Business Environment

The most difficult recession in the post-war years influenced the global economy. In Asia the driving forces took effect earlier than in other countries. China, in particular, continued to show economic stimulus; Japan only developed a very restrained momentum. The USA reached its lowest point mid-year. Shortly afterwards, signs of a turnaround also appeared in Europe. The German economy reached the turning point.

Overall Economic Development

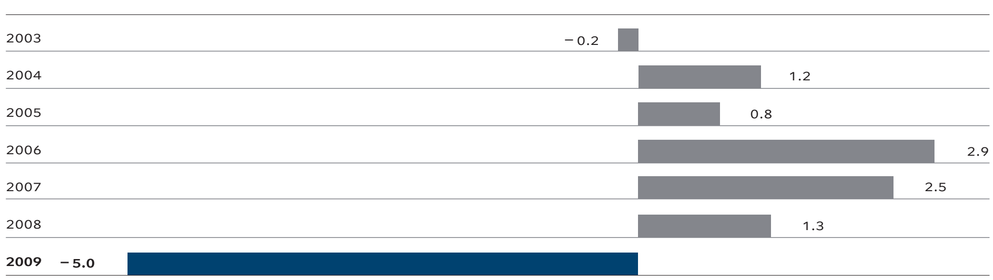
The **global economy** continued its downturn phase at the start of the year but then reached a turning point. China provided the most stimulus; in Japan the economy reached stagnated. The USA only rose painstakingly from its economic slump. This also applied to Europe. Germany, too, only slowly recovered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

The revival was most noticeable in **Asia**. China was the main driving force of this development. The Japanese economy made slight progress only in the second six months of the year through a recovery in exports. According to the IfW, gross domestic product in China rose by 8.6% (previous year: 9.0%); in Japan it fell by 5.6% (previous year: −0.7%).

In the **USA**, recovery at a low level followed the dramatic collapse. The crucial factors in this were primarily the major political interventions. Private consumer spending and capital investments were stimulated by these. Over the year, however, gross domestic product decreased by 2.5% according to IfW calculations (previous year: +0.4%).

Europe initially still found itself in a deep recession which only ended mid-year. The rate of momentum of the development varied in the individual countries. Despite broad-ranging economic programmes, there were no uniform trends in private consumption and capital investments. In the Eurozone countries, gross domestic product fell according to provisional IfW calculations by 4.0% (previous year: −0.6%).

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

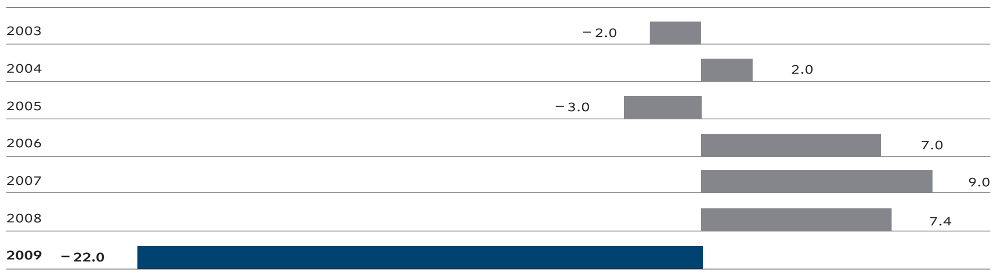


Source: Federal Statistical Office, Wiesbaden

In **Germany** the gross domestic product fell by 5.0% (previous year: +1.3%). Exports declined by 14.7%. The domestic economy was hampered, amongst others, by lower investment in plant and equipment of 20% (previous year: +3.3%). The massive decline in investments in the manufacturing industries had a decisive effect on this development, the following diagram shows this development in a multi-year comparison:

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

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



Source: ifo Institute, Munich

Extensive short-time working stabilised the job market. On average, 3.4 million people were registered unemployed, some 150,000 more than in 2008. The number of company insolvencies rose sharply to 34,300 (previous year: 29,291). The rate of inflation, according to initial calculations, was 0.4% (previous year: 2.6%). The financial situation in public spending deteriorated significantly. The deficit of 3.2% exceeded the upper limit set by the Maastricht Treaty.

For GILDEMEISTER's international business, the **exchange rates** of the US dollar, the Chinese yuan and the Japanese yen are of particular importance. The average exchange rate in 2009 compared with the average exchange rate in 2008 developed as follows: The US dollar's value against the euro was 0.72 euros (previous year: 0.68 euros). Against the yuan the euro was at 9.53 yuan (previous year: 10.22 yuan). The average value of the euro to the yen of 130.34 yen was above the comparison value of the previous year (152.45 yen). Thus these three currencies all gained in value against the euro taking an annual average in 2009. The US dollar recorded a gain in value of 5.2%, the yuan of 6.8% and the Japanese yen of 14.5%. This means that our products have become more competitive in these currency regions.

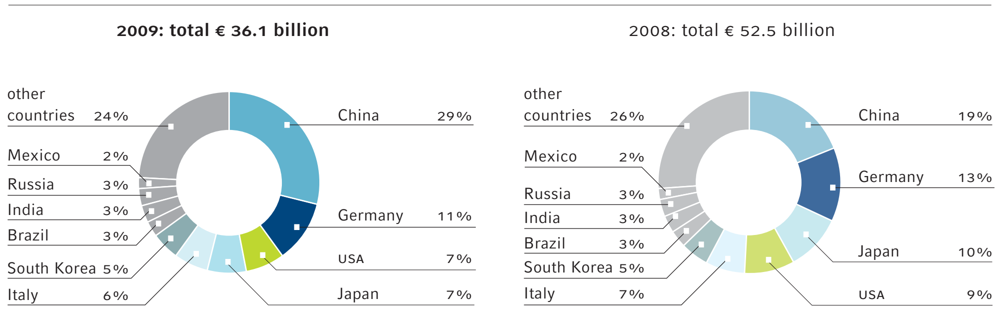
Development of the Machine Tool Industry

International development

The world market for machine tools developed noticeably weaker than in the previous year as a result of declining demand following the international financial and economic crisis. The German Machine Tool Builders' Association (VDW) calculated a decrease of **global consumption** of 31% or € 16.4 billion to € 36.1 billion (previous year: € 52.5 billion). The development of the global consumption in an annual comparison over ten years is outlined in the chapter "Forecast Report" on page 87. In China, by far, the most machine tools were bought. The share of global consumption was 29% (previous year: 19%); thus China at € 10.5 billion again is the biggest sales market worldwide. Far behind is Germany at € 3.9 billion (changes compared to the previous year: −41%) and a share in world consumption of 11%. The USA (consumption: € 2.4 billion; changes compared to the previous year: −49%; share in world consumption: 7%) and Japan followed (€ 2.4 billion; −55%; 7%). Taking places five to ten are Italy (€ 2.0 billion; −45%; 6%), South Korea (€ 1.9 billion; −28%; 5%), Brazil (€ 1.2 billion; −25%; 3%), India (€ 0.9 billion; −37%; 3%), Russia (€ 0.9 billion; −36%; 3%) and Mexico (€ 0.8 billion; −24%; 2%). These top ten countries account for 76% (previous year: 74%) of global machine tool consumption.

In the most important consumer markets, the share developed as follows:

WORLDWIDE CONSUMPTION OF MACHINE TOOLS*



* provisional figures for 2009; revised values 2008

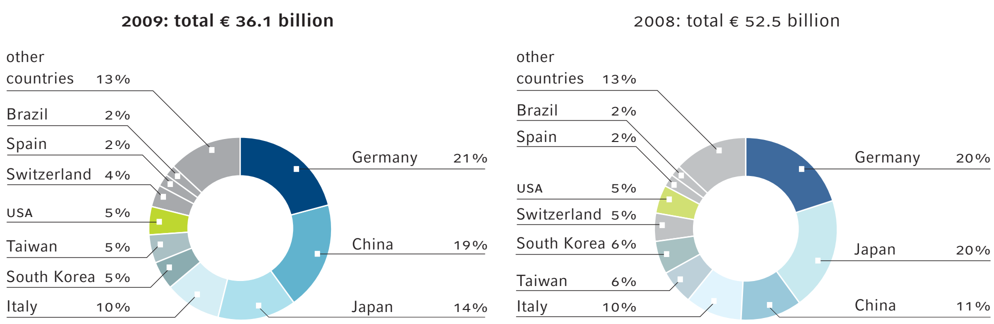
With regard to **imports** China at € 4.1 billion (previous year: € 5.1 billion) takes the first place for the eighth year in a row – despite the decline of imports by 19%. In the year under report the USA imported 51% fewer machine tools in total than in the year 2008. Altogether these two biggest import nations consumed 36% of all machine tools (previous year: 28%). Regarding total consumption, China's import share decreased by

12 percentage points to 39% (previous year: 51%). The USA, on the other hand; covered 67% of its consumption by imports (previous year: 70%). Germany's import quota was 41% (previous year: 44%). Next came South Korea with an import share of 44% (previous year: 35%) and India with 86% (previous year: 89%).

The German Machine Tool Builders Association (VDW) calculates a decline in **global production** of 31% or € 16.4 billion to € 36.1 billion (previous year: € 52.5 billion). At € 7.5 billion (–30%) Germany still ranks first in the world, thus this represented a share in world production of 21% (previous year: 20%). For the first time China proved to be second of the world's largest manufacturers of machine tools. Production output was € 7.0 billion (changes compared to the previous year: +20%); this represents 19% of the global machine tools production. Japan followed with € 5.1 billion (–52%) or 14% of the global production. Taking places four to ten are Italy (€ 3.8 billion; –30%; 10%), South Korea (€ 1.9 billion; –36%; 5%), Taiwan (€ 1.7 billion; –47%; 5%), the USA (€ 1.7 billion; –38%; 5%), Switzerland (€ 1.5 billion; –44%; 4%), Spain (€ 0.8 billion; –28%; 2%) and Brazil (€ 0.7 billion; –25%; 2%). The top ten countries produced a total of 87% of all machine tools (previous year: 87%).

In the most important markets, the production share developed as follows:

WORLDWIDE PRODUCTION OF MACHINE TOOLS*



* provisional figures for 2009; revised values 2008

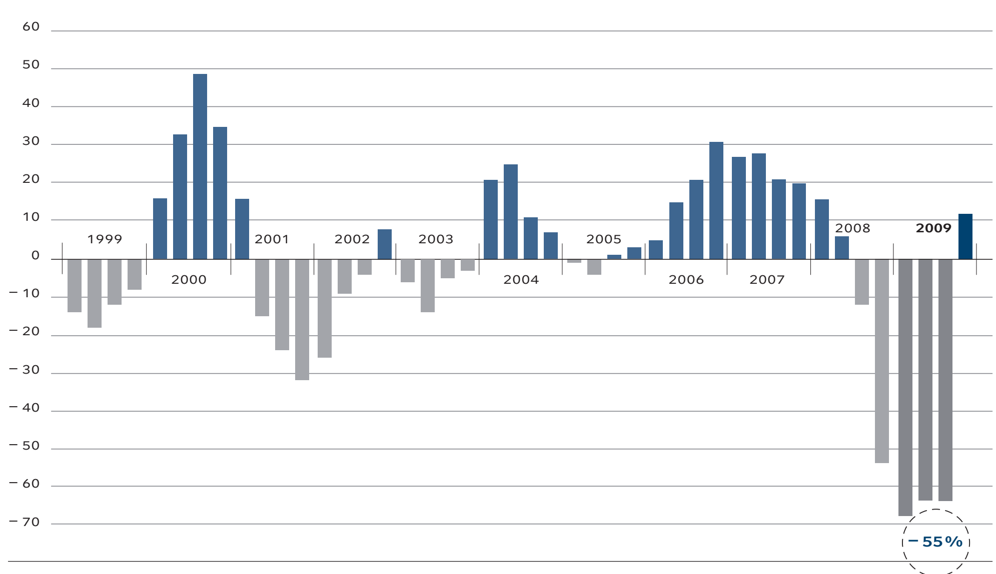
Sources: The basis of the world machine tool statistics is the data published by the VDW (the German Machine Tool Builders' Association) (excluding parts and accessories). This data is requested by the national producers' associations of each individual country and is based on the current actual values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

In the reporting period 55% of global production was exported (previous year: 58%). With a share of 69% in **exports**, Germany takes first place (previous year: 65%). Japan followed in second place with 59% (previous year: 55%). Together these two countries achieved 41% of world's exports on a value basis (previous year: 42%), followed by Italy (12%), then Taiwan, Switzerland, the USA, South Korea, China, Spain and Austria – each with a share of world exports of less than 10%.

German Machine Tool Industry

The German machine tool industry reached in 2009 at a historically low level and overall recorded a strong decline in order intake, lower production and a fall in exports. **Order intake** slumped to € 6.2 billion or by 55% (previous year: € 13.7 billion). Domestic demand fell by 61% (previous year: −17%). International demand decreased by 50% (previous year: −12%). The ifo **business climate index** for the manufacturing industry was also negative. The main consumer industries (mechanical engineering, automotive manufacturing and electrical engineering) reported significantly lower assessments than in the previous year. Order intake of the German machine tool industry developed over the course of the year as follows:

MACHINE TOOL ORDER INTAKE IN GERMANY*
Real changes against the previous year in %

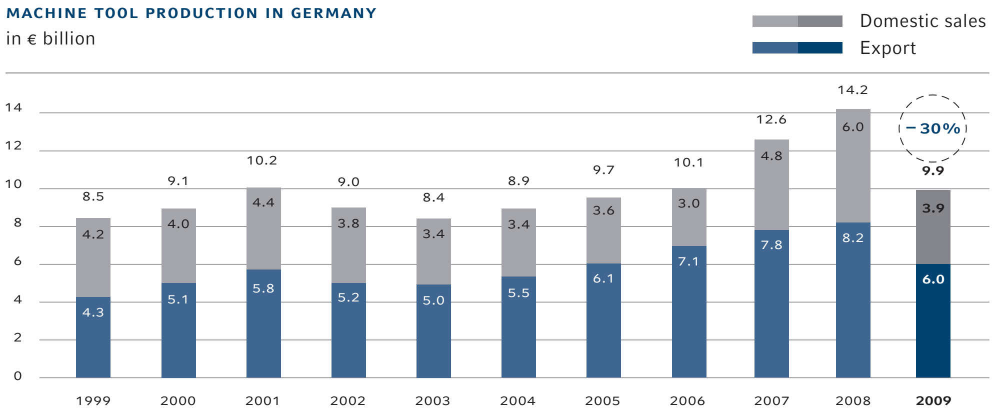


* previous year's figures partly adjusted

Production fell by 30% to € 9.9 billion and was thus clearly below the previous year's figure (€ 14.2 billion). **Exports** recorded the export of machines to a value of € 6.0 billion and thus some 27% or € 2.2 billion lower than the previous year; this represents an export share of 61% (previous year: 58%). The most important sales market for German machine tools is China at € 1,300.5 million, which corresponds to 22% of German exports (previous year: 14%). Thus the Chinese market now is nearly three times as big as the USA (2^{nd} place). Machines to a value of € 421.1 million were delivered to the USA (previous year: € 698.8 million). Russia was again the third most important export market, taking delivery of machines to a value of € 367,5 million (previous year: € 524.0 million: export share: 6%). In comparison with the previous year, only exports to China (+13%), Japan (+6%) and South Korea (+3%) increased; the most significant decline was recorded in the Czech Republic (−56%), Italy (−43%) as well as in the USA and in Poland with a decrease of −40% each.

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

MACHINE TOOL PRODUCTION IN GERMANY
in € billion



Domestic consumption reached € 5.3 billion and thus fell by € 3.5 billion or 40% compared to the previous year (€ 8.8 billion). With an import share of 27% nearly every third machine tool came from Switzerland. This was followed by Italy, Japan, the Czech Republic and Spain. In the top 10 group of import countries, imports from Japan fell most heavily at 58%, followed by Switzerland (−50%) and the USA (−48%). Machine tool **imports** decreased by € 1.6 billion or 43% to € 2.1 billion (previous year: € 3.7 billion). German machine tools to a value of € 3.9 billion were sold domestically.

In the course of the reporting year, the German machine tool plants recorded a declining capacity utilisation. Due to the poor order intake situation the **capacity utilisation** of producers of cutting machine tools fell from 92% at the start of the year (previous year: 98%) to 71% (previous year: 98%) against the end of the year.

The extent of the **order backlog** fell continuously during the year and was still an average of 6.2 months (previous year: 8.7 months) because of the high share of special machines and project business. The extent of order backlog is based on calculations and represents an average value for the industry. It can only be viewed as a rough indication of the actual order backlog.

The number of **employees** in German machine tool companies averaged 69,614 (previous year: 70,839).

Reliable statements on the **profitability** of the German machine tool industry are not readily available as only individual companies publish the corresponding figures. Therefore the association has to rely on estimates. However, it has to be stated that the earnings situation of the industry has worsened considerably due to the worldwide economic crisis and many producers suffer losses.

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

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SECURING THE FUTURE!

AEROSPACE INDUSTRY – CHALLENGES

- Highest precision
- Strictest safety requirements
- Wide range of materials
- Component sizes from small to xxlarge
- Wide variety of shapes
- Various machining technologies

HIGHEST DEMANDS ON MAN & MATERIAL

Aerospace

Our aerospace customers have a successful start. As a leading enterprise in 5-axis technology with innovative high-tech machines for piece machining, GILDEMEISTER provides optimum thrust. Whether compressor discs or structural parts for wing construction – the goal is always clear: highest precision in the shortest machining time.

