domestic subsidiaries are covered by the operational cash flow and by taking out short-term and long-term financing. The amount of the financing lines granted totals € 831.9 million. The most important components of this are the syndicated credit line amounting to € 450.0 million, guarantees of € 178.0 million as well as factoring agreements of € 157.2 million.

In addition to the syndicated loan there are some long-term loans as well as bilateral short-term financing commitments at individual subsidiaries with a volume of € 46.7 million (previous year: € 36.7 million). The availment of the long-term credits as of December 2011 amounted to € 13.7 million (previous year: € 14.9 million). The short-term financing commitments were drawn on in an amount of € 11.0 million (previous year: € 7.8 million) at the reporting date.

The foreign part of the liabilities against banks totals to about 41% (previous year: about 7.1%) as at 31 December 2011. The average costs of outside capital amount to 8.2% (previous year: 9.1%). Due to the predominantly short term no significant differences between bank and book values arise for the liabilities against banks amounting to € 24,726 K (previous year: € 107,129 K).

In the reporting year, we restructured our financial liabilities and in August 2011 concluded the refinancing of our financial obligations. From the proceeds of the capital increases, in May 2011 we were able to redeem our borrowers' notes of € 201.5 million ahead of schedule.

The new syndicated credit line totalling € 450.0 million replaces the syndicated loan of € 211.9 million. It comprises a cash tranch of € 200.0 million and a cash credit line tranche of € 250.0 million. This new credit line has a five-year term (until 2016) and has been concluded on significantly better term which attests to the improved credit rating of GILDEMEISTER after the capital increases. The new syndicated loan will have an interest rate based on the current money market rate (1- to 6-month EURIBOR) plus a surcharge. This surchage changes based on the company's key figures (0.90% to maximum 2.30%). The current amount is 1.40%.

In financial year 2010, financing arrangements were as follows: in August 2011 GILDEMEISTER cancelled these financing agreements prematurely. In February 2010, in addition to the existing syndicated loan of € 175,000 K with a term until 30 June 2011, a new syndicated loan amounting to € 211,900 K was concluded. The existing loan amounting to € 175,000 K was divided into two different tranches and the terms and conditions adjusted within the scope of the refinancing arrangements.

The first tranche, amounting to € 154,900 K, comprised a forward start facility and matures in December 2012. This line was able to be drawn upon in cash from 26 June 2011 and replaced the existing syndicated loan amounting to € 175,000 K. The second tranche amounting to € 57,000 K was able to be drawn upon immediately. It also matures in December 2012. The new syndicated loan was undersigned by banks in the existing bank consortium. The loan agreements paid interest at a 6-month-EURIBOR plus a surcharge of maximum 4.75%.

The syndicated loan is classified as current as it can be drawn upon for a maximum of six months.

The financing agreements for the syndicated loan bind GILDEMEISTER to adhere to fair market covenants. All covenants were adhered to as of 31 Decdember 2011.

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

Open credit lines as of the end of the reporting period amount to € 429.0 million (previous year: € 287.7 million). These comprise free cash lines of € 222.0 million (previous year: € 156.4 million) and additional open lines of credit (guaranteed bills outstanding, bills of exchange, ABS, factoring) of € 207.0 million (previous year: € 131.3 million).

In addition to the guaranteed loans, SAUER GmbH has assigned fixed assets and current assets in an amount of € 1,322 K (previous year: € 1,546 K) to the lending banks by transfer of ownership by way of security.

For liabilities to banks of € 24,726 K (previous year: € 107,129 K), no significant differences between the carrying amount and fair market value arise due to the mainly short terms.

33 TRADE CREDITORS AND OTHER LONG-TERM LIABILITIES

Long-term liabilities are shown as follows:

	31 Dec. 2011 € K	31 Dec. 2010 € K
Trade creditors	682	417
Other long-term liabilities	19,018	24,057
	19,700	**24,474**

Trade creditors are classified as financial liabilities. These include trade payables to associated companies in an amount of € 383 K (previous year: € 0 K).

Other long-term financial liabilities include the following items:

	31 Dec. 2011 € K	31 Dec. 2010 € K
Liabilities from finance lease arrangements	2,448	2,662
Fair market value of derivative financial instruments	13,244	17,512
Other long-term financial liabilities	500	793
	16,192	**20,967**

Liabilities arising from finance leases amounted to € 2,448 K (previous year: € 2,662 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 € 13,193 K and for foreign exchange forwards in an amount of € 51 K (previous year: € 17,512 K for interest rate swaps).

In other long-term financial liabilities, the fair market value of long-term liabilities corresponds to the carrying amount values. Payables that, in legal terms, arise after the end of the reporting period, only have a minor impact on the company's financial situation.

Other long-term liabilities take account of deferred income. These include the guaranteed investment grants from the funds of the joint aid programme "Improvement of the Regional Economic Structure" and investment subsidies pursuant to the investment subsidy act in an amount of € 2,826 K (previous year: € 3,090 K) as applied under IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance".

In the financial year 2011, no investment allowances were paid (previous year: € 222 K). The accruals will be dissolved in accordance with the depreciation procedure for tax-privileged capital assets and recognised in the income statement.

34 TRADE CREDITORS AND OTHER SHORT-TERM LIABILITIES

Short-term financial liabilities are shown as follows::

	31 Dec. 2011 € K	31 Dec. 2010 € K
Trade creditors	267,472	264,431
Fair market value of derivative financial instruments	6,030	1,798
Debtors with credit balance	4,207	5,035
Liabilities from finance lease arrangements	1,166	1,601
Liabilities from accrued interest paid for the borrowers' notes	0	1,927
Other short-term financial liabilities	12,912	15,569
	291,787	**290,361**

Trade creditors include liabilities to equity investments of € 9,896 K (previous year: € 4,224 K) and to companies included at equity of € 217 K (previous year: € 24 K) as well as to related parties of € 11,221 K (previous year: € 155 K).

The fair value of derivative financial instruments mainly involves the fair value for forward exchange contracts in USD, in CAD and in GBP.

Liabilities arising from finance leases amounted to € 1,166 K (previous year: € 1,601 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 € 4,016 K (previous year: € 4,791 K).

Other financial liabilities includes liabilities from bills of € 9,113 K (previous year: € 9,536 K), which arise from the acceptance of drafts and the issue of promissory notes.

The minimum lease payments for the respective lease agreements are as follows:

TOTAL FUTURE MINIMUM LEASE PAYMENTS	31 Dec. 2011 € K	31 Dec. 2010 € K
Due within one year	1,350	1,819
Due within one and five years	2,666	2,972
Due in more than five years	0	0
	4,016	**4,791**
INTEREST COMPONENT INCLUDED IN FUTURE MINIMUM LEASE PAYMENTS		
Due within one year	184	218
Due within one and five years	218	310
Due in more than five years	0	0
	402	**528**
NET PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS		
Due within one year	1,166	1,601
Due within one and five years	2,448	2,662
Due in more than five years	0	0
	3,614	**4,263**

The minimum lease payments from subleases, for which GILDEMEISTER is the lessor, in 2012 amount to € 69 K (previous year: € 276 K). The agreements refer to the leasing of machine tools.

Other short-term liabilities include the following items:

	31 Dec. 2011 € K	31 Dec. 2010 € K
Tax liabilities	15,530	17,192
Liabilities relating to social insurance	3,825	3,136
Payroll account liabilities	3,426	2,633
Deferred income	4,057	4,314
Other liabilities	183	95
	27,021	**27,370**

Tax liabilities refer to liabilities arising from value added tax amounting to € 7,083 K (previous year: € 9,849 K) as well as liabilities arising from wage and church tax of € 6,250 K (previous year: € 6,578 K).

Deferred income relates in an amount of € 599 K (previous year: € 756 K) to deferred future interest income from a specific financing programme of the Italian state (Sabatini funding). It also includes further deferred income from sale-and-lease-back transactions that resulted in finance lease arrangements and for which GILDEMEISTER is the lessee.

35 LIABILITIES IN CONNECTION WITH ASSETS HELD FOR SALE

As of 31 December 2011, there were liablities amounting to € 11,939 K in connection with long-term assets held for sale. The long-term liabilities are listed in the segment report of the "Industrial Services" segment.

36 CONTINGENCIES AND OTHER FINANCIAL OBLIGATIONS

No reserves were set up for the following contingent liabilities, which are recognised at their notional amounts, since the risk of utilisation is estimated as not very probable:

CONTINGENCIES	31 Dec. 2011 € K	31 Dec. 2010 € K
Guarantees	5,216	5,410
Warranties	1,700	1,360
Other contingencies	5,329	4,307
	12,245	**11,077**

The guarantees primarily include advance payment guarantees at foreign group companies. In the other contingencies a guarantee in connection with the offer for financing solutions through leasing is included.

Other financial obligations consist mainly of lease agreements and long-term tenancy agreements. In operating lease agreements, the beneficial owner of the leased items is the lessor, which means risks and rewards are borne by the lessor.

The total minimum lease payments from permanent tenancy and lease agreements (finance lease arrangements and operating lease arrangements) are as set out below by due dates. The agreements have terms from two to fourteen years and some include options to extend or purchase options.

TOTAL FACE VALUE OF FUTURE MINIMUM LEASE PAYMENTS	31 Dec. 2011 € K	31 Dec. 2010 € K
Due within one year	21,204	20,017
Due within one and five years	29,600	25,842
Due in more than five years	6,637	6,321
	57,441	**52,180**

Of which operating lease arrangements account for:

TOTAL FACE VALUE OF FUTURE MINIMUM LEASE PAYMENTS	31 Dec. 2011 € K	31 Dec. 2010 € K
Due within one year	19,854	18,198
Due within one and five years	26,934	22,870
Due in more than five years	6,637	6,321
	53,425	**47,389**

Operating lease agreements exist in connection with the financing of buildings of DMG Europe Holding GmbH in Klaus, Austria, in an amount of € 2.2 million and of DECKEL MAHO Pfronten GmbH in an amount of € 2.3 million. The operating lease agreement for the buildings includes a purchase option upon expiration of the basic rental period.

Further operating lease agreements exist at FAMOT Pleszew Sp. z.o.o., Poland, for machines in an amount of € 2.6 million. At DECKEL MAHO Pfronten GmbH lease agreements in connection with the financing of crane installations exist in an amount of € 0.9 million and telephone installations in an amount of € 0.2 million. The agreements contain purchase options upon expiry of the basic rental period.

At other group companies leasing agreements exist for machines, vehicle fleets and other plant, factory and business equipment. Some of the agreements contain purchase options upon expiry of the basic rental period. The operating lease agreements have a minimum period of between two and thirty-six years.

There are no permanent sub-tenancy agreements that have to be included in the total of future minimum lease payments. There are no contingent rental payments that are recognised in the income statement.