SEGMENT: AEROSPACE

EXPERTISE: GILDEMEISTER

Maximum time-savings	through turning / milling complete machining
Highest precision and productivity	through fewer clampings
Unparalleled performance	through spindles with max. torque of 1,100 Nm

FAN DISK OF TITAN

Highly complex machining of high-tensile materials on a DMC 125 FD duoBLOCK®

Fan Disk

SEGMENT: AEROSPACE	EXPERTISE: GILDEMEISTER
Maximum time-savings	through 5-sided / 5-axis simultaneous machining
Highest precision and productivity	through fewer clampings
Unparalleled performance	through spindles with max. 100 kW and 15,000 rpm

STRUCTURAL PART OF ALUMINIUM

Highest cutting rates in precision aluminium machining on a DMU 100 P duoBLOCK®

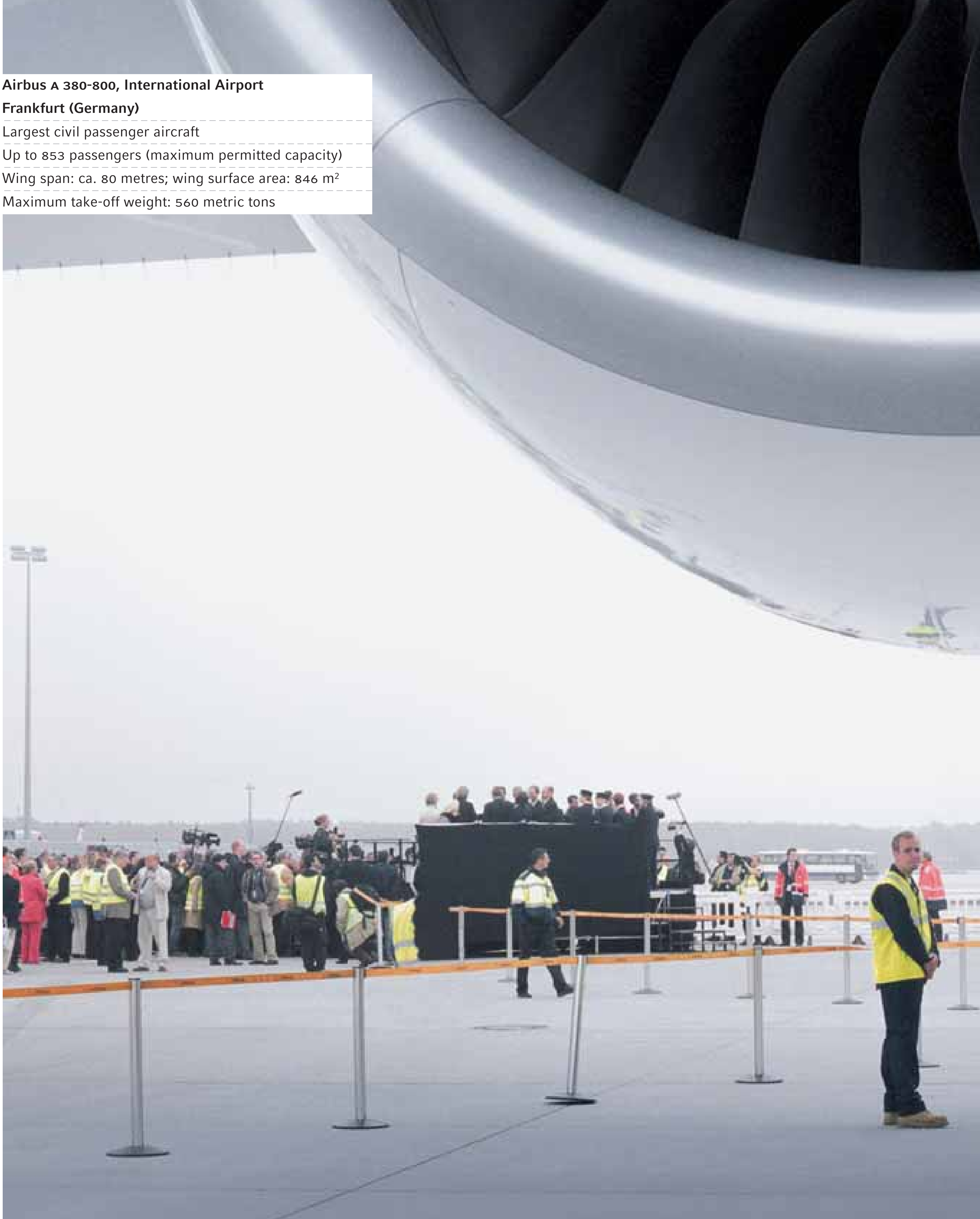
Airbus A 380-800, International Airport Frankfurt (Germany)

Largest civil passenger aircraft

Up to 853 passengers (maximum permitted capacity)

Wing span: ca. 80 metres; wing surface area: 846 m^2

Maximum take-off weight: 560 metric tons



INNOVATIVE TECHNOLOGIES ENSURE

Success

________ There is scarcely any other industry whose demands are so high with respect to reliability and economy as those of the aerospace industry. For this reason, in our “Center of Excellence – Aerospace“ we are developing comprehensive tailor-made solutions for customers – and thus inspiring technology for the global aerospace process chain. ________

Results of Operations, Financial Position and Net Worth

Due to the economic crisis, 2009 was one of the most difficult years for machine tools and also for GILDEMEISTER in its corporate history. Order intake amounted to € 1,145.9 million (– 39%). Sales revenues amounted to € 1,181.2 million (– 38%). GILDEMEISTER achieved a positive result in 2009. The result (EBIT) amounted to € 31.8 million. EBT was positive at € 7.1 million. The annual profit in the group amounted to € 4.7 million. We have reached our target of achieving a positive result (EBT).

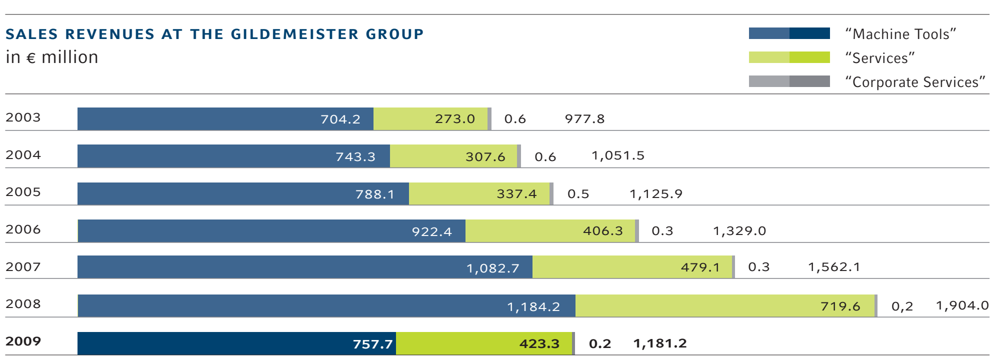
Sales revenues

The sharply declining order intake had an effect in the year under report on sales revenues development. Whilst a more stable development was recorded in the ECOLINE range, sales revenues for universal and technology machines decreased noticeably. It was also not possible to prevent a decline in sales in services and the solar business.

Sales revenues fell by a total of € 722.8 million (–38%) to € 1,181.2 million (previous year: € 1,904.0 million); it was possible to avoid an even greater decline through the good order backlog at the start of the year. In the "Machine Tools" segment, sales revenues for the whole year decreased to € 757.7 million (–36%). The "Services" segment achieved € 423.3 million (–41%), of which the "Solar Technology" division contributed € 88.5 million (previous year: € 199.5 million).

Domestic sales revenues fell to € 496.5 million (–40%); international sales revenues decreased to € 684.7 million (–36%). The export share amounted to 58% (previous year: 56%).

More detailed information on sales revenues in each segment is given on page 38 et seq. In a multiple year comparison, the individual segments shared in group sales revenues as follows:



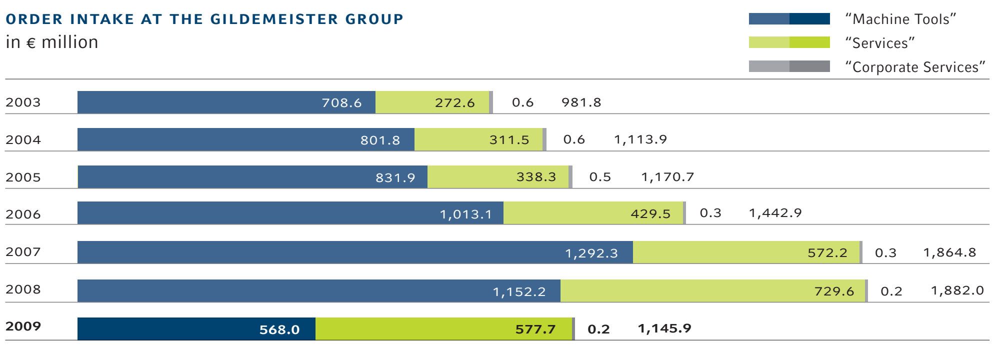
Order intake

Order intake declined by 39% and reached € 1,145.9 million (previous year: € 1,882.0 million). In the first three quarters, order intake developed analogously to the difficult market environment in that it declined sharply. In the fourth quarter, order intake reached € 327.7 million (previous year: € 289.2 million). Over the whole year, the machine tool business decreased by 51% to € 568.0 million. The service business amounted to € 577.7 million (−21%); a proportion of which includes the solar business, which showed a positive development of € 299.8 million (+85%).

Domestic orders decreased by 59% to € 343.9 million (previous year: € 843.4 million). International orders declined by 23% to € 802.0 million (previous year: € 1,038.6 million). The international quota was 70% (previous year: 55%).

More detailed information on order intake for each segment is given on page 38 et seq. In a multiple year comparison, the segments shared in group order intake as follows:

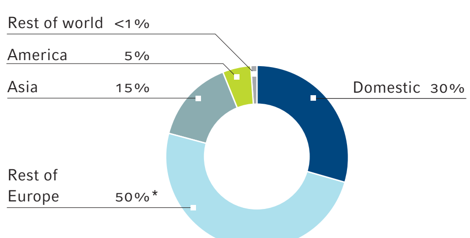
ORDER INTAKE AT THE GILDEMEISTER GROUP
in € million



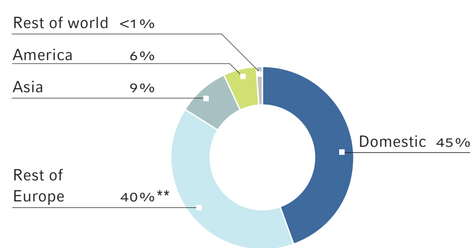
In the individual market regions, order intake developed as follows:

ORDER INTAKE AT THE GILDEMEISTER GROUP BY REGION

2009: total € 1,145.9 million



2008: total € 1,882.0 € million



* SunCarrier 26% share

** SunCarrier 9% share

The **sales volume** of “Machine Tools” declined by 44% compared to the previous year. **Key accounting** again made a significant contribution to order intake.

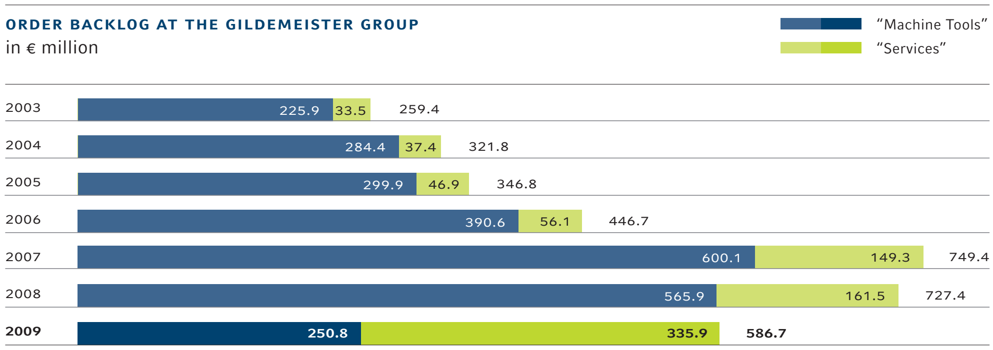
Order backlog

As of 31 December 2009, the order backlog for the group amounted to € 586.7 million; it was thus € 140.7 million or 19% below the previous year’s figure (31 Dec. 2008: € 727.4 million). The “Solar Technology” division of a+f GmbH accounted for € 248.1 million or 42% of this figure.

Of the existing orders, international orders accounted for 89% (corresponding date of the previous year: 68%). The domestic backlog decreased by € 165.4 million or 71% to € 67.3 million (previous year: € 232.7 million). The international backlog grew by € 24.7 million or 5% to € 519.4 million (previous year: € 494.7 million).

The following diagram shows the development of order backlog in a multiple year comparison. More detailed information on order backlog in each segment is given on page 38 et seq.

ORDER BACKLOG AT THE GILDEMEISTER GROUP
in € million



Due to the adjustment of production capacities the order backlog in the “Machine Tools” represents mathematically a utilisation period of an average of some three months still, although the individual production companies report different capacity utilisation.

Results of operations

Positive results of operations in the financial year 2009

GILDEMEISTER achieved a positive result for 2009. As a consequence of the lower sales revenues, the results declined markedly; the fourth quarter was slightly positive as planned. **EBITDA** amounted to € 60.9 million (previous year: € 188.9 million); **EBIT** totalled € 31.8 million (previous year: € 158.2 million). **EBT** was positive at € 7.1 million (previous year: € 126.7 million). **The annual profit** in the group amounted to € 4.7 million (previous year: € 81.1 million). **We reached our target of achieving a positive result (EBT).**

CONSOLIDATED INCOME STATEMENT OF THE GILDEMEISTER GROUP	2009 € million	%	2008 € million	%	Changes against previous year € million	%
Sales revenues	**1,181.2**	**103.3**	**1,904.0**	**97.4**	**–722.8**	**–38.0**
Changes in finished goods and work in progress	–44.3	–3.9	44.2	2.3	–88.5	–200.2
Own work capitalised	6.7	0.6	6.7	0.3	0	0
Total work done	**1,143.6**	**100.0**	**1,954.9**	**100.0**	**–811.3**	**–41.5**
Cost of materials	–559.8	–48.9	–1,066.3	–54.5	506.5	–47.5
Gross profit	**583.8**	**51.1**	**888.6**	**45.5**	**–304.8**	**–34.3**
Personnel costs	–346.1	–30.3	–405.5	–20.7	59.4	–14.6
Other income and expenses	–176.8	–15.4	–294.2	–15.1	117.4	–39.9
EBITDA	**60.9**	**5.4**	**188.9**	**9.7**	**–128.0**	**–67.8**
Depreciation of fixed assets	–29.1	–2.6	–30.7	–1.6	1.6	5.2
EBIT	**31.8**	**2.8**	**158.2**	**8.1**	**–126.4**	**–79.9**
Financial results	–24.7	–2.2	–31.5	–1.6	6.8	–21.6
EBT	**7.1**	**0.6**	**126.7**	**6.5**	**–119.6**	**94.4**
Taxes on profit	–2.4	–0.2	–45.6	–2.4	43.2	94.7
Annual profit	**4.7**	**0.4**	**81.1**	**4.1**	**–76.4**	**–94.2**

The total work done fell in financial year 2009 to € 1,143.6 million; it was thus € 811.3 million or 41.5% below the previous year's figure (€ 1,954.9 million). This decline resulted from reduced sales revenues of € 722.8 million or –38.0% to € 1,181.2 million and a reduction in changes in inventories of € 88.5 million. Further explanations on changes in inventories are given in the chapter "Net Worth". The materials quota fell to 48.9% (previous year: 54.5%); intensive follow-up negotiations on purchasing conditions and the synergies achieved from the cooperation with Mori Seiki had a positive influence on this materials quota. Gross profit of € 583.8 million was € 304.8 million (–34.3%) below the previous year's figure (€ 888.6 million); the gross profit margin improved to 51.1% (previous year: 45.5%).

In the reporting year, results were particularly influenced by non-recurring restructuring costs of around € 40 million, which were mainly taken into account in personnel costs and other operating costs.

Employee expenses fell by € 59.4 million to € 346.1 million (previous year: € 405.5 million). The decline resulted from measures that were immediately introduced to adjust capacity with short-time working and a reduction in employees, as well as from a reduction in variable salary components. The personnel quota was 30.3% (previous year: 20.7%). More information can be found in the chapter “Employees” on page 59. The balance of other expenses and income fell by € 117.4 million to € 176.8 million. Other operating expenses amounted to € 263.3 million (previous year: € 352.6 million).

The reduction was achieved as a result of our consistently implemented cost-reduction programme, the decline of sales-related costs, such as outward freight, sales commissions, travel costs and also as a result of the termination of employment agreements with all agency workers. Costs of rents and leases amounted to € 29.1 million (€ −1.1 million). Other operating income increased to € 86.5 million (previous year: € 58.4 million); at € 32.6 million (previous year: € 15.6 million)) they apply to releases of accruals. Further details on the breakdown of other operating expenses and income can be found in the notes to the consolidated financial statements on page 126 et seq. Depreciation fell by € 1.6 million to € 29.1 million (previous year: € 30.7 million). As a result of even lower interest margins, in particular, the financial result improved by € 6.8 million to € −24.7 million (previous year: € −31.5 million).