37 DERIVATIVE FINANCIAL INSTRUMENTS

At the end of the reporting period, foreign exchange futures contracts were held by the GILDEMEISTER group essentially in USD, CHF, CAD, GBP, JPY and CZK, as well as interest rate swaps in euros. The face and fair market values of derivative financial instruments existing at the end of the reporting period are set out below:

	31 Dec. 2011				31 Dec. 2010	
	Nominal value	Fair market value Asset	Debt	Total	Nominal value	Fair market value
	€ K	€ K	€ K	€ K	€ K	€ K
Foreign exchange contracts of which cash flow hedges	114,193	1,450	5,179	– 3,729	102,923	– 533
of which USD	86,611	1,084	4,471	– 3,387	88,119	– 524
of which GBP	8,752	5	253	– 248	2,333	7
of which CAD	8,130	26	343	– 317	6,756	– 116
of which JPY	6,361	296	0	296	5,356	107
of which other currencies	4,339	39	112	– 73	359	– 7
Interest rate swaps in hedge-relationship	0	0	0	0	200,000	– 17,512
Interest rate swaps not in hedge-relationship	200,000	0	13,769	– 13,769	0	0
Foreign exchange contracts for trading purposes	55,196	612	326	286	50,107	884
of which CHF	24,544	196	163	33	17,015	801
of which USD	11,882	200	15	185	21,055	22
of which CZK	9,276	9	148	– 139	3,712	– 21
of which GBP	6,468	151	0	151	3,600	20
of which JPY	2,176	31	0	31	0	0
of which other currencies	850	25	0	25	4,725	62
	369,389	**2,062**	**19,274**	**– 17,212**	**353,030**	**– 17,161**

The nominal values correspond to the total of all purchase and sales amounts of derivative financial transactions. The fair market values recognised correspond with the price at which, as a rule, third parties would assume the rights or obligations arising from the financial instruments at the end of the reporting period. It cannot be assumed overall that the assessed value will also be actually realised upon dissolution. The fair market values are the current values of the derivative financial instruments excluding any adverse trends in value from the underlying transactions.

The fair market values of interest rate swaps are recognised in the balance sheet under other non-current financial liabilities.

The fair market values of foreign exchange forwards are recognised in the statement of financial position under other non-current and current financial assets or other non-current and current financial liabilities.

At the end of the reporting period, GILDEMEISTER also held forward foreign exchange contracts held for trading purposes, which, although they do not fulfil the strict requirements of hedge accounting pursuant to IAS 39, make an effective contribution to the securing of financial risks pursuant to the principles of risk management. For the hedging of currency risks recognised as monetary assets and liabilities, GILDEMEISTER does not use hedge accounting pursuant to IAS 39, as the realised profits and losses from the underlying transactions from the currency translation pursuant to IAS 21 are recognised in the income statement at the same time as the realised profits and losses from the derivatives applied as hedging instruments. In the event that all third parties do not fulfil their obligations arising from forward foreign exchange contracts, as at the end of the reporting period, GILDEMEISTER had a deficit risk amounting to € 2,062 K (previous year: € 2,148 K).

Interest rate swaps with a nominal volume of a total of € 200,000 K have a remaining term of up to four years.

All existing forward exchange contracts as of the closing date with a nominal volume of € 168,544 K have a remaining term of up to one year (previous year: € 153,030 K). Forward exchange contracts of a volume of € 845 K (previous year: € 7,204 K) have a remaining term of more than one year.

In the financial year 2011, expenses arising from the market valuation of financial instruments allocated to cash flow hedges in an amount of € 3,325 K (previous year: € 16,774 K) were allocated to equity and an amount of € 791 K (previous year: € 191 K) was removed from equity and recognised in profit or loss for the reporting period. Forward foreign exchange contracts were recognised in the income statement under exchange rate and currency profits or in the exchange rate and currency losses. In the financial year there was no ineffectiveness in forward foreign exchange contracts as in the previous year. The interest rate swaps became ineffective with the loss of the underlying transactions, the cash flow hedge relationship therefore had to be cancelled.
An amount of € 13,769 K was transferred from equity for the interest rate swaps and recognised in the income statement under other financial expenses.

38 RISKS FROM FINANCIAL INSTRUMENTS

Risks from Financial Instruments

Currency and interest rate fluctuations can lead to considerable profit and cash flow risks. 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, forward foreign exchange contracts are used. The conclusion and processing of derivative financial instruments is based on binding internal regulations defining scope, responsibilities, reporting and accounting. The translation risks describes the risk of a change in the statement of financial position and income statement items of a subsidiary due to exchange rate differences in the translation of local individual accounts to the group currency. Any changes in the financial position items of these companies caused by currency fluctuations in translation will be recorded in equity. Risks arising from the translation of sales revenues and results in foreign currency from subsidiaries are not hedged.

GILDEMEISTER determines foreign currency sensitivity through aggregating all foreign currency items that are not represented in the functional currency of the respective company and sets these against hedging. The fair market value of the basic items and hedges included are evaluated once at the actual exchange rates and once with the sensitivity rates. The difference between the two values represents the effects on equity and results.

If the euro had been revalued (devalued) by 10% against the US dollar as of 31 December 2011, the reserves for derivatives in equity and the fair value of the forward exchange contracts would have been € 1,547 K lower (higher) (31 Dec. 2010: € 2,138 K lower (higher)). If the euro had been revalued (devalued) by 10% against all currencies as of 31 December 2011, the results and fair value of the forward exchange contracts would have been € 6,858 K lower (higher) (31 Dec. 2010: € 13,371 K lower (higher)). A hypothetical impact on profit or loss ensues in the individual case from the currency sensitivities EUR / USD: € 4,776 K; EUR / CHF € 1,293 K; EUR / CAD: € 686 K; EUR / JPY: € 103 K.

The following tables show the transaction-related net currency risk in € K for the most important currencies as at 31 December 2011 and 2010:

Currency	31 Dec. 2011 USD € K	31 Dec. 2011 JPY € K	31 Dec. 2011 CAD € K	31 Dec. 2010 USD € K	31 Dec. 2010 JPY € K	31 Dec. 2010 CAD € K
Currency risk from balance sheet items	16,069	6,639	727	48,366	2,156	1,589
Currency risk from pending transactions	28,882	0	5,288	– 3,763	– 1,468	3,195
Transaction-related currency items	44,951	6,639	6,015	44,603	688	4,784
Financially hedged item through derivatives	– 43,729	– 6,361	– 7,084	– 11,123	– 5,356	– 4,630
Open foreign currency item	1,222	278	– 1,069	33,480	– 4,668	154
Change in foreign currency item through a 10% revaluation of the euro	– 122	– 28	107	– 3,348	467	– 15

Interest rate risks

Interest rate risks include any potential positive or negative impact of interest rate changes on the results, equity or cash flow during the current or future reporting periods. At GILDEMEISTER interest rate risks are essentially in connection with financial liabilities. GILDEMEISTER hedges this risk through concluding interest rate swaps.

Interest hedging instruments in the form of swaps are used to eliminate the effects of future changes in interest rate on the cost of financing loans that are subject to a variable interest rate.

To hedge against future interest rate changes, GILDEMEISTER has concluded interest rate swaps – originally serving to secure against interest changes from the borrower's notes. 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 swap 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.

Thus the company was protected against rising interest rates but does not benefit from falling interest rates. As a result of the discharge of the borrowers' notes ahead of schedule in the first half of the financial year and the absence of the underlying transactions the hedge relationship became ineffective. In the financial year, changes in values of interest rate swaps were therefore recognised in the income statement from the date of ineffectivity to an amount of € 12,445 K. In the complete reporting year, the change in value of interest rate swaps amounted to € 13,769 K.

We are planning to hold the interest rate swaps until the end of the term in order to avoid one-off payments for the discharge.

If the interest rate at 31 December 2011 had been 1% lower (higher), the fair value of the interest rate swaps would have been € 3,353 K (previous year: € 5,161 K) lower (€ 3,222 K (previous year: € 6,947 K) higher).

For financial instruments with a variable rate of interest – mainly this refers to the syndicated loan of € 450.0 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. As of 31 December 2011 GILDEMEISTER has no net deficit, so that interest rate increases would present an opportunity to higher interest yield. A 1% increase in interest rates pertaining to the portfolio at the end of the reporting period would result in an increase in interest yield of € 1.7 million (previous year: interest expense of € 1.0 million).

Within the scope of adapting the financial agreements, interest rate margins have improved noticeably and bear interest at 1-6 month EURIBOR plus margin.

Fixed interest rates have been predominantly agreed for other financial liabilities bearing interest. Changes in the interest rate would only have an effect if these financial instruments were recognised in the financial position at fair value. As this is not the case, financial instruments with a fixed interest rate are not subject to any risks arising out of interest rate changes within the meaning of IFRS 7.

Liquidity risks

The liquidity risk is the risk that GILDEMEISTER may not be able to meet its financial obligations. Cash outflows result primarily from financing working capital, capital investments and covering the financial requirements of sales financing. The management is informed regularly of the cash inflows and outflows as well as of financing sources. The liquidity risk is limited by creating the necessary financial flexibility within the scope of the existing financing and through effective cash management. Liquidity risk at GILDEMEISTER is governed by financial planning over twelve 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. To ensure liquidity, there is a syndicated loan facility of € 450.0 million with various banks as well as bilateral stand-by credits of € 46.7 million (previous year: € 36.7 million). Loan facilities have not been cancelled either in the financial year 2011 or in the previous year. The financing agreements for the syndicated loan bind GILDEMEISTER to adhere to fair market covenants.

As at 31 December 2011, GILDEMEISTER had cash and cash equivalents totalling € 105.2 million (previous year: € 111.8 million), open cash lines in an amount of € 222.0 million (previous year: € 156.4 million) and further open lines (guaranteed bills outstanding, bills of exchange, ABS and factoring) totalling € 207.0 million (previous year: € 131.3 million) available to it.

The following table shows that contractually agreed (non-discounted) interest and repayments of original financial liabilities as well as of the derivative financial instruments with negative fair values:

		Cash flows 2012		Cash flows 2013 – 2015		Cash flows 2016 et seq.	
	Book value 31 Dec. 2011 € K	Interest € K	Repayment € K	Interest € K	Repayment € K	Interest € K	Repayment € K
Liabilities to banks	24,726	455	12,390	378	2,853	587	9,483
Liabilities arising from leases	3,614	184	1,166	212	2,380	5	68
Discounted customers' bills	9,272	0	7,102	0	2,170	0	0
Liabilities from derivatives	19,274	0	6,030	0	13,244	0	0
Other financial liabilities	297,712	18	296,530	38	1,033	91	149
	354.598	**657**	**323,218**	**628**	**21,680**	**683**	**9,700**

This includes all instruments that were held as at 31 December 2011 and 31 December 2010, respectively, and for which payments have been contractually agreed. Forecast figures for future new liabilities have not been included. Amounts in foreign currencies were translated at the exchange rate at the end of the reporting period. The variable interest payments for financial instruments were determined on the basis of the last fixed interest rate before 31 December 2011 and 31 December 2010, respectively. Financial liabilities that can be repaid at any time are always allocated to the earliest possible date. For the liabilities from derivatives which were classified as cash flow hedges, it is to be assumed for the most part, that these will be recognised in the income statement in the next twelve months.

		Cash flows 2011		Cash flows 2012 – 2014		Cash flows 2015 et seq.	
	Book value 31 Dec. 2010 € K	Interest € K	Repayment € K	Interest € K	Repayment € K	Interest € K	Repayment € K
Borrowers' notes	200,705	18,210	0	25,691	200,705	0	0
Liabilities to banks	107,129	5,281	93,421	444	3,421	582	10,287
Liabilities arising from leases	4,263	218	1,601	276	2,517	34	145
Discounted customers' bills	12,403	0	6,636	0	5,533	0	234
Liabilities from derivatives	19,309	0	1,798	0	11,123	0	6,388
Other financial liabilities	288,173	79	286,962	60	1,014	101	197
	631,982	**23,788**	**390,418**	**26,471**	**224,313**	**717**	**17,251**

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. 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. In principle GILDEMEISTER bears bad debt losses, which may lead to loan loss provisions or in individual cases even to the loss of receivables. The bad debt losses in the group have amounted historically to about 1% of receivables. In the financial year costs for the write-down of receivables of € 1,862 K (previous year: € 2,393 K) are included. Further details on the assessment of financial risks can be found in the opportunities and risk management report in the management report.

Within the scope of cash deposits, financial contracts are only concluded with the federal bank and banks that we have carefully chosen and continuously monitor. With respect to derivative financial instruments, the GILDEMEISTER group is exposed to a credit risk that arises from the non-performance of contractual agreements by the other party to the agreement. This credit risk is minimised by only entering into transactions with parties of first-class financial credit-worthiness. Pursuant to IFRS 7.36 the carrying amounts of the financial assets represent the maximum credit risk. From the following table, a maximum credit risk arises of € 453,735 K as of the end of the reporting period (previous year: € 563,576 K):

	31 Dec. 2011 **€ K**	31 Dec. 2010 € K
Financial assets held for sale	53,545	50,775
Loans and receivables	286,437	398,884
Financial assets held to maturity	6,540	0
Cash and cash equivalents	105,151	111,769
Derivative financial assets		
Derivatives without a hedging relation	1,681	1,364
Derivatives with a hedging relation	381	784
	435,735	**563,576**

There were no securities received or other credit enhancements neither in the financial year nor in the previous year.

The valuations rates of the financial instruments according to valuation categories are shown as follows:

		Valuation in accordance with IAS 39					
	Book value 31 Dec. 2011	Amortised cost	Cost	Fair value recognised in equity	Fair value through profit or loss	**Valuation in accordance with IAS 17**	**Fair value 31 Dec. 2011**
	€ K	€ K	€ K	€ K	€ K	€ K	**€ K**
Assets							
Financial assets	53,545	11,622		41,923		–	41,923
Cash and cash equivalents	105,151	105,151				–	105,151
Trade debtors	215,202	215,202				–	215,202
Other receivables	71,235	71,235				–	71,235
Other original financial assets in the category							
Held to maturity	6,540			6,540		–	6,540
Derivative financial assets							
Derivatives without hedge relation	1,681				1,681	–	1,681
Derivatives with hedge relation	381			381		–	381
Liabilities							
Borrowers' notes	0	0				–	0
Liabilities to banks	24,726	24,726				–	24,726
Discounted customers' bills	9,272	9,272				–	9,272
Trade creditors	268,154	268,154				–	268,154
Liabilities from finance lease arrangements	3,614	3,614				3,614	3,614
Other liabilities	17,619	17,619				–	17,619
Derivative financial liabilities							
Derivatives without hedge relation	15,568				15,568	–	15,568
Derivatives with hedge relation	3,706			3,706		–	3,706
Of which aggregated in measurement categories acc. to IAS 39:							
Loans and receivables	391,588	391,588					391,588
Assets in the category							
held to maturity	6,540			6,540			6,540
available for sale	53,545	11,622		41,923			41,923
held for trading	1,681				1,681		1,681
Liabilities in the category							
Measured at amortised cost	323,385	323,385					323,385
held for trading	15,568				15,568		15,568

		Valuation in accordance with IAS 39				
Book value 31 Dec. 2010	Amortised cost	Cost	Fair value recognised in equity	Fair value through profit or loss	Valuation in accordance with IAS 17	Fair value 31 Dec. 2010
€ K	€ K	€ K	€ K	€ K	€ K	€ K
50,775	10,929		39,846		–	39,846
111,769	111,769				–	111,769
306,052	306,052				–	306,052
92,832	92,832				–	92,832
0					–	0
1,364				1,364	–	1,364
784			784		–	784
200,705	200,705				–	200,705
107,129	107,129				–	107,129
12,403	12,403				–	12,403
264,572	264,572				–	264,572
4,263	4,263				4,263	4,263
23,324	23,324				–	23,324
1,752				1,752	–	1,752
17,558			17,558		–	17,558
510,653	510,653					510,653
50,775	10,929		39,846			39,846
2,148			784	1,364		2,148
612,672	612,672					612,672
19,310			17,558	1,752		19,310

CONSOLIDATED FINANCIAL STATEMENTS

For financial instruments accounted at fair value, the fair value is determined, in principle, by way of stock market prices. Insofar as stock market prices are not available, measurement is carried out applying standard economic methods (measurement methods), taking instrument-specific market parameters as a basis.

Fair value assessment is carried out by means of the discounted cash flow method, where the individual credit-standings and other market circumstances in the form of standard market credit-standings or liquidity spreads are taken into account in the cash value assessment.

Financial assets are measured at fair value or acquisition cost (if necessary taking impairments into account). A reliable determination of the fair value when measuring acquisition costs would only be possible within the scope of specific sales negotiations.

For loans and receivables, which are measured at amortised acquisition costs, there is no liquid market. For short-term loans and receivables it is assumed that the fair value corresponds to the carrying amount. All other loans and receivables are assessed at fair value through the deduction of accrued interest on future expected cash flows. In this, interest rates are used for credits, for which credits with a corresponding risk structure, original currency and term have been re-concluded.

Trade payables and other current financial liabilities in general have a term of less than one year, so that the carrying amount corresponds approximately to the fair value.

For the liabilities to banks and other non-current liabilities, the fair values are cash values of the payments related to the liabilities taking market standard interest rates as the basis.

Fair Value Hierarchie

As of 31 December 2011, the financial assets and liabilities presented in the following table and measured at fair value were held.

Determining and the classification of fair value of financial instruments is based on a fair value hierarchy, which takes into account the significance of the input data used in the measurement and follows the following stages:

Stage 1: Prices listed on active markets (taken over unchanged) for identical financial assets and liabilities.

Stage 2: for assets or liabilities which are not represented by any listed price in accordance with Stage 1, either direct (as the price) or indirect (derived from price) observable input data.

Stage 3: input data applied that is not based on observable market data for the measurement of assets and liabilities (non-observable input data).

	€ K Stage 1	€ K Stage 2	€ K Stage 3	€ K 31 Dec. 2010
Financial assets				
Measured at fair value				
Other financial assets (not affecting net income)		0	6,540	0
Derivative financial instruments with hedge relation (not affecting net income)		381		925
Derivative financial instruments without hedge relation (affecting net income)		1,681		1,222
Financial liabilities				
Measured at fair value				
Other financial liabilities		0		0
Derivative financial instruments with hedge relation (not affecting net income)		3,706		18,970
Derivative financial instruments without hedge relation (affecting net income)		15,568		340

In the financial year there was no reclassification between Stages 1 and 2 in the measurement of fair value and there was no reclassification in or out of Stage 3 with respect to the measurement of fair value. In the other financial assets of Stage 3 no changes in value occurred. The increase over the previous year results from the acquisition of an option to buy shares amounting to € 6,540 K.

The net results of the financial instruments according to valuation categories are shown as follows:

	From interest € K	Subsequent measuring			Disposal € K	**2011 € K**	2010 € K
		At fair value € K	Foreign currency translation € K	Value adjustment € K			
Loans and receivables	– 1,298	0	– 993	– 3,542	– 150	– 5,983	– 3,327
Assets in the category							
held to maturity	0	0	0	0	0	0	0
available for sale	0	0	0	0	0	0	0
held for trading	0	1,681	0	0	0	1,681	3,223
Liabilities in the category							
measured at amortised cost	– 23,998	– 6,625	2,495	0	288	– 27,840	– 33,036
held for trading	0	– 15,568	0	0	0	– 15,568	– 3.273
Total	**– 25,296**	**– 20,512**	**1,502**	**– 3,542**	**138**	**– 47,710**	**– 36,413**

Interests from financial instruments are 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 borrowers’ notes and for liabilities to banks.

Notes on the Cash Flow Statement

39 CASH FLOW STATEMENT

The statement of cash flows pursuant to IAS 7 "Statement of Cash Flows" records the payment flow in a financial year and represents the inflow and outflow of the company's liquid funds. The payment flow is distinguished between cash flow from current operations and cash flow from investment and financing activity.

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

The cash flow from current operations was calculated by the indirect method through adjusting the earnings before tax by changes in inventories, trade receivables and payables, non-cash items and all other items showing cash flows in the investment or financing areas.

The cash flows from investment and financing activities were each calculated in terms of actual sums paid. Effects from foreign currency translation and changes in the consolidated group are adjusted accordingly. Investment transactions for finance lease agreements that did not lead to a change in the means of payment did not occur in the financial year 2011 (previous year: € 0 K). No cash or cash equivalents were assumed in GILDEMEISTER's takeover of Mori Seiki's German operations through an asset deal. Detailed notes on the assets and liabilities assumed and the acquisition costs as well are given on page 127 et seq.

Amounts paid out for long-term financial assets relate to the acquisition of additional shares in Mori Seiki Co. Ltd., Nagoya, which are disclosed under investment interests. In addition to repayments, payments for financial liabilities also include transaction costs in the financial year of € 4,277 K in connection with the financial restructuring.

The proceeds of € 7,919 K from a change in ownership interests in subsidiaries resulted from the sale of 49.0% of DMG Europe Holding GmbH's investment in DMG Mori Seiki South East Asia Pte. Ltd., Singapore.

The jointly controlled entities are included in the Consolidated Financial Statements at equity and thus have no influence on the cash flows.

Notes on Segmental Reporting

40 EXPLANATORY NOTES TO THE SEGMENTS

Within the scope of segment reporting, pursuant to the IFRS 8 regulations, the business activities of the GILDEMEISTER group have been differentiated since the end of 2011 into the business segments of "Machine Tools", "Industrial Services", and "Corporate Services". Decisive in differentiating between the business segments is the information that the so-called "chief decision-maker" is regularly provided with for the purposes of decision-making on the allocation of resources and the evaluation of profitability. The segment differentiation follows internal management and reporting on the basis of the different products and services. The key performance indicators for evaluating profitability of each business segment are the sales revenues and the EBT.

Since 31 December 2011, the business activities included in the Energy Solutions segment and those in the "Services" segment have been recognised in the "Industrial

Services" segment. The business activities of these segments were restructured in December 2011 and from this date will be managed in the "Industrial Services" segment. Due to the structural adjustment and reorganisation of the Energy Solutions business model, in accordance with IFRS 8 "Business segments", Energy Solutions was merged with the Services business segment to form the "Industrial Services" segment. This consolidation ensures our industrial customers receive all our sales and services from one source. Since December 2011, the operating results of "Industrial Services" are reported separately on a regular basis and reviewed by the main decision-maker ("Executive Board") with respect to a decision on the allocation of resources and is therefore managed as a separate segment. To facilitate comparison, the notes made in the consolidated financial statements 2011 on the Services reporting segment, as well as those made on the Energy Solutions reporting segment are summarised as comparative data for the previous year with regard to the new "Industrial Services" reporting segment. The figures for financial year 2010 for the "Industrial Services" segment have been adjusted accordingly pursuant to the requirements of IFRS 8.

A tabular presentation as part of the notes can be found on page 124 et seq.

The **"Machine Tools"** segment includes the group's new machines business and the business areas turning, milling and ultrasonic / lasertec technologies, ECOLINE and Electronics. This includes the lathes and turning centres of

- GILDEMEISTER Drehmaschinen GmbH, Bielefeld,
- GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italy,
- GRAZIANO Tortona S.r.l., Tortona, Italy,
- FAMOT Pleszew Sp. z o.o., Pleszew, Poland,
- DMG ECOLINE GmbH, Klaus, Austria,
- DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China,

the milling machines and machining centres of

- DECKEL MAHO Pfronten GmbH, Pfronten,
- DECKEL MAHO Seebach GmbH, Seebach,
- DMG ECOLINE GmbH, Klaus, Austria,
- DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China,

the ultrasonic and laser machines of

- SAUER GmbH, Idar-Oberstein / Kempten

and the products of

- DMG Electronics GmbH, Pfronten.

All of our machines are classified as cutting machine tools, and all business segments are concurrent with each other. GILDEMEISTER Beteiligungen AG, as the parent company of all production plants, is also part of this segment. Additionally, the group's uniform IT is concentrated here.

The **"Industrial Services"** segment comprises both the Services and Energy Solutions areas.