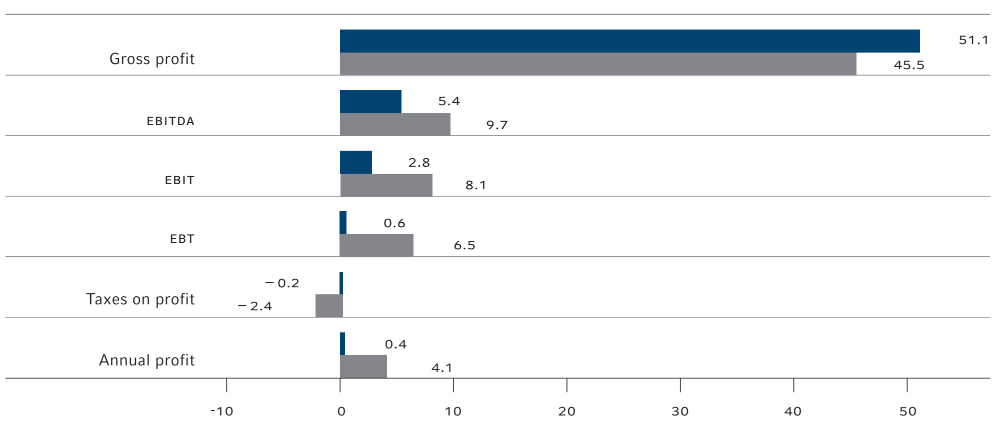
Financial result improved

The tax ratio at 33.8% could be improved with a clear decline in EBT (previous year: 36.0%). **Total tax expense** was reduced to € 2.4 million (previous year: € 45.6 million).

The earnings margins, which are determined on the basis of total work done, have developed as follows: The gross profit margin improved to 51.1% (previous year: 45.5%). The EBITDA margin amounted to 5.4% (previous year: 9.7%); the EBIT margin achieved 2.8% (previous year: 8.1%). The proportional ratios for personnel and depreciation, which rose compared to the previous year, had a negative effect on the profit margin. The reduced share of material expenses had an opposite effect. The EBT margin decreased to 0.6% (previous year: 6.5%). Taking into account tax expenditure, the annual profit margin amounted to 0.4% (previous year: 4.1%).

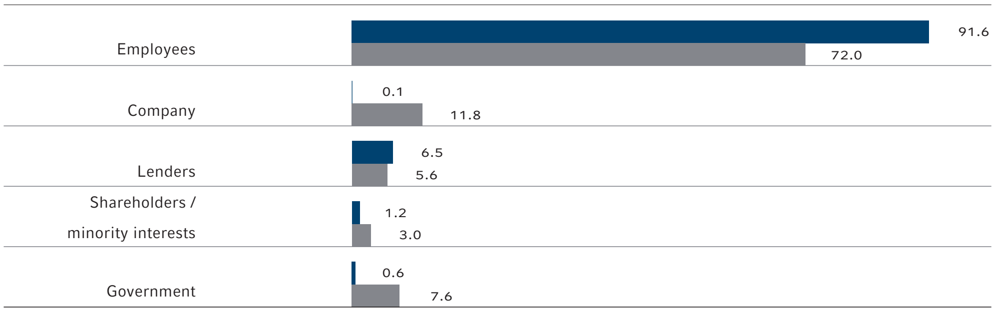
DEVELOPMENT OF MARGINS AT THE GILDEMEISTER GROUP
in %

2009
2008



In the financial year 2009 the **value added** achieved by the GILDEMEISTER group amounted to € 378.8 million (previous year: € 564.3 million); this corresponds to a decline of 32.9% or € 185.5 million.

DISTRIBUTION OF VALUE ADDED IN THE GILDEMEISTER GROUP
in %



The following table shows the value added statement in detail:

VALUE ADDED STATEMENT OF THE GILDEMEISTER GROUP	2009 € million	%	2008 € million	%	Changes against previous year € million	%
Source						
Sales revenues	1,181.2	96.1	1,904.0	94.6	– 722.8	– 38.0
Other revenues	48.9	3.9	109.3	5.4	– 60.4	– 55.3
Operating performance	**1,230.1**	**100.0**	**2,013.3**	**100.0**	**– 782.2**	**– 38.9**
Cost of materials	559.8	45.5	1,066.3	53.0	– 506.5	– 47.5
Depreciation	29.1	2.4	30.7	1.5	– 1.6	– 5.2
Other expenses	262.4	21.3	352.0	17.5	– 89.6	– 25.5
Purchased materials and services	**851.3**	**69.2**	**1,449.0**	**72.0**	**– 597.7**	**– 41.2**
Value added	**378.8**	**30.8**	**564.3**	**28.0**	**– 185.5**	**– 32.9**
Distribution						
Employees	346.9	91.6	406.1	72.0	– 59.2	– 14.6
Companies	0.2	0.1	66.6	11.8	– 66.4	– 99.7
Lenders	24.7	6.5	31.4	5.6	– 6.7	– 21.3
Shareholders / minority interests	4.6	1.2	17.3	3.0	– 12.7	– 73.4
Government	2.4	0,6	42.9	7.6	– 40.5	– 94.4
Value added	**378.8**	**100.0**	**564.3**	**100.0**	**– 185.5**	**– 32.9**

Financial position

The group's financial position developed in the year under report as follows: the **free cash flow** was negative, as announced, and amounted to € −100.5 million (previous year: € 60.1 million). The reasons for this were:

_ the recognition of sales revenues and delayed sales revenues in the "Solar Technology" division in the second half year 2009 that will result in incoming payments of about € 75 million at the end of the first six months 2010;

_ the significantly increased export share in our machine business that, due to necessary export licenses, resulted in delayed deliveries and payments.

CASH FLOW	2009 € million	2008 € million
Cash flow from operating activity	– 75.2	108.6
Cash flow from investment activity	– 56.5	– 49.4
Cash flow from financing activity	– 42.3	104.0
Changes in cash and cash equivalents	– 173.5	162.3
Liquid funds at the start of the reporting period	257.9	95.6
Liquid funds at the end of the reporting period	84.4	257.9

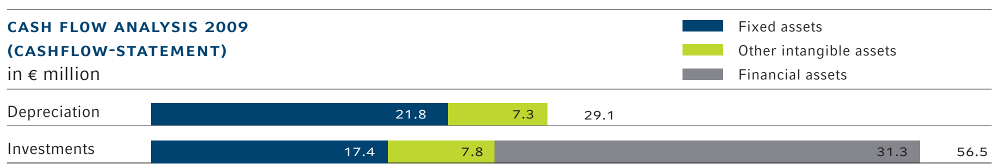
Cash flow from operating activity (outflow of funds) was negative in the reporting year at € −75.2 million (previous year: € 108.6 million). Earnings before tax (EBT) of € 7.1 million (previous year: € 126.7 million) and depreciation of € 29.1 million (previous year: € 30.7 million) contributed to this cash flow. The decline in inventories of € 34.6 million and trade receivables of € 46.5 million had a positive effect on cash flow. The decrease in provisions (€ −69.1 million) and trade payables (€ −57.7 million) reduced cash flow, as did payments made for income tax (€ 6.2 million) and interest (€ 24.5 million).

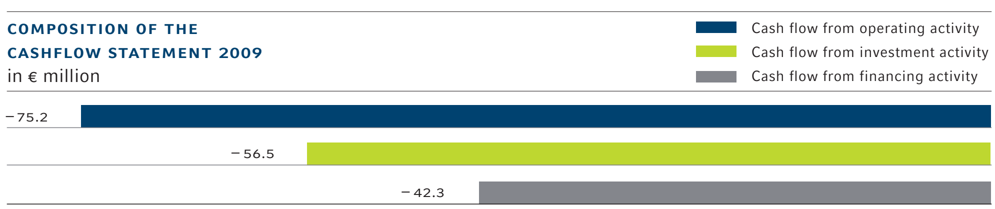
Cash flow from investment activity (outflow of funds) increased by € 7.1 million to € 56.5 million (previous year: € 49.4 million). Investment in property, plant and equipment was € 18.7 million (previous year: € 41.9 million) and in intangible assets was € 7.8 million (previous year: € 8.3 million). Payments for investments in financial assets were made in an amount of € 31.3 million for the purchase of Mori Seiki shares. Further details can be found in the "Investments" chapter on page 37.

The cash flow from financing activities (outflow of funds) was affected by receipts from the capital increase (€ +18.1 million), the repayment of financial liabilities (€ −42.6 million) and the distribution of the dividend for the financial year 2008 (€ −17.3 million).

Within the total financing GILDEMEISTER had sufficient **liquidity** to year-end. Liquid funds amounted to € 84.4 million (previous year: € 257.9 million). Free cash lines were € 89.9 million (previous year: € 48.9 million). We had additional open lines of credit (guaranteed bills outstanding, bills of exchange, factoring) available of € 130.7 million (previous year: € 79.4 million). The portfolio of receivables sold through factoring agreements amounted to € 49.1 million (previous year: € 20.8 million). Significant financial liabilities in foreign currency are explained in the notes to the consolidated financial statements on page 156 et seq.

A detailed cash flow statement is given in the notes to the consolidated financial statements on page 98. The main key figures pertaining to the analysis of the financial position are summarised in the "Multiple Year Overview" on page 180 et seq.





GILDEMEISTER covers its capital requirements with the operating cash flow and by taking up short and long-term financing. The essential components of this are syndicated loans and borrowers' notes, as well as the sale of claims programme within the scope of factoring agreements.

Financing agreements readjusted

Due to the considerable changes in the key figures as a result of the economic crisis, timely negotiations were conducted with our banks, in order to adjust existing financing agreements. In addition, we have to increased the credit margin, in order to make use of opportunities in the project business sector, as well as to secure corporate financing throughout the economic crisis. As a result, we had to accept considerably higher interest margins. Our borrowers' notes amount to a total of € 201.5 million and will mature in May 2013. The KfW (Kreditanstalt für Wiederaufbau – Reconstruction Loan Corporation) has contributed to the existing syndicated loan of € 175 million with a tranche of € 40.5 million. We have also taken on a further syndicated loan amounting to a total of € 211.9 million with two tranches: one Tranche amounting to € 57 million, as well as another tranche amounting to € 154.9 million, each with a term ending in December 2012. The second tranche cannot be drawn upon until June 2011 and serves to refinance the syndicated loan, which will mature in June 2011. It was possible to secure the financing for GILDEMEISTER until the end of 2012 and increase the financing margin by up to € 57 million to € 433.5 million. The appropriate agreements were signed at the beginning of 2010.

Moreover, we replaced our ABS programme of € 100 million, with an original term until 2011, by a factoring agreement in December 2009. As a result, German claims with a volume of up to € 75 million can be sold. There are plans to extend the factoring to cover the sale of European claims. Using this measure, we intend to permanently increase the scope of receivables volume sold and relieve capital commitment.

In addition, there are still some long-term loans and short-term bilateral loan commitments to individual subsidiaries of a total volume of € 41.4 million (previous year: € 50.7 million). With regard to the terms we refer to the explanatory notes on "Financial debts" on page 149 et seq in the notes to the Consolidated Financial Statements.

Our financing includes customary agreements on compliance with certain key indicators (covenants). The financing is supplemented by off balance operating leasing agreements. The main financing instruments and future financial obligations are specified in the notes to the consolidated financial statements under "Financial debts" on page 149 et seq and under "Other financial obligations" on page 155.

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

The GILDEMEISTER group financing is carried out centrally. Only when group financing is not advantageous, due to the legal framework, is local financing used in individual cases. Cash pooling is used to utilise liquidity surpluses of subsidiaries cost-effectively within the group. In the "Opportunities and Risk Report" on page 80, and in the Notes to the Consolidated Financial Statements under "derivative financial instruments" on page 156 et seq, we give details of the risks arising out of financing and evaluation. Details are also given of the methods used to hedge interest and currency risks, as well as price change, default and liquidity risks.

Net worth

The assets and capital structure developed as follows: The **balance sheet total** decreased to € 1,152.7 million (previous year: € 1,390.4 million). The change results from reduced funds committed to inventories (€ −34.6 million) and trade receivables (€ −46.5 million) as well as from a decrease in liquid funds (€ −173.5 million). The **equity ratio** improved to 33.0% (previous year: 27.3%).

BALANCE SHEET OF THE GILDEMEISTER GROUP	**31. Dec. 2009** € million	%	31. Dec. 2008 € million	%	Changes against previous year € million	%
Assets						
Long-term assets						
Fixed assets	326.0	28.3	301.3	21.6	24.7	8.2
Receivables and other assets	52.5	4.6	46.7	3.4	5.8	12.4
	378.5	32.9	348.0	25.0	30.5	8.8
Short-term assets						
Inventories	391.3	33.9	425.9	30.6	– 34.6	– 8.1
Receivables and other assets	298.5	25.9	358.6	25.8	– 60.1	– 16.8
Liquid funds	84.4	7.3	257.9	18.6	– 173.5	– 67.3
	774.2	67.1	1,042.4	75.0	– 268.2	– 25.7
Balance sheet total	**1,152.7**	**100.0**	**1,390.4**	**100.0**	**– 237.7**	**– 17.1**
Equity and liabilities						
Long-term financing resources						
Equity	380.9	33.0	379.7	27.3	1.2	0.3
Outside capital						
Provisions	60.2	5.3	74.2	5.3	– 14.0	– 18.9
Liabilities	265.0	23.0	268.0	19.3	– 3.0	– 1.1
	325.2	28.3	342.2	24.6	– 17.0	– 5.0
	706.1	61.3	721.9	51.9	– 15.8	– 2.2
Short-term financing resources						
Provisions	127.8	11.1	178.5	12.8	– 50.7	– 28.4
Liabilities	318.8	27.6	490.0	35.3	– 171.2	– 34.9
	446.6	38.7	668.5	48.1	– 221.9	– 33.2
Balance sheet total	**1,152.7**	**100.0**	**1,390.4**	**100.0**	**– 237.7**	**– 17.1**

On the **assets** side, fixed assets rose by € 24.7 million or 8.2% to € 326.0 million (previous year: € 301.3 million). Intangible assets rose by € 0.7 million and property, plant and equipment decreased by € 4.2 million. Financial assets rose with the purchase of the Mori Seiki shares by € 28.2 million to € 28.5 million. A detailed presentation of asset additions is given in the "Investments" chapter on page 37.

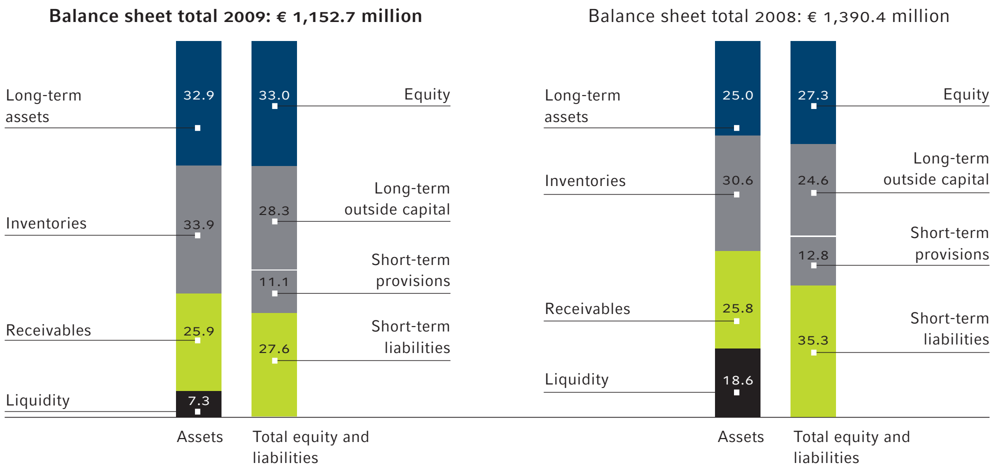
Long-term receivables and other assets increased by € 5.8 million or 12.4% to € 52.5 million (previous year: € 46.7 million). At the same time deferred taxes rose by € 7.5 million. Other assets fell by € 1.8 million. Other assets include discounted customers' bills of € 12.5 million (previous year: € 16.0 million).

Working capital management reduces inventories

Inventories decreased by € 34.6 million to € 391.3 million (previous year: € 425.9 million). The reduction in inventories is as a result of the measures introduced for working capital management. The inventory of raw material and consumables fell by € 6.4 million to € 153.7 million (previous year: € 160.1 million) and of work in progress by € 72.1 million to € 80.5 million (previous year: € 152.6 million). The stock of finished goods and merchandise amounted to € 150.3 million (previous year: € 109.6 million).

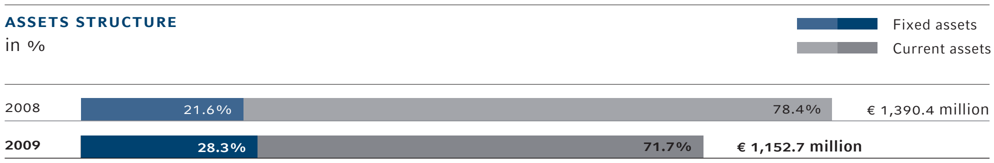
The inventories include stocks for the "SunCarrier", these amounted to € 29.7 million (previous year: € 32.1 million) for raw materials and consumables, and € 5.6 million (previous year: € 16.5 million) for work in progress and to € 21.8 million for finished goods from projects that have not yet been cleared. Overall, the share of inventories in total assets amounts to 33.9% (previous year: 30.6%). Based on the sales volume, the inventory turnover ratio, excluding solar technology, was 3.3 (previous year: 4.5).