The Services division, which covers all areas with its products and services, is directly related to the machine tools. It includes the business activities of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld, and its subsidiaries.

All products and services provided by the Services segment are geared towards machine tools. With the aid of the DMG LifeCycle Products, we optimise the productivity of our customers' machine tools over the entire life cycle – from their installation until part exchange as a used machine. This also includes advisory and brokering services. The wide range of training, repair and maintenance services offered, guarantees our customers maximum cost-effectiveness for their DMG machine tools. Our unique extensive network of highly-trained service technicians ensures the quick and long-term availability of machine tools. With its ultra-modern service centre, DMG SPARE PARTS also safeguards the reliable and fast supply of DMG spare parts. DMG Service products – such as DMG Power Tools, Tool Management from DMG MICROSET and automation solutions from DMG Automation – enable the user to set up processes for machining work pieces safely and quickly, and thus cost-effectively. Another area is key accounting to serve major international customers, which is concentrated for all products and areas.

The Energy Solutions area includes the business activities of a+f GmbH and the companies responsible for sales, service and production in Italy, Spain, the USA, Austria and India. It includes the four business sectors, Components, SunCarrier, CellCube and WindCarrier with their products for generating energy and storing energy, as well as applications. In the past, this business model mainly focused on major investors and the development of turnkey projects. With a wider range of products and a greater sales-orientated focus on new markets and industrial customers, there are plans to extend the business sector to the wider mass market. In the reporting year, we have placed our focus on opening up new markets and target groups. Cellstrom GmbH offers products for storing energy. The long-lasting and low maintenance CellCube large-scale battery offers a variety of deployment possibilities. In the Components area, GILDEMEISTER specialises in the production and marketing of cast iron and steel components, in particular for mechanical engineering and wind power plants.

The **"Corporate Services"** segment also comprises the GILDEMEISTER Aktiengesellschaft with its group wide holding functions. Central functions have been assigned to GILDEMEISTER Aktiengesellschaft such as group strategy, development and purchasing coordination, management of overall projects in the production and logistics areas, funding, corporate controlling and corporate personnel management. The holding functions across the group result in expense and sales revenues.

41 EXPLANATORY NOTES TO THE SEGMENTAL INFORMATION

The definition of terms used in individual segment information is in line with the management principle for the value-oriented corporate management of the GILDEMEISTER group. Segment data is generally based on the same accounting and valuation methods as form the basis for the Consolidated Financial Statements.

Segmental assets include all assets tied up in the operative business including shares, goodwill and prepaid expenses; it does not include income tax claims. To evaluate the profitability of the segments, sales revenues from the "Machine Tools" segment are reclassified to the "Industrial Services" segment. Sales between the segments are made at standard market transfer prices.

Pursuant to IFRS 3 "Business Combinations", existing goodwill was allocated to the segments as follows: Goodwill is attributed to the "Machine Tools" segment of € 39,072 K (previous year: € 39,072 K), € 43,945 K (previous year: € 42,379 K) to the "Industrial Services" segment, and € 0 K (previous year: € 0 K) to the "Corporate Services" segment. No impairment of goodwill was recorded for the financial year.

Investments include the additions to intangible fixed assets, tangible fixed assets and additions to financial assets.

Intra-segment sales revenues show the sales revenues that have been made between the segments. The settlement prices of intra-group sales revenues are determined in line with the market (arm's length principle).

Depreciation relates to segmental fixed assets.

The EBT of the "Machine Tools" segment includes income from the dissolution of provisions in the financial year of € 7,010 K (previous year: € 6,209 K) as well as income of € 5,000 K for the granting of licenses. The EBT of the "Industrial Services" segment includes income from the dissolution of provisions in the financial year of € 4,408 K (previous year: € 6,578 K).

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 € 4,303 K (previous year: € 2,881 K) as well as other financial expenses of € 12,445 K from the cancellation of the interest rate swap hedge relationship recognised in income. No significant non-cash expenses were incurred in the two other segments.

In financial year 2011 and in the previous year, no transactions were carried out with any one customer that were more than 10% of the sales revenues of the GILDEMEISTER group.

The "Transition" column represents the elimination of intra-group receivables and liabilities, income and expenses, as well as the elimination of intermediate results between the segments.

The information on geographical areas is based on the registered office of the group companies and is broken down into regions comprising Germany, the rest of Europe, North America, Asia and the rest of the world, which includes Mexico and Brazil. The data is determined on the basis of geographical sub-groups. Non-current assets arise mainly out of tangible assets; they do not include financial instruments or deferred tax claims.

Other explanatory notes

42 AUDITOR'S FEES AND SERVICES

The fees and charges recognised as expense in financial year 2011 for the auditors of the consolidated financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft amount to € 890 K (previous year: € 1,120 K) and relate to fees and charges for the annual audit, as to € 375 K (previous year: € 6 K) to other certification services and as to € 413 K (previous year: € 349 K) to other services.

In the reporting year 2011 the statement includes only the fees calculated by KPMG AG Wirtschaftsprüfungsgesellschaft, whereas the fees for previous year's annual audit additionally included further companies of the international KPMG association.

43 EVENTS OCCURING AFTER THE BALANCE SHEET DATE

Mr Christian Thönes is an alternate member of the Executive Board as of 1 January 2012. There were no other significant events after the close of the reporting period. No other material events occurred before the date of submission to the Supervisory Board on 27 February 2012.

44 INFORMATION ON RELATIONS WITH RELATED COMPANIES AND PERSONS

Related persons and companies within the meaning of IAS 24 "Related Party Disclosures" are, in principle, members of the Executive Board and of the Supervisory Board, close members of their families and subsidiaries that are not fully consolidated. Related parties were not party to any significant transaction or any transaction of unusual nature or structure with companies of the GILDEMEISTER group. All transactions between related companies have been concluded under conditions usual in the market, just as between third parties.

In the financial year Mori Seiki Co. Ltd., Nagoya, increased its investment in GILDEMEISTER Aktiengesellschaft within the framework of the two capital increases from 5.1% previously to 20.1%. (Details of this can be found in the Share chapter of the management report on pages 68 et seq.).

Related parties to the GILDEMEISTER group are all companies which belong to the group of consolidated companies of Mori Seiki Co. Ltd., Nagoya, as well as DMG / Mori Seiki Australia Pty. Ltd., MG Finance GmbH and SUN CARRIER OMEGA Pvt. Ltd.

Detailed disclosures as to the remuneration of supervisory board members may be found in the corporate governance report on pages 60 et seq.

In the financial year provisions for doubtful receivables in connection with outstanding balances in the amount of € 313 K (previous year: € 0 K) have been recognised. In financial year 2011 expenses for irrecoverable or doubtful debts for related parties and persons have been recognised of € 162 K (previous year: € 158 K).

During the reporting year, the services and goods include revenue from licensing agreements with other related companies in the amount of € 5,000 K (previous year: € 0 K). In addition, licences of other related companies were acquired in the amount of € 9,952 K. They were acquired as commercial protection rights and similar rights and are linearly amortised over a period of five years starting with the date of use.

Effective as of 1 September 2011, GILDEMEISTER has taken over the operations of the German business of Mori Seiki within the framework of an asset deal. The acquisition costs for this amounted to € 10,387 K. Further details on the assets and debts assumed can be found on page 136.

The following transactions were carried out with related party companies:

SALE OF GOODS AND SERVICES	2011 € K	2010 € K
Associates	31,830	6,985
Joint ventures	4,060	2,465
Other related companies	19,614	14,798

PURCHASE OF GOODS AND SERVICES	2011 € K	2010 € K
Associates	120	0
Joint ventures	169	117
Other related companies	21,596	901

The disclosure of receivables and liabilities against associated companies is described in the corresponding explanations to the balance sheet items.

45 DUTY OF NOTIFICATION PURSUANT TO SECTION 26 WPHG

Mori Seiki Co. Ltd., Nagoya, Japan, has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) by letter of 22 March 2011 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, exceeded the threshold of 10% on 21 March 2011 and as of that date now amounts to 13.64% of the voting rights (6,837,700 voting rights). 4.55% (2,279,500 voting rights) are allocated to Mori Seiki Co. Ltd., pursuant to Section 22 (1) of WpHG by Mori Seiki International S.A.

Mori Seiki International S.A. Le Locle, Switzerland, has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) by letter of 22 March 2011 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, fell below the threshold of 5% on 21 March 2011 and as of that date now amounts to 4.55% of the voting rights (2,279,500 voting rights).

The GILDEMEISTER Aktiengesellschaft herewith discloses that the total number of voting rights as of the end of March 2011 amounts to 50,140,203 voting rights. The change in the total number of voting rights is effective as of 21 March 2011.

Mori Seiki Co. Ltd., Nagoya, Japan, has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) by letter of 15 April 2011 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, exceeded the thresholds of 15% and 20% on 15 April 2011 and as of that date now amounts to 20.10% of the voting rights (12,093,817 voting rights). 4.55% (2,735,400 voting rights) are allocated to Mori Seiki Co. Ltd., pursuant to Section 22 (1) of WpHG by Mori Seiki International S.A.

Mori Seiki Co. Ltd., Nagoya, Japan, has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) by letter of 15 April 2011 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, exceeded the thresholds of 15% and 20% on 15 April 2011 and as of that date now amounts to 20.10% (12,093,817 voting rights).

In addition to this disclosure, Mori Seiki Co. Ltd., Nagoya, Japan, has notified us pursuant to section 27a of WpHG by letter of 18 April 2011 of the goals of the purchase and of the origin of the funds use for the purchase as follows:

1. The investment primarily serves to implement strategic goals. Achieving trade profits is not ruled out.
2. It is not intended to acquire further voting rights within the next twelve months through purchase or through other means.
3. There are no aspirations to influence the staffing of the administrative, executive and supervisory organs of our corporation.
4. There are no aspirations to considerably change the capital structure of our corporation, especially regarding the ratio of equity financing to external financing and the dividend policy.
5. With regard to the origin of acquisition funding, 0% equity financing and 100% external financing was used.

Joh. Berenberg Gossler & Co. KG, Hamburg, Germany, has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) by letter of 19 April 2011 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, exceeded the thresholds of 3%, 5% and 10% on 13 April 2011 and as of that date now amounts to 10.11% of the voting rights (6,084,020 voting rights).

Joh. Berenberg Gossler & Co. KG, Hamburg, Germany, has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) by letter of 19 April 2011 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, fell below the thresholds of 10%, 5% and 3% on 15 April 2011 and as of that date now amounts to 1,61% of the voting rights (970.000 voting rights).

WestLB AG, Düsseldorf, Germany, has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) by letter of 19 April 2011 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, exceeded the thresholds of 3% and 5% on 13 April 2011 and as of that date now amounts to 8.63% of the voting rights (5,190,520 voting rights).

WestLB AG, Düsseldorf, Germany, has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) by letter of 19 April 2011 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, fell below the thresholds of 5% and 3% on 15 April 2011 and as of that date now amounts to 0% of the voting rights (0 voting rights).

Joh. Berenberg Gossler & Co. KG, Hamburg, Germany, has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) by letter of 28 April 2011 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, fell below the thresholds of 10%, 5% and 3% on 15 April 2011 and as of that date now amounts to 0% of the voting rights (0 voting rights).

The GILDEMEISTER Aktiengesellschaft discloses that the total number of voting rights as of the end of April 2011 amounts to 60,168,243 voting rights. The change in the total number of voting rights is effective as of 13 April 2011.

Joh. Berenberg Gossler & Co. KG, Hamburg, Germany, has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) by letter of 19 April 2011 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, exceeded the thresholds of 3%, 5% and 10% on 13 April 2011 and as of that date now amounts to 10.11% of the voting rights (6,084,020 voting rights).

Joh. Berenberg Gossler & Co. KG, Hamburg, Germany, has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WpHG) by letter of 28 April 2011 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, fell below the thresholds of 10%, 5% and 3% on 15 April 2011 and as of that date now amounts to 0% of the voting rights (0 voting rights).

In addition to this voting rights disclosure and percentage threshold disclosure, Joh. Berenberg Gossler & Co. KG, Hamburg, Germany, has notified us pursuant to section 27a of WpHG by letter of 6 May 2011 of the goals of the purchase and of the origin of the funds use for the purchase as follows:

1. The purchase which led to the exceedance of the 10% disclosure threshhold of voting rights of the GILDEMEISTER Aktiengesellschaft does not serve any strategic goals, but resulted primarily from carrying out the capital increase of the GILDEMEISTER Aktiengesellschaft and partly to achieve trade profits.
2. Joh. Berenberg Gossler & Co. KG does not intend to acquire further voting rights within the next twelve months through purchase or through other means, except in cases of trade business within the scope of its usual business.
3. Joh. Berenberg Gossler & Co. KG does not aspire to influence the staffing of the administrative, executive and supervisory organs of the GILDEMEISTER Aktiengesellschaft.
4 Joh. Berenberg Gossler & Co. KG does not aspire to considerably change the capital structure of GILDEMEISTER Aktiengesellschaft, especially regarding the ratio of equity financing to external financing and the dividend policy.
5. The voting rights were acquired through equity financing.

GILDEMEISTER Aktiengesellschaft, Bielefeld, Germany, discloses pursuant to Section 26 (1) 2 of the German Securities Trading Act (WpHG) that the number of its own GILDEMEISTER Aktiengesellschaft shares held (ISIN: DE0005878003, WKN: 587800) on 20 September 2011 exceeded the threshold of 3% and as of that date now amounts to 3.000001% of the voting rights (1,805,048 voting rights).

46 CORPORATE GOVERNANCE

The declaration of conformity in accordance with Section 161 of the German Stock Corporation Act (AktG) was made in November 2011 and has been made permanently accessible on our website at www.gildemeister.com.

GILDEMEISTER Group Companies

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES, PROCUREMENT / COMPONENTS	National currency	Equity [1]	€ K	Participation quota in %
Subsidiaries (fully consolidated companies)				
GILDEMEISTER Beteiligungen AG, Bielefeld [2/5]			240,416	100.0
DECKEL MAHO Pfronten GmbH, Pfronten [4/6/7]			47,922	100.0
SAUER GmbH, Stipshausen / Idar-Oberstein [4/8/9]			7,455	100.0
DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China [6]	CNY K	171,430	21,012	100.0
FAMOT Pleszew Sp. z o.o., Pleszew, Poland [6]	PLN K	109,976	24,669	100.0
GILDEMEISTER Drehmaschinen GmbH, Bielefeld [4/6/7]			15,750	100.0
GILDEMEISTER Partecipazioni S.r.l., Tortona, Italy [6]			80,586	100.0
GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italy [3]			45,816	100.0
GRAZIANO Tortona S.r.l., Tortona, Italy [3]			14,093	100.0
DMG Service Drehen Italia S.r.l., Brembate di Sopra (Bergamo), Italy [3]			334	100.0
DMG Italia S.r.l., Brembate di Sopra, Italy [3]			5,168	100.0
a+f Italia S.r.l., Milan, Italy [3]			443	100.0
DMG MORI SEIKI Italia S.r.l. (former: a+f Italia Holding S.r.l.), Milan, Italy [21]			3	100.0
MASSERIA MARAMONTI S.r.l., Milan, Italy [21]			– 18	100.0
Lacerta SRL, Milan, Italy [21]			– 14	100.0
Agridaunia S.r.l., Milan, Italy [21]			– 28	100.0
Agrestis S.r.l., Milan, Italy [21]			3	100.0
Capitanata Rurale S.r.l., Milan, Italy [21]			– 24	100.0
La Daunia Gialla S.r.l., Milan, Italy [21]			– 23	100.0
La Terra del Sole S.r.l., Milan, Italy [21]			– 18	100.0
Terra Mia S.r.l., Milan, Italy [21]			– 50	100.0
Energia Solare S.r.l., Milan, Italy [21]			– 17	100.0
Le Fonti Rinnovabili S.r.l., Milan, Italy [21]			– 18	100.0
Solar Energy S.r.l., Milan, Italy [21]			– 17	100.0
Bio Energie S.r.l., Milan, Italy [21]			3	100.0
Daunia Energia S.r.l., Milan, Italy [21]			3	100.0
Elios Energia Puglia S.r.l. Milan, Italy [21]			3	100.0
Energia e Vita S.r.l., Milan, Italy [21]			4	100.0
Energia Pulita S.r.l., Milan, Italy [21]			4	100.0
DECKEL MAHO Seebach GmbH, Seebach [4/6/7]			8,363	100.0
DMG Automation GmbH, Hüfingen [4/5/6/7]			1,486	100.0
DMG Electronics GmbH, Pfronten [4/6/7]			500	100.0
DMG Spare Parts GmbH, Geretsried [4/5/6/7]			12,000	100.0
GILDEMEISTER Finance S.à.r.l., Luxembourg [6]			1	100.0
MITIS Grundstücks-Vermietungs Gesellschaft mbH & Co. Objekt Bielefeld KG, Bielefeld [4]			– 19	100.0
MITIS Grundstücks-Vermietungs Gesellschaft mbH, Bielefeld [4]			70	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]			152,663	100.0
DMG MORI SEIKI Deutschland GmbH (former: DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER), Leonberg [4/5/10/11]			45,001	100.0
DMG MORI SEIKI München Vertriebs und Service GmbH, (former: 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 MORI SEIKI Frankfurt Vertriebs und Service GmbH (former: DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER), Bad Homburg [4/5/12/13]			610	100.0
DMG MORI SEIKI Hamburg Vertriebs und Service GmbH, Hamburg [12]			162	100.0
DMG MORI SEIKI Stuttgart Vertriebs und Service GmbH, Leonberg [12]			998	100.0
DMG Europe Holding GmbH, Klaus, Austria [10]			101,686	100.0
DMG Mori Seiki South East Asia Pte. Ltd., Singapore [14]	SGD K	24,623	14,640	51.0
DMG Australia Pty. Ltd., Clayton Victoria, Australia [15]	AUD K	5,657	4,447	100.0
DMG (Thailand) Co. Ltd., Bangkok, Thailand [15]	THB K	14,051	343	100.0
DMG Mori Seiki (Malaysia) SDN BHD, Shan Alam / Selangor, Malaysia [15]	MYR K	11,142	2,714	100.0
DMG Mori Seiki (Vietnam) Co. Ltd., Hanoi, Vietnam [15]	VND K	21,660,408	796	100.0
DMG / Mori Seiki Austria GmbH, Klaus, Austria [14]			1,739	100.0
DMG ECOLINE GmbH, Klaus, Austria [14]			2,856	100.0
DMG Middle East FZE, Dubai, United Arab Emirates [14]	AED K	803	169	100.0
DMG Benelux B.V., Veenendaal, Netherlands [14]			50,117	100.0
DECKEL MAHO GILDEMEISTER Brasil Ltda., São Paulo, Brazil [16]	BRL K	5,803	2,402	100.0
DECKEL MAHO GILDEMEISTER Ibérica S.L., Ripollet, Spain [16]			4,396	100.0
AF Sun Carrier Ibérica S.L., Madrid, Spain [22]			184	100.0
DMG America Inc., Itasca, USA [16]	USD K	53,488	41,339	100.0
DMG Charlotte LLC, Charlotte, USA [17]	USD K	2,143	1,656	100.0
DMG Chicago Inc., Itasca, USA [17]	USD K	285	220	100.0
DMG Houston Inc., Houston, USA [17]	USD K	61	47	100.0
DMG Los Angeles Inc., Los Angeles, USA [17]	USD K	333	257	100.0
DMG Boston LLC, Burlington, USA [17]	USD K	2,618	2,023	100.0
SunCarrier LLC, Wilmington, USA [17]	USD K	136	105	100.0
DMG Asia Pte. Ltd., Singapore [16]			15,743	100.0
DMG Benelux BVBA – SPRL., Zaventem, Belgium [16]			4,016	100.0
DMG France S.a.r.l., Les Ulis, France [16]			1,224	100.0

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

	National currency	Equity [1]	€ K	Participation quota in %
a+f Sun Carrier France SAS, Les Ulis, France [23]			120	100.0
DMG Czech s.r.o., Brno, Czech Republic [16]	CZK K	24,855	964	100.0
DMG Polska Sp. z o.o., Pleszew, Poland [16]	PLN K	12,196	2,736	100.0
DMG (Schweiz) AG DECKEL MAHO GILDEMEISTER, Dübendorf, Switzerland [16]	CHF K	8,276	6,808	100.0
DMG Romania Sales & Services S.r.l., Bukarest, Rumania [16]	RON K	4,191	969	100.0
DMG South East Europe E.P.E., Thessaloniki, Greece [16]			119	100.0
DMG (U.K.) Ltd., Luton, Great Britain [16]	GBP K	3,718	4,452	100.0
DMG Russland o.o.o., Moscow, Russia [14]	RUB K	90,984	2,178	100.0
DMG Mori Seiki Istanbul Makine Ticaret ve Servis Limited Sirketi, Istanbul, Turkey [14]	TRY K	8,369	3,425	100.0
DMG Nippon K.K., Yokohama, Japan [14]	JPY K	290,154	2,896	100.0
DMG Scandinavia Sverige AB, Sollentuna, Sweden [14]	SEK K	25,593	2,872	100.0
DMG / MORI SEIKI Hungary Kereskedelmi és Szeviz Korlatolt Felelösségü Tarasag (former: DMG Hungary Kereskedelmi és Szeviz Korlatolt Felelösségü Tarasag), Budapest, Hungary[14]			1,396	100.0
DMG Scandinavia Norge AS, Langhus, Norway [14]	NOK K	8,505	1,097	100.0
DMG Egypt for Trading in Machines Manufactured LLC, Kairo, Egypt [14]	EGP K	200	26	100.0
Mori Seiki Egypt for Trading in Machines & Equipments LLC, Cairo, Egypt [14]	EGP K	200	26	100.0
DMG Canada Inc., Toronto, Canada [10]	CAD K	2,570	1,945	100.0
DMG Mori Seiki México S.A. de C.V., Queretaro, Mexiko [10]	MXN K	3,880	215	100.0
DMG Technology Trading (Shanghai) Co. Ltd., Shanghai, China [10]	CNY K	71,816	8,802	100.0
DMG MORI SEIKI INDIA MACHINES AND SERVICES Pvt. Ltd., Bangalore, India [10]	INR K	426,973	6,224	51.0
DMG MORI SEIKI (Taiwan) Co. Ltd., Taichung, Taiwan [10]	TWD K	89,350	2,280	100.0
DMG MORI SEIKI Korea Co. Ltd., Sihung-Si / Gyeonggi-do, Korea [10]	KRW K	7,173,597	4,787	100.0
DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [4/5/10/11]			1,508	100.0
DMG Service Fräsen GmbH, Pfronten [4/5/10/11]			2,730	100.0
DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER, Geretsried [4/5/10/11]			17,517	100.0
DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [4/5/10/11]			271	100.0
DMG MICROSET GmbH, Bielefeld [4/5/10/11]			1,405	100.0
a+f GmbH, Würzburg [4/5/10/11]			45,100	100.0
Cellstrom GmbH, Vienna, Austria [18]			– 1,138	50.001
Green Energy Babice s.r.o., Babice, Czech Republic [18]	CZK K	– 22,911	– 888	100.0
Ginosa Energia S.r.l., Altamura, Italy [18]			– 89	100.0
Karina Solar S.r.l., Milan, Italy [18]			– 18	100.0
Leonie Solar S.r.l., Milan, Italy [18]			– 30	100.0
Simon Solar, S.r.l., Milan, Italy [18]			– 43	100.0
Vincent Solar S.r.l., Milan, Italy [18]			– 21	100.0
Rena Energy S.r.l., Milan, Italy [18]			188	100.0
Winch Puglia Foggia S.r.l., Milan, Italy [18]			415	100.0
Cucinella S.r.l., Milan, Italy [18]			64	100.0