ASSETS AND CAPITAL STRUCTURE OF THE GILDEMEISTER GROUP
in %



Short-term receivables and other assets fell in comparison with the previous year by 16.8% or € 60.1 million to € 298.5 million. Trade receivables decreased by € 46.5 million to € 238.8 million. Trade receivables show revenue recognition from the "Solar Technology" division in an amount of € 55.4 million. The volume of receivables sold from the factoring contracts (previous year the ABS programme and factoring) totalled € 43.7 million (previous year: € 77.7 million). Other assets fell by € 13.5 million to € 59.7 million. Other assets include discounted customer bills of exchange of € 6.1 million (previous year: € 10.1 million). The turnover rate of trade receivables was 4.9 (previous year: 7.1).

At the balance sheet date **liquid funds** amount to € 84.4 million (previous year: € 257.9 million) or 7.3% of total assets (previous year: 18.6%). The high liquid fund balances in the previous year were as a result of almost completely drawing on syndicated lines of credit in the fourth quarter of 2009. In the assets structure the share of non-current assets rose by 7.9 percentage points to 32.9% (previous year: 25.0%).



Under **equity and liabilities**, equity increased by € 1.2 million or 0.3% to € 380.9 million (previous year: € 379.7 million). The equity ratio amounted to 33.0% (previous year: 27.3%). Gearing (proportion of net indebtedness to equity) is 64.3% (previous year: 31.7%).

Long-term outside capital decreased by € 17.0 million to € 325.2 million. The share of total equity and liabilities climbed by 3.7 percentage points to 28.3% (previous year: 24.6%). The share of long-term provisions amounts to 5.3% (previous year: 5.3%). This includes pension provisions of € 26.3 million (previous year: € 27.1 million) as well as other provisions for employee obligations in an amount of € 26.3 million (previous year: € 26.5 million). Liabilities of € 2.8 million (previous year: € 3.6 million) relate to deferred tax liabilities.

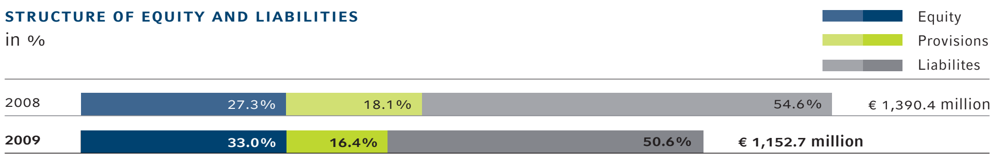
Long-term financial resources decreased in the year under report by € 15.8 million or 2.2% to € 706.1 million. Long-term assets are financed as to 186.6% (previous year: 207.4%) by long-term available funds.

Short-term financial resources decreased by € 221.9 million or 33.2% to € 446.6 million, whereas provisions decreased by € 50.7 million to € 127.8 million (previous year: € 178.5 million). This includes lower provisions, due to sales, for risks arising from warranties and retrofittings of € 25.0 million (previous year: € 39.8 million) and for obligations arising out of sales of € 32.2 million (previous year: € 36.0 million). Short-term financial debts fell by € 46.0 million to € 92.0 million (previous year: € 138.0 million). Payments received on account for orders placed amounted to € 43.8 million (previous year: € 96.4 million). The deposit ratio was 7.5% (previous year: 13.3%). Trade payables decreased by a decline in total work done by € 57.5 million to € 141.1 million (previous year: € 198.6 million).

The total of fixed assets and inventories of € 717.3 million (previous year: € 727.2 million) is covered as to 98.4% (previous year: 99.3%) by long-term financial resources. Compared to the previous year, the structure of equity and liabilities shows a rise in the equity ratio of 5.7 percentage points. The provisions ratio fell by 1.7 percentage points to 16.4% and the liabilities ratio by 4.0 percentage points to 50.6% (previous year: 54.6%).

In addition to the assets shown in the group balance sheet, the group also uses **off balance 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 155 et seq. Within the framework of off balance financing instruments, the group uses a factoring programme. Details of these can be found in the Notes to the Consolidated Financial Statements on page 135 et seq. Of special importance are our good, long-term relationships of trust with our customers and suppliers; they permit us direct access to the relevant markets and render us independent of short-term market fluctuations.

STRUCTURE OF EQUITY AND LIABILITIES
in %



Annual Financial Statements of GILDEMEISTER Aktiengesellschaft (short version)

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

BALANCE SHEET OF GILDEMEISTER AKTIENGESELLSCHAFT (HGB)

	2009 € million	2008 € million
Assets		
Fixed assets		
Shares in affiliated companies	387.7	387.4
Other fixed assets	53.8	22.8
	441.5	**410.2**
Current assets		
Receivables from affiliated companies	311.4	272.3
Other current assets	51.8	203.0
	363.2	**475.3**
Balance sheet total	**804.7**	**885.5**
Equity and liabilities		
Equity	**364.6**	**365.6**
Provisions	**30.8**	**41.1**
Liabilities		
Financial liabilities	280.8	310.9
Liabilities to affiliated companies	120.6	158.0
Other liabilities	7.9	9.9
	409.3	**478.8**
Balance sheet total	**804.7**	**885.5**

The balance sheet total of GILDEMEISTER **Aktiengesellschaft** decreased by € 80.8 million to € 804.7 million (previous year: € 885.5 million). The essential changes are shown in other fixed assets, resulting from the purchase of Mori Seiki shares, and in other current assets resulting from the decline in liquid funds. In the previous year, the syndicated loan was almost completely drawn upon in cash and the funds invested.

INCOME STATEMENT OF GILDEMEISTER AKTIENGESELLSCHAFT (HGB)	2009 € million	2008 € million
Sales	11.4	15.0
Other operating income	9.1	3.5
Other expenses and income	– 36.8	– 60.2
Income from financial assets	16.9	117.2
Financial result	– 0.1	– 5.6
Profit of ordinary activities	0.5	69.9
Income taxes	– 2.2	– 25.9
Annual loss / profit	– 1.7	44.0
Profit brought forward	**8.2**	**3.5**
Transfer to revenue reserves	0	22.0
Net profit	**6.5**	**25.5**

The GILDEMEISTER Aktiengesellschaft earnings were determined primarily by income from financial assets (€ 16.9 million) comprising the transfer of profit from domestic subsidiaries balanced with transfers of losses (€ 16.4 million) as well as participation income of Mori Seiki (€ 0.5 million) (previous year: € 117.2 million). The financial results were € –0.1 million (previous year: € –5.6 million). Tax expenditure of € 2.2 million comprises mainly corporate income tax and trade tax expenditure (previous year: € 25.9 million). Due to the regulation of the German interest rate cap, taxes amounting to € 2.7 million were added.

The financial year 2009 of GILDEMEISTER Aktiengesellschaft closes with an annual result of € –1.7 million (previous year: € 44.0 million). Net profit – taking into account the profit carry forward from the year 2008 (€ 8.2 million) – amounts to € 6.5 million (previous year: € 25.5 million).

The Executive Board and the Supervisory Board will propose to the Annual General Meeting of Shareholders on 14 May 2010 that an dividend of € 0.10 per share be distributed for the financial year 2009 (previous year: € 0.40). This corresponds to an amount of € 4.6 million (previous year: € 17.3 million). Moreover, it will be proposed to the Annual General Meeting of Shareholders to carry forward the remaining balance of GILDEMEISTER Aktiengesellschaft of € 1.9 million to new account (previous year: € 8.2 million). With respect to the difficult financial year 2010 we are not planning a payment of a dividend.

Value Reporting

Value reporting for GILDEMEISTER is an essential component of value-driven corporate management. Due to our transparent, regular and structured reporting, investors are able to establish the enterprise's value in addition to the enterprise valuation carried out by the stock exchange. Detailed half-yearly and quarterly reports over the course of a year and at the end of a financial year, with comprehensive information in the group management report and consolidated financial statements, meet the high requirements of the capital market. At the same time, a sustainable increase in the enterprise's value lies at the core of our corporate management.

Aided by our in-house controlling and monitoring system, we are able to control the group and individual companies in a value-orientated way. **Earnings before tax** (EBT), sales revenue and order intake are our most important internal target and key performance indicators, as is the **return on capital employed** (ROCE) on a corporate level. Controlling by ROCE and the relative economic value added – the difference between ROCE and cost of capital according to 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 economic development, the ROCE fell to 3.9% in the year under report (previous year: 21.0%). Further key performance indicators are shown in the following table:

ROCE AND ECONOMIC VALUE ADDED

	2009	2008
EBIT (€ million)	31.8	158.2
Capital Employed (€ million)	813.7	752.7
ROCE (in %)	3.9	21.0
WACC (in %)	8.0	9.4
Relative economic value added before taxes (in %)	– 4.1	11.6
Economic value added before taxes (€ million)	– 33.4	87.3

We give further details of relevant key performance indicators for the capital market in the "Results of operations" chapter on page 24 and in "GILDEMEISTER share" on page 48.

Information on planned future net investments can be found in the chapter "Future development of the GILDEMEISTER group" on page 88.

WEIGHTED AVERAGE COST OF CAPITAL (WACC)

	2009	2008
Risk-free interest rate	3.9%	3.7%
Market risk premium	5.0%	5.0%
Beta factor	1.0	1.0
Cost of equity after tax	8.9%	8.7%
Cost of debt capital before tax	5.8%	8.3%
Tax rate (28.8%)	1.7%	2.4%
Cost of debt capital after tax	**4.1%**	**5.9%**
Share of equity	33%	27%
Share of debt capital	67%	73%
Cost of capital after tax	5.7%	6.7%
Tax rate	28.8%	28.8%
Cost of capital before tax (WACC)	**8.0%**	**9.4%**

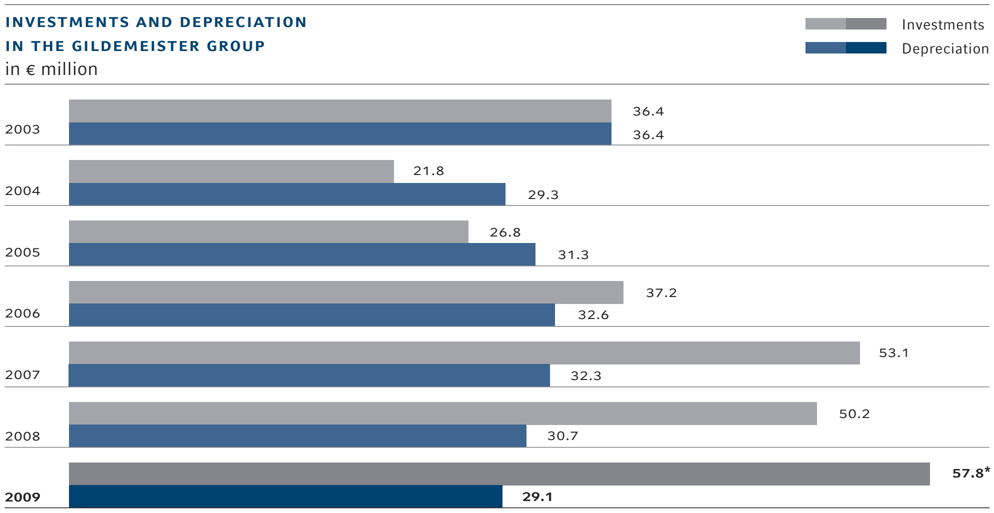
Investments

Investments in property, plant and equipment and intangible assets amounted to € 26.5 million (previous year: € 50.2 million). Against the background of the continuing economic crisis, we remained far below our originally planned figure (€ 45 million). In the reporting year depreciation of property, plant and equipment, taking into account capitalised development costs and finance leases, amounted to € 29.1 million and was thus slightly below the previous year's figure (€ 30.7 million).

Investments in property, plant and equipment and intangible assets were essentially reduced further development of our machine types, as well as replacement procurements to maintain operational readiness. Upon the completion of the construction work for the technology center at the Bielefeld site, we opened the "DMG Experience Center Turn & Mill". In addition, we concluded the modernisation measures that had begun in the previous year at GRAZIANO Tortona. By investing in the further development of our innovative "SunCarrier" products, we will participate in the fast-growing business area of renewable energy.

Additions to financial assets amounted to € 31.3 million due to the shareholding in Mori Seiki Co. Ltd. Investments thus amounted in total to € 57.8 million.

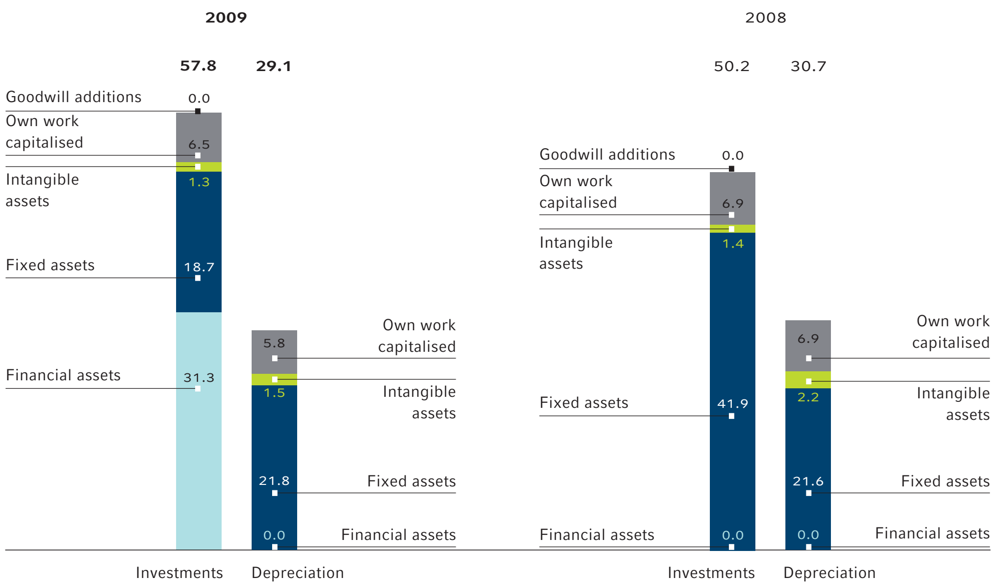
INVESTMENTS AND DEPRECIATION IN THE GILDEMEISTER GROUP
in € million



* of which € 31.3 million capital inflow to financial assets

More information on investments in each segment is included in the "Segmental Reporting" chapter on page 42 et seq.

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



Segmental Reporting

Our business activities include the "Machine Tool" and the "Services" segments. The latter also includes a+f GmbH. This company is participating in the growing solar technology market with the "SunCarrier". "Corporate Services" comprises the group-wide holding functions. The breakdown of sales revenues, order intake and EBIT across the individual segments is presented as follows:

SEGMENT KEY INDICATORS OF THE GILDEMEISTER GROUP

	"Machine Tools"			"Services"			"Corporate Services"		
	2009 € million	2008 € million	Changes 2009 against 2008 %	**2009 € million**	2008 € million	Changes 2009 against 2008 %	**2009 € million**	2008 € million	Changes 2009 against 2008 %
Sales revenues	757.7	1,184.2	–36	423.3	719.6	–41	0.2	0.2	0
				of which a+f 112.3	251.8	–55			
Order intake	568.0	1,152.2	–51	577.7	729.6	–21	0.2	0.2	0
				of which a+f 314.9	202.0	56			
EBIT	–19.3	83.1	–123	62.6	116.2	–46	–11.6	–41.2	72
				of which a+f 8.8	16.4	–46			

Further information on segmentation by business area and geographical region is given in the notes to the consolidated financial statements on page 104 et seq.

"Machine Tools" segment

The "Machine Tools" segment includes the group's new machine business with the turning and milling, ultrasonic / lasering, and electronics.

GILDEMEISTER has re-organised its production plants and combined them into associations across all locations in order to strengthen the group's core areas of expertise. This allows us to achieve further synergies, to increase our power of innovation and to improve the efficient production of competitive products.

The newly-created **Milling Association** brings together the core areas of expertise of DECKEL MAHO Pfronten GmbH and SAUER GmbH in "milling", "ultrasonics" and "lasering".

Assocations strengthen core competences

In the **Milling and Assembly Association**, DECKEL MAHO Seebach GmbH and FAMOT Pleszew Sp. z o.o. complement one another in the effective control and utilisation of the group's internal manufacturing capacity. Our range focuses on seven product lines: from universal milling machines to ultrasonic and lasertec machines, vertical machining centres, travelling column milling machines, as well as HSC precision centres to milling machines and machining centres for 5-axis machining.

GILDEMEISTER Drehmaschinen GmbH in Bielefeld, GRAZIANO Tortona S.r.l., and GILDEMEISTER Italiana S.p.A. are grouped together to form the core "turning" expertise in the **Turning Association**. Our full-line turning machine range has seven product lines and goes from universal and vertical lathes to turning centres and turning-milling centres for 5-axis machining.

In the **Ecoline Association**, DMG Ecoline GmbH and DECKEL MAHO GILDEMEISTER Machine Tools Co., Ltd. unite and strengthen our activities in the field of entry level machines.