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES, PROCUREMENT / COMPONENTS (CONTINUATION)	National currency	Equity [1]	€ K	Participation quota in %
Solar Power Puglia SAS, Bolzano, Italy [18]			19	100.0
Solar Power Puglia S.r.l., Bolzano, Italy [18]			11	100.0
DMG MORI SEIKI Services GmbH, Bielefeld [10]			1,000	100.0
DMG Holding AG, Oberuzwil, Switzerland [10]	CHF K	983	809	100.0
DMG Scandinavia Denmark ApS, Copenhagen, Denmark [24]	DKK K	7,574	1,019	100.0
DMG Mori Seiki Europe AG, Dübendorf, Switzerland [24]	CHF K	1,000	823	60.0
BIL Leasing GmbH & Co 736 KG, Munich [19]			0	
BIL Leasing GmbH & Co 748 KG, Munich [20]			0	
Jointly-controlled entities (joint venture)				
DMG / Mori Seiki Australia Pty. Ltd., Clayton Victoria, Australia	AUD K	1,959	1,540	50.0
SUN CARRIER OMEGA Pvt. Ltd., Bhopal, India	INR K	60,000	875	50.0
Associates				
MG Finance GmbH, Wernau			16,411	33.0

1) The figures correspond with the financial statements prepared in accordance with local regulations; they do not show the respective companies' contribution to the Consolidated Financial Statements. Foreign currencies with respect to equity were translated at the market price on reporting date.
2) Management and profit and loss transfer agreement with GILDEMEISTER Aktiengesellschaft
3) Participating interest of GILDEMEISTER Partecipazioni S.r.l.
4) The domestic subsidiary has complied with the conditions required by Section 264 paragraph 3 HGB (German Commercial Code) regarding the application of the exemption regulations and therefore waives the disclosure of its annual financial statements and relating documents.
5) The domestic subsidiary has complied with the conditions required by Section § 264 paragraph 3 HGB (German Commercial Code) regarding the application of the exemption regulations and therefore waives the preparation of a management report.
6) Participating interest of GILDEMEISTER Beteiligungen AG
7) Management and profit and loss transfer agreement with GILDEMEISTER Beteiligungen AG
8) Participating interest of DECKEL MAHO Pfronten GmbH
9) Management and profit and loss transfer agreement with DECKEL MAHO Pfronten GmbH
10) Participating interest of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
11) Management and profit and loss transfer agreement with DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
12) Participating interest of DMG MORI SEIKI Deutschland GmbH
13) Management and profit and loss transfer agreement with DMG MORI SEIKI Deutschland GmbH
14) Participating interest of DMG Europe Holding GmbH
15) Participating interest of DMG Mori Seiki South East Asia Pte. Ltd.
16) Participating interest of DMG Benelux B.V.
17) Participating interest of DMG America Inc.
18) Participating interest of a+f GmbH
19) Special Purpose Entity of DMG MORI SEIKI Frankfurt GmbH, Bad Homburg, excluding capital share
20) Special Purpose Entity of DMG MORI SEIKI Deutschland GmbH, Leonberg, excluding capital share
21) Participating interest of a+f Italia S.r.l.
22) Participating interest of DECKEL MAHO GILDEMEISTER Ibérica S.L.
23) Participating interest of DMG France S.a.r.l.
24) Participating interest of DMG Holding AG

Corporate Directory

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

Supervisory Board

Hans Henning Offen,
Großhansdorf, born 1940, Chairman,
Independent Industry Consultant,
- • Lindner Hotels AG, Düsseldorf, Member of the Supervisory Board, until 14 Dec. 2011
- * Lindner Unternehmensgruppe GmbH & Co. KG, Düsseldorf, Chairman of the Advisory Board, until 14 Dec. 2011
- * Schwarz Beteiligungs GmbH, Neckarsulm, Member of the Advisory Board
- * Schwarz Unternehmenstreuhand KG, Neckarsulm, Member / Associate Member of the Supervisary Board

Günther-Johann Schachner,
Peiting, born 1952,
Deputy Chairman, as of 13 May 2011
1st secretary of the IG Metall Headquarters, Weilheim

Gerhard Dirr,
Vils / Austria, born 1964, until 15 April 2011
Head of Facility Management at
DECKEL MAHO Pfronten GmbH, Pfronten

Harry Domnik,
Bielefeld, born 1953, until 31 May 2011
1st secretary of the IG Metall Headquarter, Bielefeld

Prof. Dr. Edgar Ernst,
Bonn, born 1952,
President of the German Financial Reporting Enforcement Panel, since 01 July 2011
- • Deutsche Postbank AG, Bonn, Member of the Supervisory Board
- • Österreichische Post AG, Vienna, Member of the Supervisory Board
- • TUI AG, Hannover, Member of the Supervisory Board, as of 09 Feb. 2011
- • Wincor Nixdorf AG, Paderborn, Member of the Supervisory Board, as of 23 Jan. 2012

Oliver Grabe,
Bielefeld, born 1964,
Member of the Works Council of GILDEMEISTER Drehmaschinen GmbH, Bielefeld

Dr.-Ing. Jürgen Harnisch,
Mühlheim an der Ruhr, born 1942,
Independent Industry Consultant,
- * Kongsberg Automotive Holding ASA, Kongsberg, Norway, Member of the Supervisory Board
- * MacLean-Fogg Company, Mundelein, Illinois, USA, Member of the Supervisory Board
- * Presswerk Krefeld GmbH & Co. KG, Krefeld, Member of the Supervisory Board
- • Schenck Process Holding GmbH, Darmstadt, Member of the Supervisory Board

Ulrich Hocker,
Düsseldorf, born 1950,
President of Deutsche Schutzvereinigung für Wertpapierbesitz e. V. (DSW), as of 10 November 2011
- • Deutsche Telekom AG, Bonn, member of the Supervisory Board
- • E.ON AG, Düsseldorf, member of the Supervisory Board
- • FERI Finance AG, Bad Homburg, deputy chairman of the Supervisory Board
- * Phoenix Mecano AG, Kloten, Switzerland, President of the Administrative Board

Mario Krainhöfner,
Pfronten, born 1964, as of 16 April 2011,
President of the Group Works Council of GILDEMEISTER AG, Chairman of the Works Council of DECKEL MAHO Pfronten GmbH

Dr. Constanze Kurz,
Frankfurt am Main, born 1961, as of 01 July 2011
Political Secretary of the Executive Committee of IG Metall, Industrial and Management Policy, Frankfurt am Main

Prof. Dr.-Ing. Walter Kunerth,
Zeitlarn, born 1940, Independent Industry Consultant,
- * Autoliv Inc., Stockholm, Sweden, member of the Board of Directors

Dr.-Ing. Masahiko Mori,
Nara, born 1961,
President of Mori Seiki Co. Ltd.

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

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.-Kffr. Kathrin Dahnke,
Bielefeld

Dipl.-Kfm. Dr. Thorsten Schmidt,
Bielefeld

Dipl.-Kfm. Christian Thönes,
Munich

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 13, 2012
GILDEMEISTER Aktiengesellschaft
The Executive Board

Dipl.-Kfm. Dr. Rüdiger Kapitza

Dipl.-Ing. Günter Bachmann

Dipl.-Kffr. Kathrin Dahnke

Dipl.-Kfm. Dr. Thorsten Schmidt

Dipl.-Kfm. Christian Thönes

Auditor's Report

We have audited the consolidated financial statements prepared by the GILDEMEISTER Aktiengesellschaft, comprising the consolidated income statement, the reconciliation to comprehensive income, the consolidated balance sheet, the development to group equity, the consolidated cash flow statement and the notes to the consolidated financial statements, together with the group management report of GILDEMEISTER Aktiengesellschaft, Bielefeld, for the business year from 1 January to 31 December 2011. The content of the corporate governance statement according to Section 161 of the German Companies Act [AktG] was not in the scope of our audit. The preparation of the consolidated financial statements and the group management report in accordance with International Financial Reporting Standards (IFRSs), as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB (Handelsgesetzbuch "German Commercial Code") are the responsibility of the parent company`s management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB (Handelsgesetzbuch „German Commercial Code") and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (Institute of Public Auditors in Germany) (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to §315a Abs. 1 HGB, 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 13, 2012

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Tonne	Dübeler
Auditor	Auditor

GILDEMEISTER GROUP		IFRS							Changes against previous year in %
		2005	2006	2007	2008	2009	2010	2011	
Sales revenues	€ K	**1,125,897**	**1,328,971**	**1,562,037**	**1,903,964**	**1,181,222**	**1,376,825**	**1,687,657**	**23**
Domestic	€ K	501,946	612,758	730,372	829,874	496,475	499,124	632,578	27
International	€ K	623,953	716,213	831,665	1,074,090	684,747	877,701	1,055,079	20
% International	%	55	54	53	56	58	64	63	– 2
Total work done	€ K	**1,146,233**	**1,330,116**	**1,599,601**	**1,954,856**	**1,143,645**	**1,373,542**	**1,743,556**	**27**
Cost of materials	€ K	608,541	698,153	833,948	1,066,296	559,783	768,148	952,693	24
Personnel costs	€ K	295,926	320,201	366,411	405,497	346,025	333,150	384,704	15
Depreciation	€ K	31,369	32,600	32,311	30,663	29,119	29,456	33,605	14
Financial result	€ K	– 33,467	– 35,053	– 42,458	– 31,444	– 24,733	– 38,045	– 46,076	21
Earnings before taxes	€ K	**25,365**	**47,418**	**83,449**	**126,745**	**7,109**	**6,532**	**66,893**	**924**
Annual profit / loss	€ K	**13,530**	**27,100**	**50,137**	**81,119**	**4,706**	**4,300**	**45,539**	**959**
Adjusted results									
EBITDA	€ K	**90,201**	**115,071**	**158,218**	**188,852**	**60,961**	**74,436**	**146,102**	**96**
EBIT	€ K	**58,832**	**82,471**	**125,907**	**158,189**	**31,842**	**44,980**	**112,497**	**150**
EBT	€ K	**25,365**	**47,418**	**83,449**	**126,745**	**7,109**	**6,532**	**66,893**	**924**
Profit share of shareholders in GILDEMEISTER AG	€ K	**13,719**	**27,243**	**50,087**	**81,052**	**4,658**	**4,205**	**46,846**	**1,014**
Fixed assets	€ K	**262,353**	**265,420**	**285,262**	**301,330**	**326,024**	**365,339**	**403,925**	**11**
Intangible assets	€ K	100,928	97,387	100,057	99,368	100,149	112,757	132,354	
Tangible assets	€ K	161,191	167,850	184,848	201,606	197,354	201,807	218,025	
Financial assets	€ K	234	183	357	356	28,521	50,775	53,546	
Current assets incl, deferred tax and deferred income	€ K	**699,063**	**689,437**	**864,863**	**1,089,028**	**826,630**	**992,188**	**967,883**	**– 2**
Inventories	€ K	288,777	292,964	361,044	425,858	391,235	410,289	451,986	
Receivables incl, deferred tax assets + prepaid expenses	€ K	388,366	354,292	408,267	405,248	350,955	470,130	410,746	
Cash and cash equivalents	€ K	21,920	42,181	95,552	257,922	84,440	111,769	105,151	
Equity [1]	€ K	**265,782**	**288,574**	**329,513**	**379,690**	**380,815**	**412,893**	**655,158**	**59**
Subscribed capital	€ K	112,587	112,587	112,587	112,587	118,513	118,513	151,744	
Capital provisions	€ K	68,319	68,319	68,319	68,319	80,113	80,113	257,177	
Revenue provisions	€ K	85,014	108,070	148,958	199,067	182,427	207,704	234,137	
Net retained profits / loss	€ K	0	0	0	0	0	0	0	
Minority interests' share of equity	€ K	**– 138**	**– 402**	**– 351**	**– 283**	**– 238**	**6,563**	**12,100**	**84**
Outside capital	€ K	**695,634**	**666,283**	**820,612**	**1,010,668**	**771,839**	**944,634**	**716,650**	**– 24**
Provisions	€ K	125,407	166,206	214,041	252,676	188,051	179,289	196,703	
Liabilities incl, deferred tax liabilities + deferred income	€ K	570,227	500,077	606,571	757,992	583,788	765,345	519,947	
Balance Sheet total	€ K	**961,416**	**954,857**	**1,150,125**	**1,390,358**	**1,152,654**	**1,357,527**	**1,371,808**	**1**
Employees (annual average)		5,090	5,202	5,588	6,051	5,763	5,187	5,576	7
Employees (31 Dec.)		5,083	5,367	5,772	6,191	5,197	5,232	5,810	11
Trainees		189	191	226	260	253	213	222	4
Total employees		**5,272**	**5,558**	**5,998**	**6,451**	**5,450**	**5,445**	**6,032**	**11**