DMG Electronics GmbH consolidates our expertise in control and software development throughout the group. Organisationally DMG AUTOMATION has been integrated in the "Services" segment since 1 July 2009; previous year's figures were adjusted. More detailed information on our products in the "Machine Tools" segment can be found in the "Production, Technology and Logistics" chapter on page 70 et seq.

KEY FIGURES "MACHINE TOOLS" SEGMENT	**2009** **€ million**	2008** € million	€ million	Changes 2009 against 2008 %
Sales revenues				
Total	757.7	1,184.2	– 426.5	– 36
Domestic	331.0	564.2	– 233.2	– 41
International	426.7	620.0	– 193.3	– 31
% International	56	52		
Order intake				
Total	568.0	1,152.2	– 584.2	– 51
Domestic	186.0	572.9	– 386.9	– 68
International	382.0	579.3	– 197.3	– 34
% International	67	50		
Order backlog*				
Total	250.8	565.9	– 315.1	– 56
Domestic	21.1	188.9	– 167.8	– 89
International	229.6	377.0	– 147.3	– 39
% International	92	67		
Investments	17.5	34.6	– 17.1	– 49
Employees	2,936	3,512	– 576	– 16
plus trainees	250	257	– 7	– 3
Total employees*	3,186	3,769	– 583	– 15
EBITDA	1.3	105.4	– 104.1	– 99
EBIT	– 19.3	83.1	– 102.4	– 123
EBT	– 29.1	71.3	– 100.4	– 141

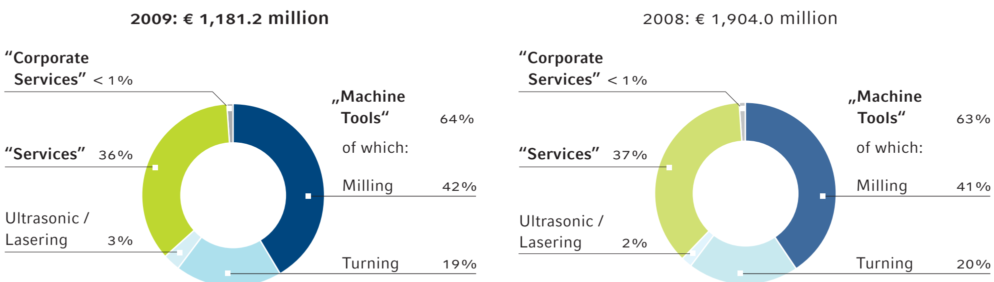
* Reporting date December 31
** Previous year's figures adjusted

The worldwide economic crisis affected the entire financial year 2009 and led to a downward development in the machine tool business; we had to accept heavy losses because of lacking orders. **Sales revenues** fell by 36% or € 426.5 million to € 757.7 million (previous year: € 1,184.2 million); it was possible to avoid a greater decline through the good order backlog at the start of the year. Domestic sales revenues shrank by 41% or € 233.2 million to € 331.0 million (previous year: € 564.2 million). International sales revenues decreased by 31% or € 193.3 million to € 426.7 million (previous year: € 620.0 million). International sales accounted for 56% (previous year: 52%). The "Machine Tools" segment had a 64% share of group sales revenues (previous year: 63%).

The milling technology of DECKEL MAHO contributed 42% (previous year: 41%). The turning technology of GILDEMEISTER totalled 19% (previous year: 20%). Ultrasonics / lasering technologies accounted for 3% (previous year: 2%). The **sales volume** of new machines declined by 44% compared to the previous year.

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

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



The worldwide economic crisis also had a considerable effect on order intake. The machine tools business suffered severely from the reluctance to invest of our customers. Orders throughout the financial year were at a very low level. **Order intake** in the "Machine Tools" segment decreased by 51% or € 584.2 million to € 568.0 million (previous year: € 1,152.2 million). Both our technology and large-scale machines, as well as the products from the ECO series contributed a stable share. Order intake fell sharply in the first three quarters (–61%). Order intake in the fourth quarter increased slightly and reached € 174.8 million (previous year: € 155.8 million); the industry highlight – the EMO 2009 in Milan – particularly contributed to this. With order intake of € 52.6 million and 254 machines sold our expectations were met.

Expectation for the EMO 2009 in Milan were met

Domestic order intake fell by 68% or € 386.9 million to € 186.0 million (previous year: € 572.9 million). International orders fell by 34% or € 197.3 million to € 382.0 million (previous year: € 579.3 million). The international share therefore amounted to 67% (previous year: 50%). The share of orders for the "Machine Tools" segment amounted to 50% (previous year: 61%).

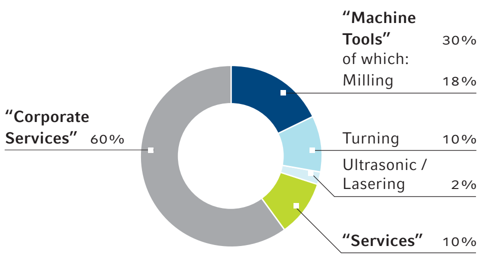
The **order backlog** in the "Machine Tools" segment as of 31 December 2009 of € 250.8 million (–56%) was far lower than the previous year's figure (31 Dec. 2008: € 565.9 million). Due to the continuing difficult market situation, there was an increase in order cancellations. International orders recorded the major share at 92% (previous year: 67%); in total they fell by € 147.3 million or 39% to € 229.7 million (previous year: € 377.0 million). The volume of domestic orders reached an all-time low of only € 21.1 million (previous year: € 188.9 million).

The earnings margins in the "Machine Tools" segment decreased due to a significant decline in sales volume, as well as a clear deterioration in price quality. **EBITDA** fell by 99% or € 104.1 million to € 1.3 million (previous year: € 105.4 million). **EBIT** amounted to € –19.3 million (previous year: € 83.1 million). **EBT** totalled € –29.1 million (previous year: € 71.3 million).

The following diagrams show the amount and distribution of **investments** in each segment and business unit:

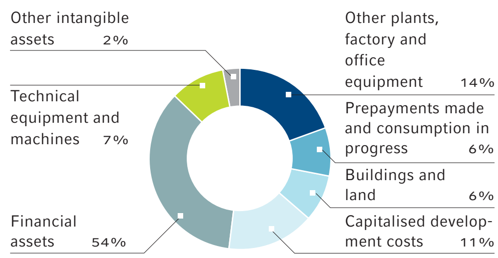
SHARE OF INDIVIDUAL SEGMENTS / DIVISION IN INVESTMENTS
in %

2009: € 57.8 million



DISTRIBUTION OF INVESTMENT VOLUME BY TYPE OF INVESTMENT
in %

2009: € 57.8 million



"DMG Experience Center Turn & Mill" opened

Investments in the **"Machine Tools"** segment amounted to € 17.5 million (previous year: € 34.6 million) and were primarily concentrated on the further development of our machine types, as well as the provision of tools necessary for production, devices, models and equipment to maintain operational readiness. The majority of the investment funds were accounted for by the **turning** and **milling business units**. On the occasion of the in-house exhibition in Bielefeld on 24 March 2009, we opened the "DMG Experience Center Turn & Mill". The center enables our customers to carry out programming and live demonstrations on their specific workpieces with our specialists. Another „DMG Experience Center Turn & Mill" was opened at the end of the year at our Shanghai site. With a grand opening on 7 July 2009, we concluded the modernisation measures that had begun in the previous year at GRAZIANO in Tortona and thereby optimised assembly processes and improved material flow long-term. Further investment funds were used for purchasing replacement plant and office equipment. Capitalised development costs in the "Machine Tools" segment totalled € 5.6 million.

At the end of the year, the "Machine Tools" segment had 3,186 **employees** (previous year: 3,769). This represents 58% of total staff at the GILDEMEISTER group (previous year: 58%). Compared to the previous year, we have reduced the number of employees by 583 or 15%. Due to the economic trend, we had to reduce personnel at all locations. Moreover, we had already terminated all employment agreements with agency workers at the end of the first six months (469 workers). Moreover, we have adjusted our surplus personnel capacity by cutting back on overtime and by using short time working. The personnel quota in the "Machine Tools" segment was 22.1% (previous year: 17.2%); the personnel expenses amounted to € 171.7 million (previous year: € 203.1 million).

"Services" segment

The "Services" segment mainly includes the business activities of DMG Vertriebs und Service GmbH and its subsidiaries, as well as those of a+f GmbH with the two "SunCarrier" and "Components" divisions. The company is active in the growing solar technology market with the **"SunCarrier"**. The business model is focused on the complete execution of turnkey projects and after-sales service. In the area of "Components", a+f GmbH is especially geared towards the marketing of components, particularly for wind energy. **DMG Service Solutions** offers worldwide the right product mix of service support and service products. The service solutions include various services, which, through our highly-qualified service staff and our worldwide sales and service network, ensure direct customer contact and rapid availability. **DMG Service Products** – as DMG Powertools, adjustment devices and tool management from DMG MICROSET – enable the user to significantly increase the productivity of his DMG machine tool. Moreover, DMG Spare Parts with its highly modern service centre ensures a reliable and quick supply with DMG spare parts. DMG AUTOMATION supplies integration solutions to automate machine tools and has been organisationally integrated in the "Services" segment since 1 July 2009, previous year's figures were adjusted. Up-to-date service news may be obtained at **www.gildemeister.com**. Detailed information on the "SunCarrier" can be found at **www.suncarrier.com**.

KEY FIGURES "SERVICES" SEGMENT	2009 € million	2008** € million	Changes 2009 against 2008 € million	%
Sales revenues				
Total	423.3	719.6	– 296.3	– 41
Domestic	165.3	265.5	– 100.2	– 38
International	258.0	454.1	– 196.1	– 43
% International	61	63		
Order intake				
Total	577.7	729.6	– 151.9	– 21
Domestic	157.7	270.3	– 112.6	– 42
International	420.0	459.3	– 39.3	– 9
% International	73	63		
Order backlog*				
Total	335.9	161.5	174.4	108
Domestic	46.2	43.8	2.4	5
International	289.7	117.7	172.0	146
% International	86	73		
Investments	5.7	10.6	– 4.9	– 46
Employees	2,176	2,584	– 408	– 16
plus trainees	3	3	0	0
Total employees*	2,179	2,587	– 408	– 16
EBITDA	68.8	122.4	– 53.6	– 44
EBIT	62.6	116.2	– 53.6	– 46
EBT	52.6	107.9	– 55.3	– 51

* Reporting date December 31
** Previous year's figures adjusted

Business development in the "Services" segment was also marked by the economic crisis. The spare parts and used machine business were especially affected by the downwards development trend, as there was virtually no demand.

Sales revenues decreased by 41% or € 296.3 million to € 423.3 million (previous year: € 719.6 million). The "Solar Technology" division contributed € 88.5 million (previous year: € 199.5 million). The original service business recorded a decline of 36% or 185.3 million compared to the previous year. Internationally, sales revenues fell by 43% or € 196.1 million to € 258.0 million; this represents a proportion of 61% (previous year: 63%). Domestically, sales revenues also fell markedly: following € 265.5 million in 2008, sales revenues in the reporting year amounted to € 165.3 million; this represents a decline of 38% or € 100.2 million. The "Services" segment made a 36% contribution to group sales revenues (previous year: 38%).

Order intake of € 577.7 million or 21% was below the previous year's figure (€ 729.6 million). 73% of all orders came from abroad; they fell by 9% or € 39.3 million (previous year: € 459.3 million). a+f GmbH developed successfully: At € 299.8 million (+85%) the solar business proceeded significantly positive at the end of the year. It was possible to achieve a high order intake, particularly in the second and fourth quarters. Internationally, orders amounting to € 292.9 million were placed (previous year: € 157.1 million). Domestic orders in "Services" amounted to € 157.7 million (previous year: € 270.3 million). At € 150.8 million (–43%), the original service business declined considerably. Our customers ordered noticeably fewer spare parts and components, and also made extensive cost-savings on services. Demand for our training offers remained stable. "Services" accounted for 50% of all orders in the group (previous year: 38%).

Solar business develops significantly positively

The **order backlog** on 31 December amounted to € 335.9 million (previous year: € 161.5 million), of which the "Solar Technology" division accounted for € 248.1 million or 74% (previous year: € 36.7 million). In the reporting year, earnings in the "Services" segment developed similarly despite the decline in sales volume as follows: **EBITDA** decreased by 44% or € 53.6 million to € 68.8 million (previous year: € 122.4 million). **EBIT** amounted to € 62.6 million (previous year: € 116.2 million). **EBT** was at € 52.6 million (previous year: € 107.9 million).

Investments in the **"Services"** segment totalled € 5.7 million (previous year: € 10.6 million). Of this, the **"Solar Technology"** division accounted for € 0.8 million. By furnishing our service cars with up-to-date GPS technique we significantly increased our service readiness and sustainably boosted efficiency of our services. Additional focus was placed on updating office equipment at our sales and service companies to make it suitable for requirements. Further investment funds were used for the on-going optimisation of our spare parts logistics at the Geretsried site. Capitalised development costs in the "Services" segment were € 0.9 million.

GPS-technique increases efficiency of services

The number of **employees** fell in comparison with the previous year by 408 to 2,179 (previous year: 2,587). This represents an adjustment in personnel of 16% in comparison with the previous year. The "Services" segment employed 40% of employees (previous year: 40%). The reduction in personnel took place primarily at some companies in Europe, America and Germany. We had already terminated all employment agreements with agency workers at the end of the first six months (80 workers). The personnel quota in this segment was 40.1% (previous year: 25.3%); the personnel expenses amounted to € 161.9 million (previous year: € 182.4 million).

"Corporate Services" segment

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

KEY FIGURES "CORPORATE SERVICES" SEGMENT	2009 € million	2008 € million	Changes 2009 against 2008 %
Sales revenues	0.2	0.2	0.0
Order intake	0.2	0.2	0.0
Investments	34.6*	5.0	29.6
Employees**	85	95	– 10
EBITDA	– 9.3	– 39.0	29.7
EBIT	– 11.6	– 41.2	29.6
EBT	– 16.5	– 52.6	36.1

* of which € 31.3 million capital inflow to financial assets
** Reporting date December 31

In the "Corporate Services" segment, both **sales revenues** and **order intake**, each of € 0.2 million (previous year: € 0.2 million) consist mainly of rental income. "Corporate Services" again accounted for less than 0.1% of the group sales revenues (previous year: <0,1%). **EBIT** amounted to € –11.6 million (previous year: € –41.2 million). **EBT** was at € –16.5 million (previous year: € –52.6 million). We have thus reached our target to improve EBIT by more than 50% compared to the previous year. This positive development results essentially from savings by reduced personnel expenditure – primarily by reduction of variable salary components. Moreover, due to our efficient cost saving programme we could save consultancy fees and payments for expired lease contracts.

Investments in property, plant and equipment and intangible assets amounted to € 3.3 million (previous year: € 5.0 million). The final construction measures at the new technology center formed a main focus at the Bielefeld site. Further investment funds were used for optimising our business processes and IT-systems. Additions to financial assets amounted to € 31.3 million due to the shareholding in Mori Seiki Co. Ltd. Investments in the "Corporate Services" segment thus amounted in total to € 34.6 million.

On 31 December 2009 this segment had 85 **employees** (previous year: 95 employees).

MASTERING CHALLENGES.

SECURING THE FUTURE!

MEDICAL INDUSTRY – CHALLENGES

- Absolute precision in the µm range
- Highest surface qualities
- Tissue-compatible high-tech materials
- Highly complex shapes
- Individual and series production

TECHNOLOGY FOR LIFE

Medical

________ Whether high precision end prostheses for knee and hip joints, socket joints, bone screws or medical implants of high-performance ceramics – on GILDEMEISTER machine tools more than 1,000 medical components are today being machined with a precision and cost-effectiveness that would have been considered unachievable just a few years ago. _______

SEGMENT: MEDICAL	EXPERTISE: GILDEMEISTER
Maximum time-savings	through complete machining with B-axis
Highest flexibility	through fast production of 14 sizes between 44 and 70 mm diameter
Unparalleled productivity	through simultaneous machining on main and counter-spindle

HIP JOINT SOCKET OF TITAN ALLOYS

Shortest piece times at highest precision on a TWIN 42

Hip joint socket

SEGMENT: MEDICAL	EXPERTISE: GILDEMEISTER
Maximum productivity	through 5-axis high-speed cutting
Extreme time-savings	through complete machining in one clamping
Unparalleled surface finish	through spindle revolutions of up to 42,000 rpm

BONE PLATE OF TITAN ALLOYS

Highest quality surface finish of Ra < 0,2 µm on a HSC 20 / 55 *linear*

Latitudinal sport of skiing, Engadin (Switzerland)

Increasing number of active sports people

Growing number of injuries of different types

Complex demands made of medical technology

MEDICAL SOLUTIONS FOR HEALTH AND

Safety

Life expectancy is constantly rising. Just like the demands made of medical technology products. With innovative machining technologies from GILDEMEISTER, producers are always that decisive step ahead. Just like people who, thanks to the stamina and fitness of our specialists, can continue to enjoy mobility and quality of life to an advanced age.

Corporate Situation

GILDEMEISTER has overcome the year of the economic crisis with its innovative range of products for a broad mix of customers and industries, and its global positioning. The cooperation with the Japanese machine tool builder, Mori Seiki, offers important benefits to our international customers and increases GILDEMEISTER's efficiency. We have successfully built up a new business unit of solar technology.