GILDEMEISTER GROUP		IFRS							Changes against previous
		2005	2006	2007	2008	2009	2010	**2011**	year in %
Efficiency ratios									
Profit on sales (EBIT) = EBIT / Sales revenues	%	5.2	6.2	8.1	8.3	2.7	3.3	6.7	104
Profit on sales (EBT) = EBT / Sales revenues	%	2.3	3.6	5.3	6.7	0.6	0.5	4.0	735
Profit on sales (annual result) = annual result / sales revenues	%	1.2	2.0	3.2	4.3	0.4	0.3	2.7	764
Equity return [1)] = annual result / EK (as of 01 Jan.) [3)]	%	5.4	10.2	17.4	24.6	1.2	1.1	11.0	877
Return on total assets = EBT + interest on borrowed capital / average total assets	%	6.3	8.7	12.2	12.7	2.8	3.7	8.5	127
ROI – Return on Investment = EBT / average total capital	%	2.6	4.9	7.9	10.0	0.6	0.5	4.9	842
Sales per employee = Sales revenues / average number of employees (exc. trainees)	€ K	221.2	255.5	279.5	314.7	205.0	265.4	302.7	14
EBIT per employee = EBIT / average number of employees (exc. trainees)	€ K	11.6	15.9	22.5	26.1	5.5	8.7	20.2	133
ROCE – Return on capital employed [1)] = EBIT / Capital Employed	%	8.4	12.3	17.8	21.0	3.9	5.6	14.4	156
Value added	€ million	354.9	403.1	492.9	564.3	378.8	378.9	497.9	31
Value added per employee	€ K	69.7	77.5	88.2	93.3	65.7	73.0	89.3	22
Balance Sheet ratios									
Capitalisation ratio of fixed assets = fixed assets / total assets	%	27.3	27.8	24.8	21.7	28.3	26.9	29.4	9
Working intensity of current assets = current assets / total assets	%	69.3	68.5	72.4	75.8	68.2	69.5	67.1	– 4
Equity ratio = equity / total capital	%	27.6	30.2	28.7	27.3	33.0	30.4	47.8	57
Borrowed capital ratio = borrowed capital / total assets	%	72.4	69.8	71.3	72.7	67.0	69.6	52.2	– 25
Assets and liabilities structure = fixed assets / current assets	%	39.4	40.6	34.3	28.6	41.5	38.7	43.9	13
Capital structure = equity / outside capital	%	38.2	43.3	40.2	37.6	49.3	43.7	91.4	109

>> to be continued

GILDEMEISTER GROUP				IFRS					Changes against previous year in %
		2005	2006	2007	2008	2009	2010	**2011**	
Ratios pertaining to financial position									
1st class liquidity = liquid funds (from balance sheet) / short-term liabilities (up to 1 year)	%	6.3	12.5	15.3	40.8	19.3	19.6	20.0	2
2nd class liquidity = (liquid funds + short-term receivables) / short-term liabilities (up to 1 year)	%	107.5	106.6	75.5	99.4	90.3	93.4	89.1	– 5
3rd class liquidity = (liquid funds + short-term receivables + inventories) / short-term liabilities (up to 1 year)	%	180.5	177.1	115.4	151.5	169.8	148.3	150.8	2
Net financial liabilities = bank liabilities + bond borrower's note – liquid funds	€ million	305.1	216.7	165.0	120.4	244.9	208.4	– 71.2	– 134
Gearing 1) = net financial liabilities – equity before shares held by other shareholders	%	114.7	75.0	50.0	31.7	64.3	50.5	–	– 100
Working Capital = current assets – short-term borrowed capital	€ million	305.0	284.8	127.4	385.9	339.0	295.7	283.6	– 4
Net Working Capital = inventories + payments on account – customer prepayments + trade debtors – trade creditors	€ million	399.5	360.5	398.2	416.4	445.7	354.4	271.3	– 23
Capital Employed = equity + provisions + net financial liabilities	€ million	696.3	671.5	708.6	752.7	813.7	800.6	780.7	– 2
Structural analysis ratios									
Turnover rate of raw materials and consumables = cost for raw materials and consumables / inventories of raw materials and consumables		5.5	5.9	5.3	6.0	3.0	3.9	4.3	10
Turnover rate of inventories = sales revenues / inventories		3.9	4.5	4.3	4.5	3.0	3.4	3.7	11
Turnover rate of receivables = sales revenues (incl. 16% or 19% VAT on domestic revenues) / average trade debtors		4.2	5.3	6.2	7.1	4.9	5.4	6.9	29
Total capital-sales ratio = sales revenues / total capital (incl. deferred tax and deferred income)		1.2	1.4	1.4	1.4	1.0	1.0	1.2	21
DSO (Days sales outstanding) = average trade debtors / (sales revenues (incl. 16% or 19% VAT on domestic revenues)) x 365		86.2	68.4	58.6	51.2	75.2	67.7	52.6	– 22

GILDEMEISTER GROUP		2005	2006	IFRS 2007	2008	2009	2010	2011	Changes against previous year in %
Productivity ratios									
Intensity of materials = Cost of materials / Total work done	%	53.1	52.5	52.1	54.5	48.9	55.9	54.6	– 2
Intensity of staff = Personnel costs / Total work done	%	25.8	24.1	22.9	20.7	30.3	24.3	22.1	– 9
Cash flow & Investments									
Cash flow from current operations	€ million	27.2	108.1	128.2	108.6	– 75.2	74.6	161.0	116
Cash flow from investment activity	€ million	– 24.4	– 35.1	– 46.7	– 49.4	– 56.5	– 40.3	– 80.6	100
Cash flow from financing activity	€ million	– 41.7	– 52.5	– 27.7	104.0	– 42.3	– 8.3	– 86.7	939
Free Cashflow = cash flow from current operation + cash flow from investment activity (exc. cash flow from financial investments)	€ million	3.2	74.8	84.8	60.1	– 100.5	45.3	95.2	110
Investments	€ million	26.8	37.2	53.1	50.2	57.8	50.0	89.7	79
Share & valuation									
Market capitalisation	€ million	253.8	414.0	801.1	339.9	516.4	761.2	586.6	– 23
Company value = Market capitalisation + bank liabilities + bond liabilities / borrowers' note + bills of exchange + other liabilities + pension provisions – liquid funds	€ million	636.0	698.3	1,071.4	552.6	846.3	1,066.0	600.5	– 44
Earnings per share [2)] = result after minority interests / number of shares	€	0.32	0.63	1.16	1.87	0.10	0.09	0.85	820
Price-to-earnings ratio (P / E) = market capitalisation / EBT		10.0	8.7	9.6	2.7	72.6	116.5	8.8	– 92
Company value-EBITDA-ratio = company value / EBITDA		7.1	6.1	6.8	2.9	13.9	14.3	4.1	– 71
Company value-EBIT-ratio = company value / EBIT		10.8	8.5	8.5	3.5	26.6	23.7	5.3	– 77
Company value sales ratio = company value / Sales revenues		0.6	0.5	0.7	0.3	0.7	0.8	0.4	– 54

1) Under HGB incl. minority interests; under IFRS excl. minority interests, from 2004 incl. minority interests.
2) Under HGB in acc. with DVFA / SG; the share capital was split 1:10 in 1999; the figures for the previous years were adjusted accordingly.
3) Without consideration of the capital increased accomplished at 16 June 2004

Commercial Glossary

Acquisition
The acquisition of companies or operations either through the transfer of shares or the transfer of all or certain assets and liabilities of a company or through a combination of both. The legal independence of the partners may be preserved.

Cash Flow
Changes in liquid funds in a reporting period.

Cash Flow Statement
View of liquidity development / cash flows taking into account the effect of the source of the funds and the use of the funds.

Cash-Pooling
Cash pooling is an intra-corporate equalisation of liquidity by a central finance management.

Closing
The legal closing and judicial coming into effect of a contract on the financial market.

Compliance
The German Corporate Governance Code defines compliance as the responsibility of the Executive Board to ensure that all provisions of law and the company's internal guidelines are abided by. The term compliance stands for the observance of statutory provisions and regulatory standards and for fulfilling other, essential ethical standards and requirements, which as a rule are set by the company itself.

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.

Directors Dealing
Wertpapiergeschäfte von Mitgliedern des Managements börsennotierter Aktiengesellschaften oder diesen nahestehenden Personen oder Gesellschaften mit Wertpapieren des eigenen Unternehmens.

Directors Dealing
Dealings in securities in their own company by members of the management of listed companies or by persons or companies closely associated with them.

Diversity
Diversity means a broad base of male and female employees. It also stands for topics such as that of a female ratio, cultural diversity and heterogeneous teambuilding.

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

EAT
Earnings after taxes. EAT is a key performance indicator from business economics and is taken from the income statement of a company.

EBITDA
Earnings before interest, taxes, depreciation and amortization.

EBIT
Earnings before interest and taxes.

EBT
Earnings before taxes.

EPS
Earnings per share is a key performance indicator to evaluate the profitability of a stock corporation. It represents a special type of return on equity. To determine this key performance indicator the consolidated annual net income of the company (in the analysis period) is divided by the weighted average number of shares outstanding over the period.

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.

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) or IFRS (International Financial Reporting Standards).

Local Content

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

LTI

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

Market capitalisation

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

Merger

Joining of two or more companies that, up to then, used to be legally and economically independent organisations, where at least one of the companies will lose its independent legal status.

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-KPI's

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).

TERP

The accepted share price following the issue of new shares in accordance with a capital increase. (Theoretical ex-rights price)

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 distribution statement shows the stake of those participating in the value-added process – employees, companies, lenders, shareholders/minority interests and government

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 2009 we used a risk-free interest rate of 4.34%, a market risk premium of 5.0% ad a beta coefficient of 1.0. The cost of debt amounted to 2,47% after taxes. The tax rate in the pre-tax approach employed was applied at a flat rate of 28.8%. The equity / debt ratio is 33:68.

Technical Glossary

App

An "App" (English abbreviation for application) is a user program for smart phones.

CAD

Computer Aided Design (CAD) describes the drawing and design of a structural part with the help of computers.

CAM

To produce a structural part, all the work procedures and movements for the machine tool are taken from the drawing data. This is carried out in the CAM programming (computer-aided manufacturing) by means of special software.

Cavity

A cavity is a small hollow mould.

CellCube

The CellCube big battery is an energy store that is designed for industrial use. Its fields of application are found in providing uninterrupted power supply for instable networks, the storage of energy from renewable energy sources or the supply of energy in connection with e-fuelling stations.

CO_2

Carbon dioxide, chemical formula CO_2, is a natural gas contained in the earth's atmosphere. Carbon dioxide occurs from the combustion of fuels containing carbon, in particular fossil fuels.

***co*Supply®**

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

CTV
The CTV product line includes universally arranged lathes with a vertically placed head spindle and highly dynamic linear drive technology, providing integrated handling of components and the option of automated integrated machining in serial production.

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

Darrieus rotor
Contrary to standard wind turbines, the axis of a Darrieus rotor is vertically mounted. The French engineer, Georges Darrieus, received a patent for this rotor principle (US patent 1,835,018) in 1931.

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 line provides traversing column machines with large machining areas, effective pendulum machining in two separate work areas, high cutting performance, dynamics and precision with fast traverse speeds of the traversing column.

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

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

duoBLOCK®
The patented duoBLOCK® construction combines the advantages of a travelling column construction with those of a gantry construction and through its construction that is stable against thermal deformation, guarantees maximum precision, stiffness and dynamics.

ECOLINE-Maschinen
The DMG ECOLINE machines offer reasonably priced yet technologically high-quality entry to CNC turning or milling. The universal lathes and milling machines are characterised by their low acquisition cost, as well as their cost-effectiveness and flexibility.

GMC / GM
The GMC / GM product line includes CNC multi-spindle turning centres and multi-spindle automatic lathes. GMC machines offer state-of-the-art control technology with 3D programming and integrated spindle engines than can, on request, be equipped with linear drives on the X-axes to achieve the highest dynamics and precision.

HSC
The HSC (high speed cutting) product line includes machining centres for 5-axis precision machining. HSC technology is primarily used where high demands are made of cutting performance and surface quality.

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 2-D and 3-D areas.

Lasertec
The machines from the Lasertec product line offer high-quality, fast and economic options for high-precision machining of filigree workpieces and finest cavities, including those made from materials that are difficult to machine. 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.

Lasertec Shape
The lasertec shape technology makes it possible to produce complex surface structures on any number of moulded structural parts. Through the combination with milling technology, high-tech structural parts can be produced in one setting with maximum efficiency and precision.

Milling
Milling refers to a metal-cutting process in which the cutting tool rotates and not the workpiece. Through rapid machine tool feed movements and of the workpiece itself as necessary in several axes, any number of machine tool surfaces can be produced.

MILLTAP
Characteristic of the vertical MILLTAP 700 milling machine – the first jointly-developed machine from DMG and Mori Seiki – are the shortest tool change times, maximum precision, optimum chip disposal and very compact dimensions.

monoBLOCK®
Especially compact and thus space-saving base body of a machine tool, which additionally has great stiffness and permits a high degree of precision.

MSL
In the area of single spindle automatic lathes with six or seven axes, the MSL series offers high productivity in bar machining at lower investment costs.

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

NHX
The NHX series includes horizontal machining centers with high speed and precision for a broad range of applications. The NHX is based on a Mori Seiki basic machine. However, the DMG machine differs from the Mori Seiki products in its control technology, drive technology and software.

NTX
The NTX 1000 offers 5-axis and 6-sided machining for small, complex workpieces, for example from medical technology, precision mechanics and the watch industry. The NTX is based on a Mori Seiki basic machine. However, the DMG machine differs from the Mori Seiki products in its control technology, drive technology and software.

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

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

SPRINT
This product line provides single-spindle machines for CNC automatic turning for the flexible economic and integrated machining of short lathe work of up to 65 mm in diameter.

SunCarrier
The SunCarrier is a solar installation that can track the sun’s movement from a rotational axis. This makes it possible to achieve higher current efficiency compared to conventional systems.

Turning
Turning is a metal-cutting machining process, which is used to produce mostly rotationally symmetrical machine tools. When doing so, the piece to be machined is held by a fast-rotating work-holding fixture, whilst a cutting tool moves parallel to and across the axis of rotation.

Ultrasonic
The Ultrasonic product line consists of machines for ultrasound-supported, economic machining of 'advanced materials', such as ceramics, glass, silicon, composites, metal carbide, hardened steel, sapphire or mother-of-pearl. The ultrasonically energised main spindles interfere with the traditional machining process (for example milling) through a high-frequency oscillating motion. Compared with traditional machining processes, this machine designs results in a productivity that is up to five times higher, longer tool lives and at the same time better surface quality, and, with regard to the processed workpiece geometries, a substantially higher flexibility.

Vanadium Redox Flow Battery
The vanadium redox flow battery is a special, rechargeable type of battery. It is based on the ability of the vanadium element to exist in solution in four different oxidation states. Its advantages lie in a markedly improved operating life and the seamless scalability of the system.

WindCarrier
The WindCarrier is a small wind farm that operates according to the Darrieus principle. The vertically placed axis of rotation does not need any transmission and works independently of the wind’s direction.

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.

List of Tables and Graphs

15 March 2012	Press Conference on the balance sheet, Bielefeld
15 March 2012	Publication of Annual Report 2011
16 March 2012	Society of Investment Professionals in Germany (DVFA) Analysts' Conference, Frankfurt
08 May 2012	First Quarterly Report 2012 (1 January to 31 March)
18 May 2012	Annual General Meeting of Shareholders at 10 a.m. in the Town Hall Bielefeld
21 May 2012	Payment of dividend
26 July 2012	Second Quarterly Report 2012 (1 April to 30 June)
25 October 2012	Third Quarterly Report 2012 (1 July to 30 September)
17 May 2013	Annual General Meeting of Shareholders at 10 a.m. in the Town Hall Bielefeld

Subject to alteration

Statements relating to the future

This report contains statements relating to the future, which are based on current evaluations of the management regarding future developments. Such statements are subject to risks and uncertainties relating to factors that are beyond GILDEMEISTER's ability to control or estimate precisely, such as the future market environment and economic conditions. Such uncertainties may arise for GILDEMEISTER in particular as a result of the following factors:

Changes in general economic and business conditions (including margin developments in the major business areas as well as the consequences of recession); the risk that customers may delay or cancel orders or become insolvent or that prices will be further depressed due to a constantly unfavourable market environment than we currently expect; developments in the financial markets including fluctuations in interest rates and exchange rates, in the price of raw materials, in borrowing and equity margins as well as the general financial situation; increasing volatility and further decline in the capital markets; a worsening of conditions for borrowing and, in particular, increasing uncertainty arising out of the mortgage, financial and liquidity crisis, as well as the future economic success of the core business areas in which we operate; challenges arising of the integration of major acquisitions and the implementation of joint ventures and the realisation of anticipated synergy effects and other significant portfolio measures; the introduction of competitive products or technologies by other companies; a lack of acceptance of new products and services in customer target groups of the GILDEMEISTER group; changes in corporate strategy; the outcome of public investigations and associated legal disputes as well as other official measures.

Should one of these uncertainty factors or other unforeseeable event occur, or should the assumptions on which these statements are based prove incorrect, the actual results may differ materially from the results expressed in, or implied by, these statements. GILDEMEISTER disclaims any intention or special obligation to update any forward-looking statements to reflect any change in events or developments occurring after the reporting period. Forward-looking statements must not be understood as a guarantee or assurance of future developments or events contained therein.

This report is available in German and English; both versions are available on the Internet for download at www.gildemeister.com. Further copies and additional information on GILDEMEISTER are available free of charge upon request.

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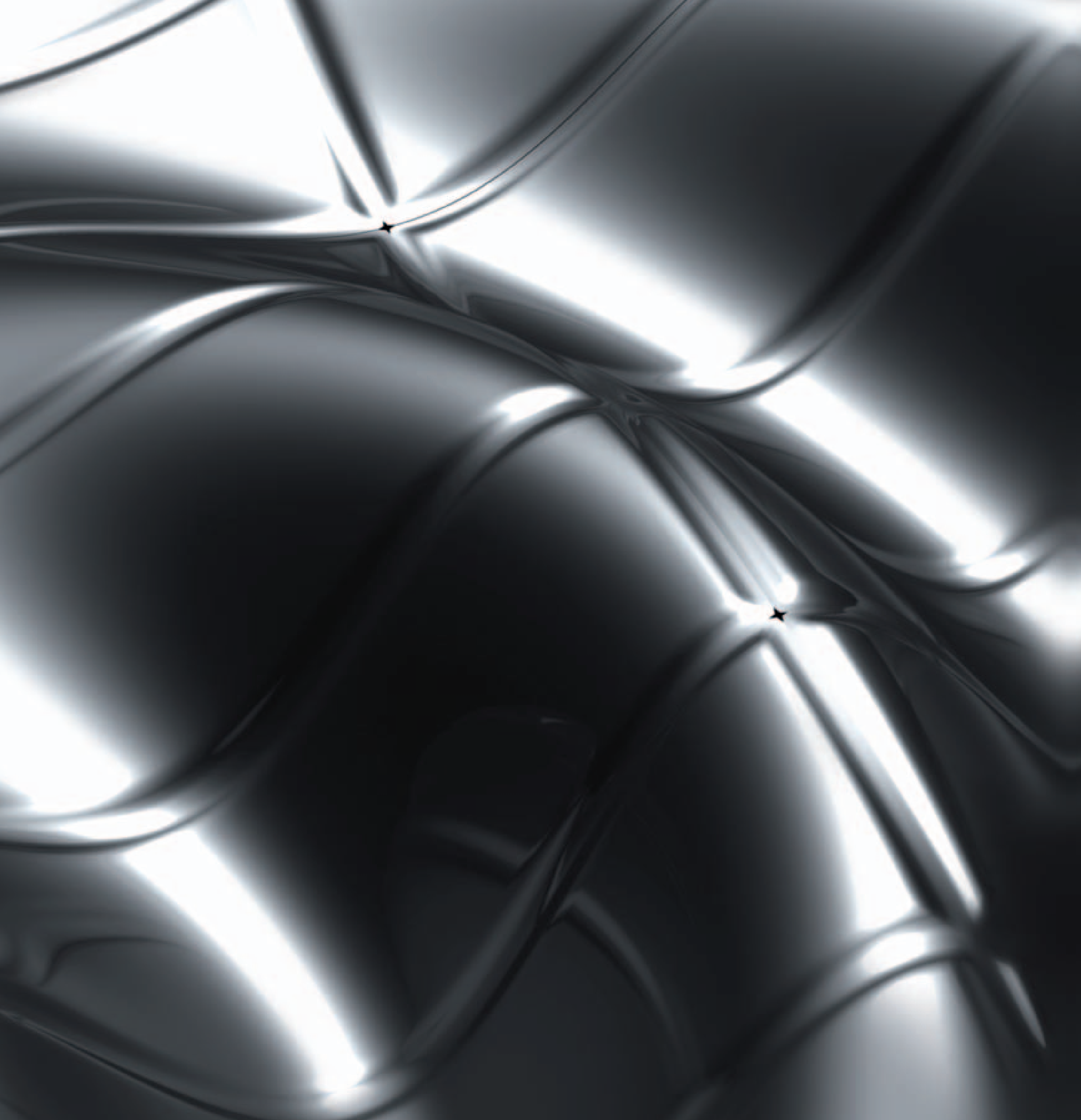

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