GILDEMEISTER Share

The stock market year 2009

The international capital markets also suffered the effects of the financial and economic crisis in 2009. The **stock markets** were extremely volatile, even though developments on the stock markets showed an overall positive trend from the second quarter of the year. Capital markets were driven by the anticipation of a sustainable recovery in the economy. The key indices developed positively in an annual comparison: The DAX rose by 23.8%, the MDAX by 34.0%. The European EURO STOXX 50 went up 21.1%, the American DOW JONES by 18.8%, and the S&P 500 Index by 23.5%. The British FTSE-100 Index recorded a rise of 22.1%. The Japanese NIKKEI 225 Index grew 19.0%.

Stock market listing, trading volume and shareholder structure

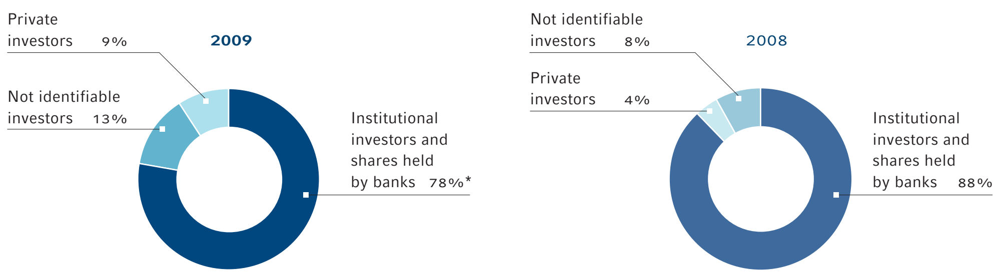
The GILDEMEISTER share is quoted in official trading at the stock exchanges in Frankfurt / Main, Berlin-Bremen and Dusseldorf, as well as on the open market on the stock markets in Hamburg, Munich and Stuttgart. GILDEMEISTER is listed on the **MDAX** and complies with the "Prime Standard" internationally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

The trading volume at year-end was 89.8 million shares (previous year: 150.9 million shares); on the basis of the total share number of 45.6 million shares, this represents an annual turnover of 2.0 (previous year: 3.5). The average **trading volume** decreased to about 345,000 shares per trading day (previous year: 592,000 shares).

The **market capitalisation** in the year under report increased by 52% or € 176.5 million to € 516.4 million. The GILDEMEISTER shares continued to be held in the reporting year in wide portfolio investment **(95% free float)**. The cooperation agreement concluded on 23 March with Mori Seiki contains a cross-holding agreement of 5% each. The Mori Seiki holding in GILDEMEISTER took place by way of a capital increase in authorised capital on 23 April 2009. Through the issue of 2,279,500 new no-par shares the total number of shares increased from 43,302,503 to 45,582,003 shares; the registered capital rose from € 112,586,507.80 to € 118,513,207.80. The issue price of the new shares was € 7.93. Since then, Mori Seiki has been the largest single shareholder with 2.3 million GILDEMEISTER shares.

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

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



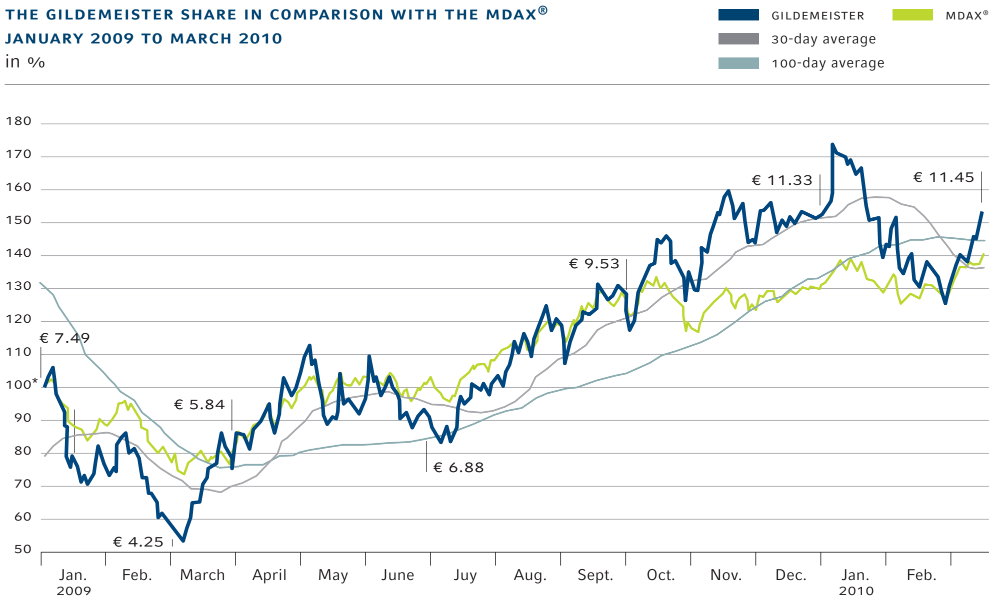
* 5% Mori Seiki share

Performance of the GILDEMEISTER Share

The GILDEMEISTER share gained considerably in value in 2009. The share price gain of 44% (year-on-year) outperformed the MDAX (+34%). The share started the stock market year at a price of € 7.49 (2 Jan. 2009) and reached its highest value of the year of € 11.69 on 16 November 2009. The lowest value of the year was € 4.25 (5 Mar. 2009). The share closed the year on 30 December 2009 at € 11.33. The good performance of the GILDEMEISTER share was driven by the positive development in the “Solar Technology” division and by the cooperation with Mori Seiki. In the first three months of 2010 the paper developed analogously to the trend on the international capital markets; the share is currently quoted at € 11.45 (17 March 2010).

Various banks carry out an analysis of the company. The latest assessments are as follows: “Buy” (DZ Bank, 15 Feb. 2010), “Buy” (Close Brothers Sydler, 12 Feb. 2010), “Buy” (Bankhaus Lampe, 11 Feb. 2010), “Overweight” (HSBC, 8 Feb. 2010), “Buy” (M.M. Warburg, 5 Nov. 2009), “Hold” (Berenberg Bank, 16 Feb. 2010), “Hold” (Commerzbank, 8 Feb. 2010), “Hold” (Deutsche Bank, 2 Feb. 2010), “Hold” (UniCredit, 1 Feb. 2010), “Neutral” (WestLB, 11 Feb. 2010), “Reduce” (BHF Bank, 11 Feb. 2010), “Reduce” (equinet, 11 Feb. 2010), “Sell” (LBBW, 11 Feb. 2010).

THE GILDEMEISTER SHARE IN COMPARISON WITH THE MDAX®
JANUARY 2009 TO MARCH 2010
in %



*2 January 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 14 May 2010, to distribute a **dividend** of € 0.10 per share for the financial year 2009 (previous year: 0.40 €). With regard to the 45.6 million shares entitled to dividend, total distribution amounts to € 4.6 million. Using the annual closing price 2009 as a basis, this results in a dividend yield of 0.9% (previous year: 5.1%). For further details on dividends, please see the section on “Financial statements of GILDEMEISTER Aktiengesellschaft (short version)” on page 34.

KEY FIGURES OF THE GILDEMEISTER SHARE

		2009	2008	2007	2006	2005	2004	2003
Registered capital	€ million	118.5	112.6	112.6	112.6	112.6	112.6	75.1
Number of shares	million shares	45.6	43.3	43.3	43.3	43.3	43.3	28.9
Year-end price 1)	€	11.33	7.85	18.50	9.60	5.89	5.20	8.50
Annual high 1)	€	11.69	23.38	22.80	9.75	6.39	8.98	8.50
Annual low 1)	€	4.25	4.79	9.20	5.86	4.82	4.98	2.96
Market capitalisation	€ million	516.4	339.9	801.1	415.7	255.1	225.2	245.5
Dividend	€	0.10	0.40	0.35	0.20	0.10	–	–
Dividend total	€ million	4.6	17.3	15.2	8.7	4.3	–	–
Dividend yield	%	0.9	5.1	1.9	2.1	1.7	–	–
Earnings per share 2)	€	0.10	1.87	1.16	0.63	0.32	0.15	– 0.13
Price-to-earnings ratio 3)	€	113.3	4.2	15.9	15.2	18.4	34.7	–
Cash flow per share 4)	€	– 1.7	2.5	2.9	2.5	0.63	0.30	0.99
Price-to-cash-flow ratio 5)	€	– 6.66	3.14	6.37	3.84	9.35	17.33	8.59

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

Investor and Public Relations

Our **investor relations** work provides a continuous and open exchange of information with all participants in the capital market. It is our aim to increase transparency and understanding of our business model and its value drivers among those involved in the capital market. Through this, we intend to achieve appropriate ratings. Due to the change in the international capital markets following the financial and economic crises, we have communicated with institutional and private investors in an even more targeted manner. 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 1,400 shareholders attended our 107th Annual General Meeting of Shareholders in May 2009. 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: 27,920 accesses to our annual and quarterly reports – including 7,281 in English – have been registered at our website **www.gildemeister.com**

Public relations work is a further important factor in our communications concept. It contributes to maintaining and strengthening GILDEMEISTER's reputation in public. We place great value on continuous 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. For this reason we always provide competent, fast, open and reliable information on the group's current position and its companies. Our business reports are among others, evidence of this. They are considered exemplary. Their transparency, quality of language and innovative design repeatedly impress the experts and jurors of renowned rankings. The annual report 2008 was the winner of the MDAX category of the "manager magazin" contest, which is independent and unique worldwide. Expenses in the field of investor and public relations amounted to € 2.5 million (previous year: € 3.3 million).

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Corporate Governance

GILDEMEISTER complies with Corporate Governance Code

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

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

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

Remuneration of the Supervisory Board and Executive Board

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

Remuneration of the Supervisory Board of GILDEMEISTER Aktiengesellschaft

Performance-related remuneration components

The remuneration of the Supervisory Board is determined by the Annual General Meeting of shareholders and is regulated under Section 12 of the articles of association of GILDEMEISTER Aktiengesellschaft. The remuneration includes performance-related and non-performance related components. The remuneration components not dependent upon performance include the fixed remuneration that each member of the Supervisory Board receives and remuneration for committee work. The performance-related component comprises a long term incentive (LTI), which supports sustainable value-based management. Following a resolution passed at the 107th Annual General Meeting of 2009, the short-term performance-related remuneration component (STI) has been cancelled.

In the financial year 2009, the fixed remuneration for each individual member of the Supervisory Board was € 24,000; the chairman received 2.5-times that amount (€ 60,000) and the deputy chairman 1.5-times that amount (€ 36,000). The fixed remuneration therefore totalled € 335,605 (previous year: € 168,000).

Remuneration for committee work amounted to a total of € 221,211 (previous year: € 109,877) and took into account the work carried out by the Finance and Auditing Committee, the Personnel, Nominations and Remuneration Committee, and the Technology and Development Committee. There was no remuneration for work carried out by the Conciliation and Nominations Committee, which is a sub-committee of the Personnel, Nominations and Remuneration Committee. The individual committee members each received € 12,000. The chairperson of a committee also receives an additional fixed remuneration of a further € 12,000 and the deputy chairperson € 6,000.

The performance-related remuneration component LTI is based on index-based target values. Earnings per share (EPS) are used for the performance-related key figure. The EPS is an established key performance indicator, which gives rise to a performance reference taking into account the respective share capital. It is calculated by dividing the annual profit, less the profit share of minority interests, by the weighted average number of shares. The LTI is variable, which means it is not secured remuneration. Again, the Supervisory Board chairman receives 2.5-times, and the deputy chairman 1.5-times, the remuneration of the other members of the Supervisory Board. The LTI is capped at the level of the respective fixed remuneration.

The LTI takes into account not only the reporting year but also the two preceding years. The key performance indicator is the mean average of the EPS values in the corresponding financial years. The LTI is only paid if the average EPS for the relevant three years amounts to at least € 0.15. The LTI calculated performance-based remuneration for the Supervisory Board totalled € 335,605 (previous year: € 168,000).

In 2009 the Supervisory Board remuneration was made up as follows:

REMUNERATION OF THE SUPERVISORY BOARD OF GILDEMEISTER AKTIENGESELLSCHAFT

	Fixed remuneration in €	Committee remuneration Finance & Auditing (F&A) in €	Committee 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	60,000	156,000
Prof. Dr.-Ing. Uwe Loos, Chairman T&D	24,000	0	0	24,000	24,000	72,000
Günther Berger, Chairman F&A	24,000	24,000	0	0	24,000	72,000
Dr.-Ing. Jürgen Harnisch Deputy Chairman T&D	24,000	0	0	18,000	24,000	66,000
Dr. jur. Klaus Kessler Member SB until 31 Oct. 2009 Member F&A until 31 Oct. 2009	19,989	9,995	0	0	19,989	49,973
Dr.-Eng. Masahiko Mori Member SB as of 6 Nov. 2009 Member F&A as of 24 Nov. 2009	3,616	1,216	0	0	3,616	8,448
Prof. Dr.-Ing. Walter Kunerth	24,000	0	12,000	0	24,000	60,000
Norbert Zweng	24,000	12,000	0	0	24,000	60,000
Gerhard Dirr Deputy Chairman SB, Deputy Chairman PNR	36,000	12,000	18,000	0	36,000	102,000
Wulf Bantelmann	24,000	0	0	12,000	24,000	60,000
Matthias Pfuhl	24,000	0	0	12,000	24,000	60,000
Harry Domnik, Stellv. Chairman F&A	24,000	18,000	12,000	0	24,000	78,000
Günther Johann Schachner	24,000	0	0	0	24,000	48,000
Total	335,605	89,211	66,000	66,000	335,605	892,421

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

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

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

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

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

Performance-related Executive Board remuneration

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

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

EXECUTIVE BOARD DIRECT REMUNERATION

	Fixed € K	STI € K	LTI € K	Remu-neration € K	Payment in kind € K	**Total € K**
Dr. Rüdiger Kapitza, Chairman	800	400	0	200	37	1,437
Michael Welt	345	0	0	200	23	568
Günter Bachmann	252	0	0	200	30	482
Dr. Thorsten Schmidt	276	0	0	200	25	501
Total	1,673	400	0	800	115	2,988

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

The STI is based on index-based target values. In the reporting year the earnings after taxes (EAT) provided the reference value used. The scale of the target values is re-defined annually. In addition, this is capped at € 1,000 K, respectively, for 2009. The cap is also fixed anew each year.

Remuneration components dependent on share price

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

The LTI involves a **performance units plan**, which is not associated with any dividend payments or voting rights. In addition, the units may not be traded nor sold to third parties. The performance units awarded at the beginning of each year have a term of three years. The first performance units awarded following this model for the year 2007 will thus be allocated on 31 December 2009. No payment was made from the allocation, as the fixed EBIT margins were not reached. The performance units awarded for the financial year 2008 will be allocated on 31 December 2010 and, following the Annual General Meeting of Shareholders in 2011, will be paid out taking into account the EBIT target achieved in 2010 and the respective share price. The performance units awarded for the financial year 2009 will be allocated on 31 December 2011 and, following the Annual General Meeting of Shareholders in 2012, will be paid out taking into account the EBIT target achieved in 2011 and the respective share price. The following table shows the number of performance units awarded in 2007, 2008 and 2009, and the fair value of the LTI at the time of granting for each member of the board.

TRANCHES OF THE LONG-TERM-INCENTIVES

	2007 tranche term 3 years			**2008 tranche** term 3 years		**2009 tranche** term 3 years		**2009 tranche** term 4 years	
	Number of performance units awarded	Fair Value at granting	Amount of allocation for 2009	Number of performance units awarded	Fair Value at granting	Number of performance units awarded	Fair Value at granting	Number of performance units awarded	Fair Value at granting
	shares	€ K	€ K	shares	€ K	shares	€ K	shares	€ K
Dr. Rüdiger Kapitza, Chairman	14,401	175	0	10,422	159	28,209	207	20,790	141
Michael Welt	11,521	140	0	7,817	119	21,157	155	13,860	94
Günter Bachmann	11,521	140	0	7,817	119	21,157	155	13,860	94
Dr. Thorsten Schmidt	11,521	140	0	7,817	119	21,157	155	13,860	94
Total	**48,964**	**595**	**0**	**33,873**	**516**	**91,680**	**672**	**62,370**	**423**

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

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

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

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

INDIRECT REMUNERATION FOR EXECUTIVE BOARD MEMBERS

	€ K
Dr. Rüdiger Kapitza, Chairman	108
Michael Welt	143
Günter Bachmann	60
Dr. Thorsten Schmidt	50
Total	**361**

In accordance with the International Accounting Standards (IAS), provision expenses of € 108 K arose for the defined-benefit contribution commitment in 2009 (previous year: € 114 K) as well as one-off past service costs pursuant to IAS of € 204 K for an adjustment of the pension commitments. The payments restricted to the contribution-based pension plan amount in total to € 253 K (previous year: € 253 K). The total provisions expenses without the adjustment amount totalled € 361 K (previous year: € 367 K). Advances and loans to Executive Board members or Supervisory Board members were not granted, nor were any declarations of liability in favour of any of the aforementioned members entered into. There was no share option programme or similar securities based incentive system.

The companies of the GILDEMEISTER group did not pay any remuneration to officers for services personally rendered, in particular consulting and introduction services. Former members of the Executive Board and their surviving dependants received € 604 K (previous year: € 597 K). The amount of the pension commitments (cash value of future pension commitments or defined benefit obligations) for former members of the Executive Board and their surviving dependants amounted to € 7,063 K (previous year: € 6,646 K).

Responsible management of opportunities and risks

The Executive Board is regularly informed of risks and their development with the aid of the opportunities and risk management system. For GILDEMEISTER the responsible handling of risks by the company is part of good corporate governance. GILDEMEISTER identifies and monitors significant opportunities and risks regularly with the aid of the systematic opportunity and risk management system. The early risk warning system, introduced by the Executive Board according to section 91, paragraph 2 AktG, is checked by the annual auditors, is continuously enhanced by GILDEMEISTER and adapted to changing conditions. More information on the opportunities and risk management system can be found in the chapter "Opportunities and risk report" on page 80 et seq.

Cooperation between the Executive Board and Supervisory Board

To achieve the joint goal of increasing enterprise value sustainably, the Executive Board and the Supervisory Board work closely together. The Executive Board informs the Supervisory Board regularly, timely and comprehensively on current development, business strategy, corporate planning, the risk situation, risk management and compliance. The Executive Board passes the quarterly and six months' reports to the Supervisory Board, so that the latter can discuss them before publication. The Articles of Association provide for any transactions of fundamental significance to be subject to the agreement of the Supervisory Board.

Avoidance of conflicts of interest

The Executive Board and Supervisory Board are bound by the enterprise's best interests. Potential conflicts of interest of members of the Executive or Supervisory Board are disclosed to the Supervisory Board immediately and have to be approved by the latter. In making decisions and in connection with their functions, the members of the Executive Board and of the Supervisory Board may not pursue any personal interests or business opportunities that the company is entitled to, nor may they grant any unjustified benefits to any other person. The Supervisory Board reports any conflicts of interest and the handling of these to the Annual General Meeting. In the reporting year there were neither conflicts of interest with respect to the members of the Executive Board nor with respect to members of the Supervisory Board.

Safeguarding the interests of the shareholders

Corporate communication from GILDEMEISTER has the aim of ensuring both the best possible transparency and timely communication to all target groups. Shareholders and potential investors can obtain information in the Internet at any time on the current situation of the company. On our website, www.gildemeister.com, we publish, both in German and English, press releases, business and quarterly reports as well as a detailed financial calendar, which is regularly updated. Through candour and transparency, the Executive Board and Supervisory Board aim to strengthen the confidence of our shareholders and investors, business partners and employees, as well as of the general public, in our company.

Shareholders may either exercise their voting rights themselves at the Annual General Meeting, through an authorised person of their choice or through a proxy bound by their directives. For shareholders who are not able to attend the Annual General Meeting of Shareholders personally, we offer them the possibility of following the events of the Annual General Meeting in real time via Internet.

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

Employees

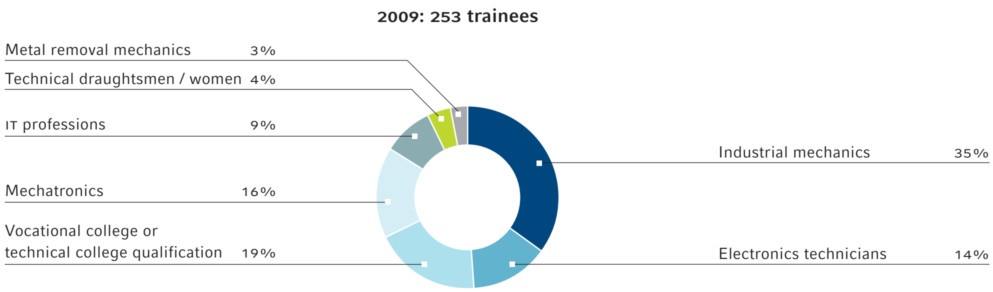
As at 31 December 2009, GILDEMEISTER had 5,450 employees (previous year: 6,451), of whom 253 were trainees. Compared to year-end 2008, the number of employees has decreased by 1,001 employees or 16%. Already at the end of the first six months, all employment agreements with agency workers had been terminated (552 workers). Furthermore, we adjusted our personnel capacity primarily by cutting back on overtime.

Through these measures that were timely introduced, we have saved € 18.7 million in other operating costs and € 59.4 million in employee expenses. These savings were primarily achieved by a reduction in variable salary components (€ 25.7 million), the cutting back on overtime (€ 15.9 million) and the use of short-time working (€ 12.1 million). On average, 30% of employees at the group were affected by short-time working in the reporting year; the extent was approximately 23% of the weekly working hours.

The reduction in personnel took place primarily in the “Machine Tools” segment. We also realised adjustments in the “Services” segment. At year-end, 3,443 employees (63%) worked for our domestic companies and 2,007 employees (37%) for our international companies.

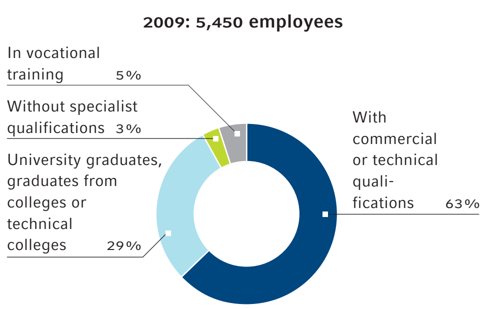
The number of trainees was 253 (previous year: 260). At the start of the new training year, GILDEMEISTER took on 43 trainees (previous year: 66). The vocational training quota in the “Machine Tools” segment at the domestic companies was 10.4% (previous year: 9,4%). Overall, we offer vocational training in nine different trades. In addition, we offer courses of study in association with regional colleges of advanced vocational education and universities of applied sciences. We are continuously expanding and developing these cooperations further.

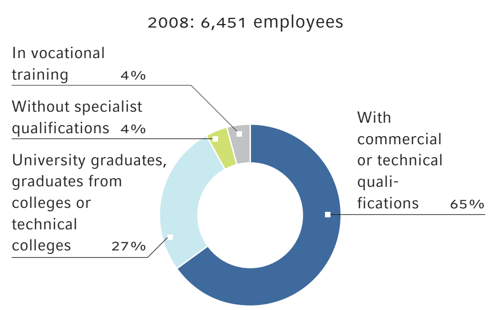
TRAINING IN THE GILDEMEISTER GROUP
Allocation by fields in %



For years we have placed special value on our employees' qualifications in the field of **human capital**. It is a core element of the non-financial sustainable performance indicators or "sustainable development key performance indicators" **(SD-KPIS)**. The following graphic shows that great value is placed on professional training and a qualified workforce at the GILDEMEISTER group.

QUALIFICATIONS STRUCTURE OF EMPLOYEES IN THE GILDEMEISTER GROUP
in %





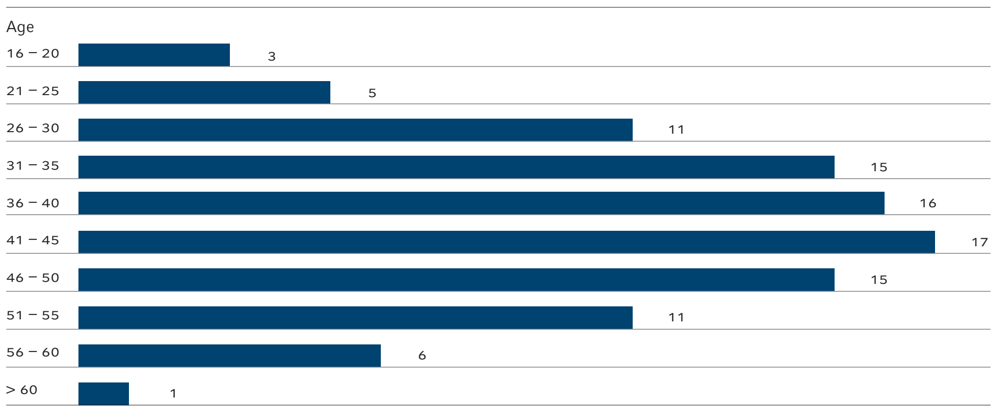
Once again, the qualifications structure was higher than the level of the previous year. 97% of employees held a vocational qualification or were following a course of vocational training (previous year: 96%). The number of employees taking part in further training was again high with 3,537 employees or 65% of the workforce (previous year: 3,995 employees or 62%). The main focus is placed on training our domestic and international sales and service personnel on the new machine developments and further training in the areas of information technology and languages. Overall, further training costs amounted to € 4.9 million (previous year: € 5.2 million).

Variable wage and salary components recognise individual performance in achieving targets and promote **employee motivation**. Further elements are health and safety protection, which are core components of our value added system both in Germany and abroad. Our certified quality management system determines working conditions and, of course, also provides for the newly industrialising countries in which GILDEMEISTER has production plants as well as sales and service companies.

Personnel expenditure fell by € 59.4 million to € 346.1 million (previous year: € 405.5 million). Of these, wages and salaries accounted for € 291.1 million (previous year: € 344.8 million), social insurance contributions for € 50.3 million (previous year: € 56.7 million) and retirement pension expenses € 4.7 million (previous year: € 4.0 million). The personnel quota was 30.3% (previous year: 20.7%).

The part-time retirement plan covered 152 employment agreements (previous year: 130), for which we use the block model. Participation in this model has thus increased by 17% in comparison with the previous year. The entire period of part-time retirement is divided into active and passive phases of equal length. There were 97 employees in the active phase and 55 in the passive phase. The age structure of our employees is well-balanced and has changed as follows: 34% of our employees are 35 years of age and younger (previous year: 39%), 82% are 50 years of age and younger (previous year: 82%).

AGE STRUCTURE OF EMPLOYEES IN THE GILDEMEISTER GROUP 2009
in %



Other non-financial performance indicators have developed as follows: In the reporting year there were 108 traffic and operational accidents (previous year: 120); in relation to the total number of those employed, this represents a slight increase to 2.0% (previous year: 1.9%). The rate of sick leave amounted to 3.1% as in the previous year and was thus once again below the average for the industry of 3.7%.

Fluctuation was affected to a great extent by the reduction in personnel throughout the company and, at 20.4%, was far higher than the previous year's level (7.2%). As current figures for the industry are not available, a comparison with the industry average is not feasible.

We celebrated the 40-years' employment of 34 employees. In addition, 56 employees celebrated 25 years' employment and 231 employees 10 years' employment at the company. We would like to thank all our employees who are celebrating their jubilee for their loyalty to the company and their unceasing commitment. At this point we would also like to thank all our employees for their highly-motivated performance.

Organisation and Legal Corporate Structure

The GILDEMEISTER group is centrally managed by GILDEMEISTER Aktiengesellschaft as the controlling company. All cross-divisional key functions are concentrated here. Further holding functions are exercised by GILDEMEISTER Beteiligungen AG as the parent company of all the production plants and by DMG Vertriebs und Service GmbH as the controlling company of all sales and service companies. More detailed information on the business activities is included in the "Segmental Report" chapter on page 38 et seq.

All GILDEMEISTER group companies are managed as profit centres and adhere to clear guidelines for the best possible performance and results. The management structure is shown in the group structure on page 12 et seq. All operational processes and procedures are standardised by way of a common group IT infrastructure. The IT system therefore acts as an integral link within the group. The organisational expenses of GILDEMEISTER Aktiengesellschaft amounted to € 17.3 million (previous year: € 22.8 million).

Changes in the legal corporate structure of the GILDEMEISTER group in the financial year 2009 resulted primarily from expanding the "Solar Technology" division. Specifically, the following significant changes were made:

- As of 1 January 2009, DMG Service Fräsen Seebach GmbH was merged with DMG Service Fräsen Pfronten GmbH. This means that the entire expertise in the area of services is now concentrated in DMG Service Fräsen GmbH.
- In March 2009, GILDEMEISTER Partecipazioni S.r.l. founded a+f Italia S.r.L. with registered office in Milan, Italy. Within the scope of expanding the "Solar Technology" division, this company will further strengthen sales and service activities in Italy.
- In June 2009 and in November 2009, a+f Italia founded two project companies to process the new solar projects in Italy.
- In August 2009, DMG America Inc. founded a+f USA LLC with registered office in Denver, USA, to strengthen its activities in the growing market in the USA.
- In November 2009, DMG Ibérica S.L. founded AF SunCarrier Ibérica S.L. with registered office in Madrid; this company will take over the service and maintenance of solar projects in Spain.

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.

a+f opens new markets

DMG is responsible for direct sales in all significant markets. Alongside this, our key accounting handles all internationally operating major customers. a+f GmbH is active in the business area of renewable energy sources and is constantly opening up new markets and customers. It is not intended to make any fundamental changes to the group structure in the future.

A detailed overview of the shareholding relationships within the GILDEMEISTER group as at 31 December 2009 and further explanations of the changes in the legal corporate structure are set out in the notes to the consolidated financial statements on page 106 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 173 et seq.

The GILDEMEISTER group has **no major shareholdings**.

Within the framework of a strategic partnership, GILDEMEISTER has a 5% shareholding in the Japanese machine tool builder, Mori Seiki Co. LTD. (Nagoya) during the year under report.

DMG Vertriebs und Service GmbH, Bielefeld, is a 100% subsidiary of GILDEMEISTER Aktiengesellschaft. It operates 72 sales and service locations and sales offices, as well as branch offices abroad that are not legally independent companies. The sales offices of DMG Vertriebs und Service GmbH in Shanghai, 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 Austria GmbH, Klaus (Austria), DMG Czech s.r.o., Brno (Czech Republic) and DMG Asia Pacific Pte. Ltd. (Singapore).

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

GILDEMEISTER must provide the following supplementary information:

- The registered capital of GILDEMEISTER Aktiengesellschaft amounts to € 118,513,207.80 and is distributed in 45,582,003 individual shares in the name of the holder. Each share has a notional value of € 2.60 of the subscribed capital.
- Pursuant to Section 84 of the German Companies Act (AktG) the Supervisory Board shall appoint and revoke the appointment of members of the Executive Board. This authority was specified to that effect in Section 7 para. 2 of the Articles of Association of GILDEMEISTER Aktiengesellschaft, by which the Supervisory Board appoints the members of the Executive Board, determines their number and assigns their duties.
- Pursuant to Section 119, para. 1 no. 5 of the German Companies Act (AktG), the Annual General Meetings of Shareholders decides any changes to the Articles of Association. The correspondingly defined rules of procedure are contained in Sections 179, 181 of the German Companies Act (AktG) in connection with Section 15 para. 4 of the Articles of Association of GILDEMEISTER Aktiengesellschaft.

- A resolution of the Annual General Meeting passed on 15 May 2009 authorises the Executive Board, with the approval of the Supervisory Board, to increase the registered capital of the company in the period up to 15 May 2010, through a one time only issue or through several issues of new shares for cash or non-cash contributions to a nominal amount of € 50,073,300,00 million (authorised stock). This authorisation is set out in Section 5 para. 3 of the Articles of Association. Moreover, the company is authorised to purchase its own shares up to a pro rata amount of almost 10% of the registered capital, this corresponds to € 11,851,321.00. This authorisation is intended to place the company in a position of having its own shares available at short notice, without having recourse to the stock market, to offer as consideration for the purchase of companies or shareholdings in other companies. Furthermore, there has been a contingent increase in the registered capital up to a further € 37.5 million through the issue of up to 14,423,076 individual shares in the name of the holder (contingent capital I). The conditional capital increase is to be effected only insofar as the options or conversion rights relating to warrant or convertible bonds, issued or guaranteed pursuant to the authorisation resolution of the Annual General Meeting of Shareholders of 15 May 2009 and the owners of options or conversion rights exercise their right to convert or any conversation obligation or obligation to exercise an option is fulfilled.
- Ultimately, the Executive Board is authorised to issue shares to a value of € 5.0 million to employees of the company and of companies affiliated with the company (cf. Section 5 para. 3 of the Articles of Association).
- The significant agreements of GILDEMEISTER Aktiengesellschaft are subject to a **change of control** condition (the acquisition of 25% or more of the voting rights) as a result of a takeover offer within the meaning of Section 315 para. 4, no. 8 German Commercial Code (HGB).

Pursuant to Section 315 paragraph 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 € 118,513,207.80 and is distributed in 45,582,003 individual shares in the name of the holder. Each share has a voting right and is the determining factor for the share of profits.
- The most recent amendment to the Articles of Association took place at the 107th Annual General Meeting of Shareholders on 15 May 2009, when Sections 5 and 12 of the Articles of Association were amended.
- In the reporting year the Executive Board did not exercise the above-referred authorisation with the exception of the authorisation to increase the share capital through the issue of new shares with the approval of the Supervisory Board.
- The conditions for a change of control comply with the customary agreements. They do not lead to an automatic termination of the above-referred agreements but, in the event of a change of control, merely grant our contractual partners the possibility of terminating these.

Research and Development

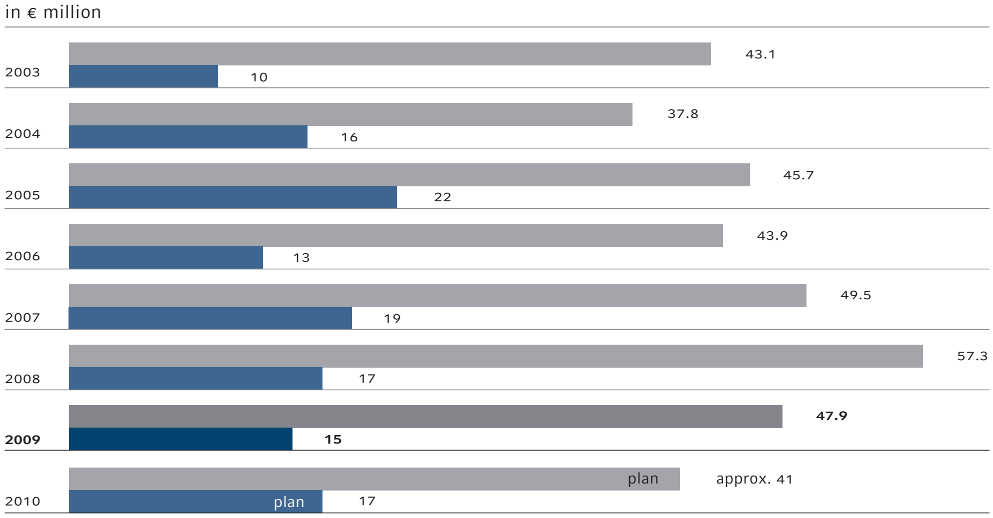
Our activities in the field of research and development pursue the aim of offering innovative, technologically-advanced products. Based on the needs of our international customers, we are placing our main focus on higher-level, market-orientated areas of development:

Innovations as the key to success

1. an increase in the performance and flexibility of our machine concepts using innovative software solutions,
2. the further development of our products in the renewable energy sources business,
3. the further improvement of user-friendliness and ergonomics,
4. the further expansion of our market position in the ECOLINE field,
5. taking the requirements of specific future markets into consideration.

Despite the ongoing economic crisis we maintained expenditure on research and development at the high level of € 47.9 million (previous year: € 57.3 million). As a result of constant development and the start of production of modern, innovative products, we are equipped to deal with future challenges. Positive impulses can also be felt from the first joint machine project with Mori Seiki. The proportion of innovations in the “Machine Tools” segment was 6.3% and was thus higher than the previous year’s level (4.8%). Investments in new developments are listed in the segment reports as capitalised development costs.

EXPENDITURE ON RESEARCH AND DEVELOPMENT AND NUMBER OF NEW DEVELOPMENTS AT THE GILDEMEISTER GROUP
in € million

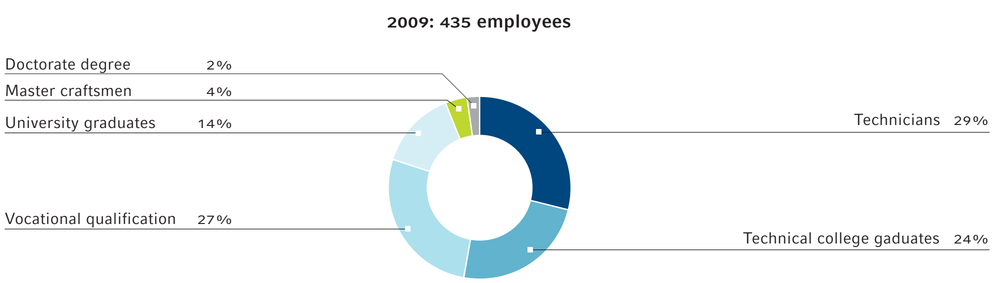


In the reporting year, we presented a total of 15 new developments at 89 national and international trade fairs and exhibitions. At the industry highlight, the EMO 2009 in Milan, we showed 41 exhibits, including 7 world premieres. Our innovative product range offers our customers customised solutions to carry out their complex production work.

In the reporting year we registered 31 patents, utility and design patents, as well as brand and trademarks (previous year: 29 industrial property rights). The value of our property rights fell in total to € 299 million (previous year: € 340 million) due to the sales revenue-dependent evaluation scheme of the market value method.

A total of 435 employees work on developing our products (previous year: 471 employees); this corresponds to a share 15% of the workforce at the plants (previous year: 13%). Research and development activities, which are decentrally organised at the sites, will be synchronised in regular group-wide product development talks. Based on our requirements, our system suppliers make a significant contribution to the constant further development of our products, through close and co-operative teamwork. Moreover, we do not purchase any third party **development know-how**. Services of third parties are mainly drawn upon in the field of industrial design.

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



Innovative software increases customer benefits

Through innovative **software**, GILDEMEISTER products clearly stand out from those of the competition. With **"ShopTurn 3G"**, we offer our customers unique control technology, which makes it possible to reduce re-tooling times by up to 30%. The main highlights include a standard user interface for turning and milling machines, multi-channel capability, as well as a choice between time-optimised DIN and convenient "ShopTurn" programming. We have also been able to extend the machining possibilities of our machines even further with innovative software concepts, for example, for the machining of gear wheels on our milling machines. An improved simulation offers essential potentials. The further enhanced "DMG Virtual Machine" offers process safety that is unique throughout the industry through 1:1 simulation of real machines. The complete representation of geometry, kinematics and dynamics together with all the control functions is leading on the market. The advantages for our customers include piece time assessment that is accurate to the second, a reduction in set-up and re-tooling times of up to 80% and safety from collision and work area tests.

GILDEMEISTER sets benchmarks in energy-efficiency

GILDEMEISTER has been setting the benchmark for years as regards effective manufacturing technology and resource-saving design in the area of the **energy efficiency** of our machine tools. Furthermore, we support the "Blue Competence" initiative of VDW. Under the term "DMG ENERGY SAVING" , we have combined measures for the further improvement of energy efficiency. The "DMG AUTO*shutdown*" leads to markedly reduced power consumption in the machine's idling state. Our customers are able to save up to € 3,000 per annum through lower energy costs. Further potential is also maximised during machining: The "DMG GREEN*mode*" reduces the machine's power requirements through optimum control of machining processes. In addition, the intelligent design of the machine leads to noticeable savings in energy costs – for example through the recovery of braking energy, a reduction in friction and a reduction in moving masses. Thus the energy requirement of our machines is reduced by 20% on the average over the whole life cycle.

In the **"Machine Tools" segment** 15 innovative new products expand our product range. Nine new developments extend the **Milling Association** products. With the DMC 210 U, the DMC 80 FD duoBLOCK® and the DMC 60 FD duoBLOCK®, DECKEL MAHO Pfronten GmbH is extending the range of products in the area of CNC universal machining centres with pallet changer. The DMC 80 H duoBLOCK® and the DMC 100 H duoBLOCK® complete the range of horizontal machining centres. With the Lasertec 40 and the Lasertec 50, SAUER GmbH is extending the range for laser precision machining. The Ultrasonic 10 and the Ultrasonic 50-5 complete the range of products for the machining of advanced materials, such as carbide, ceramic, corumdum and glass.

Within the **Milling and Assembly Association**, DECKEL MAHO Seebach GmbH is adding to the range of travelling column machines with the DMF 260 incorporating a larger workspace for the machining of long workpieces.

CTX gamma 2000 TC newly introduced

In the **Turning Association**, four new developments were presented in the reporting year. The CTX gamma 2000 TC extends the successful CTX modules by a version with milling spindle and additional turret. The NEF 600 universal lathe makes possible the cost-effective machining of individual pieces and small series. The CNC multi-spindle GMC 20 offers top productivity for complex workpieces in medium-sized lot sizes. In the area of productivity enhancing components, the DMG S bar loader completes the product range.

Within the **Ecoline Association**, DMG Ecoline GmbH presented the universal milling machine, DMU 50 *eco*. The machine enables low cost entry into 5-axis machining with proven technology and the highest precision.

In the **"Services" segment** we complement the range of products with customised components and service products. DMG MICROSET GmbH offers leading technology in the tool management field. DMG AUTOMATION GmbH's **automation solutions** lead to shorter tooling and processing times and consequently increase the productivity of our machines.

a+f opens Solar Center of Expertise

In the business area of **renewable energy sources**, a+f GmbH opened the new Solar Center of Expertise in Würzburg in January 2009, thereby laying the foundations for further growth. In the reporting year, the product range was once again made complete by innovative new developments. The **"SunCarrier"** is a single axis tracking system, which constantly aligns the module surface of the solar collectors with the sun via a vertical axis. Depending on the operational area, the products offered vary, especially with regards to the size of the module surface or height. The highlight in the reporting year was the "SunCarrier 160", which is especially suited to installation in countries with height restrictions. Compared to stationary solutions, our products achieve up to 35% more output. To turn on its own axis, a "SunCarrier" only consumes 0.6 kWh electricity per day – which is less than a refrigerator consumes per day. Our **"SkyCarrier"** systems are ideally suited to use in regions close to the equator. The "SkyCarrier 1000" was presented for the first time at the Intersolar 2009 in Munich. Due to the sharp path taken by the sun in these regions, tracking of the "SkyCarrier" systems takes place over a horizontal axis. The especially low maintenance and sturdy construction of our solar systems resists wind loads up to hurricane force and clearly increases profitability for our customers.

Purchasing and Procurement

In the area of **purchasing and procurement**, GILDEMEISTER has consistently pursued a close cooperation and partnership with its suppliers. Expenditure on materials and purchased services decreased as a result of the reduced total work done to € 559.8 million (previous year € 1,066.3 million). Of this, € 463.4 million (previous year: € 864.6 million) was spent on raw materials and consumables (RHB). The **materials quota** fell to 48.9% (previous year: 54.5%), which was due primarily to intense follow-up negotiations on purchasing conditions and the initial synergies achieved from the cooperation with Mori Seiki. Overall, despite the difficult economic situation and the resulting reduced purchasing volume, we were able – as announced in the previous year – to achieve cost reductions of 5%. Our real net output ratio was 32.1% (previous year: 29,6%).

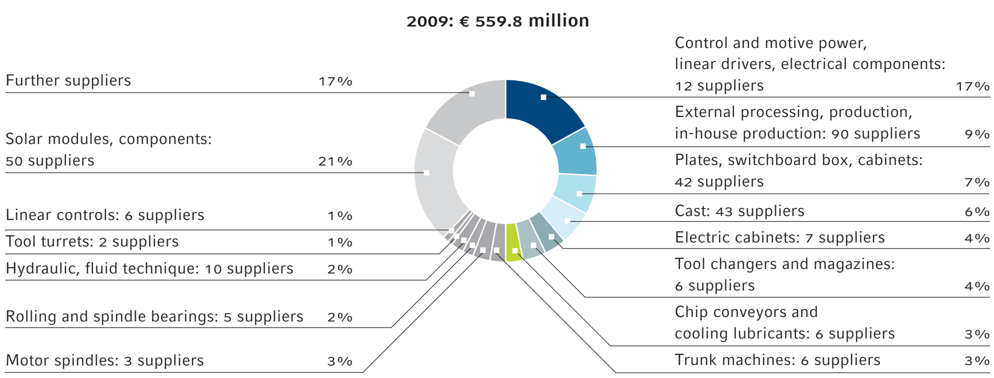
Cost reduction by 5% realised

In the reporting year we responded to the sharp decline in orders by fully utilising our own production capacity through targeting insourcing measures. The share of our TOP 50 suppliers in the purchasing volume shrank to 65% (previous year: 75%). We have consistently pursued our **Supplier Capital** strategy and focused strongly on globally operating suppliers in order to utilise their local advantages with respect to quality, costs and time.

Together with our suppliers, we are continually working on the **security of supply** and an **improvement in the quality** of input parts. The supplier cockpit, as a fundamental part of the group-wide workflow system front office, offers our suppliers advance notice of long-term supply and requirements, which we have implemented in a group-wide procurement project. This close collaboration and timely exchange of information facilitates a high degree of flexibility on both sides. We were able to take advantage of this in the reporting year and respond to customer wishes at short notice in a timely manner. Furthermore, we have further enhanced the *co*Supply© supply management system. Through a direct connection to the ERP system, important information, such as supplier assessments, can be automated and made available promptly on our **www.coSupply.de** communication platform. In this way an optimum basis is created for supplier talks and developing the supplier relationship. As a further component in the front office, quality management makes possible a detailed error analysis and leads to a clear rise in the quality of products and processes.

Materials group management combines the group-wide cooperation of the purchasing and technical departments. This allows us to optimise the specialist cooperation with our supply partners and also, together with them, we drive the standardisation and modernisation of our components and assembly units. In the reporting year we have also saved material costs through standardisation, for example through standard tool turrets, measuring systems and feed drives. The share of the individual materials groups in the purchasing volume can be seen in the following graphic:

SHARE OF MATERIALS GROUP IN PURCHASING VOLUME
in %



The area of non-production materials and services is increasingly becoming the focus of purchasing activities. Through far-reaching structural and process changes, we have laid the foundations for significant cost reduction in the coming years on the one hand and, on the other, have generated important short-term savings. In particular, we have significantly reduced the amount of costs in vehicle fleet and travel management through new concepts and stricter rules.

With the **integrated global sourcing strategy**, GILDEMEISTER has strengthened its presence in the Asian region. The further development of supplier relations in China and India was the focus of purchasing activities. Through a high share of **local content** – for example at our Shanghai location – we are able to reduce restocking times and stock commitments and increase our flexibility. We want to further increase our purchase volumes in the US dollar region and thus reduce the currency risk of customer payments in US dollars **(natural hedge)**.

Savings through bundling the purchasing volume

As a consequence of the cooperation with Mori Seiki, we have begun to identify suppliers for joint purchasing of components in the future. Through bundling the purchasing volume, we expect clear savings. We consider there to be additional potential in joint standardisation activities.

Production, Technology and Logistics

In the area of **production, technology and logistics**, we have optimised our capacity, designed production to be more flexible and consistently pushed measures to increase efficiency.

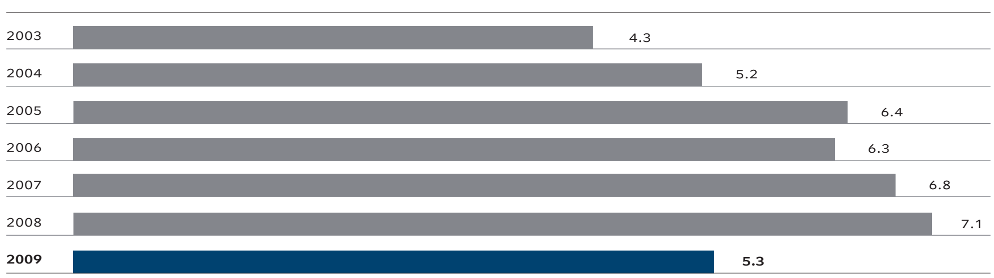
We have continuously reduced the **assembly processing times** of our machines through various activities. A reduction in assembly times, and lower order intake led to shorter delivery times. The extent of the order backlog and thus the average delivery time in the German machine tool industry is numbered to 6.3 months by the German Association of Machine Tool Builders (VDW); GILDEMEISTER was below this level at three months. In production and logistics we concentrated processes throughout the group. Thus we reduced the storage space by some 11,000 square metres and reduced the costs of rented storage space and materials handling by up to 35%.

GILDEMEISTER cooperates with Mori Seiki

In addition to production, the **cooperation** with Mori Seiki comprises also the development of machines. Through working together, we benefit both short- and long-term, in that we standardise selected components throughout. In addition to this improvement in quality, we can offer more options at better prices to our customers. Beyond the standardisation of components, we are working intensively on preparations for the production of the first machine types.

With the **PULLplus** value added system, we have continued to optimise processes in production and logistics. As a methodical part of the PULLplus systematic, ideas management opens up potential for improvement by placing our employees at the centre of the change activities. As our employees were present less time during the year, this led to a reduced number of improvement suggestions in comparison with the record level of the previous year. Thus 19,257 **improvement suggestions** were submitted (previous year: 26,538). With an average 5.3 improvement suggestions per employee, a high level could be maintained (previous year: 7.1). A drop in production performance at the plants contributed to a lower accumulative net benefit – use of suggestions less cost of implementation – of € 2.4 million (previous year: € 4.7 million). Through the high level of willingness of our employees to make an active contribution to the **process capital** of the group, GILDEMEISTER was able to reach once again three of the TOP 5 places in the industry ranking for machine building ranking of the German institute for business administration.

SUGGESTIONS FOR IMPROVEMENT AT PRODUCTION PLANTS
Number per employee



GILDEMEISTER leading in energy efficiency

The subject of **energy efficiency** is at the focus of GILDEMEISTER's activities long-term. As a committed member of the VDW, we support its **"Blue Competence"** campaign. Through close cooperation between the association and its members, a catalogue of measures was developed on the design of production processes that are environmentally friendly and save resources. In this way GILDEMEISTER facilitates environmentally appropriate production for its customers, taking the eco-balance of the entire production process into consideration. Our measures to **reduce CO_2 emissions** range from the energy-efficient design of our products to a sustainable improvement in our own machining and production areas. Automatic lighting systems, for example, reduce power consumption. Moreover, we are continuously working on renovating our building envelopes well-directed in order to achieve better insulation and thus to minimise energy consumption. A showpiece has been created as the Solar Center of Excellence in Würzburg, which has been designed for about 100 employees. The modern building is a reflection of the ecological focus of the enterprise. This is a zero energy building, which is fully supplied without any primary energy such as gas or oil.

Milling assocation newly created

GILDEMEISTER has re-organised its production plants and combined them in associations across all locations. Thus we react to a changed demand for capacity and shifting general frameworks as consequence of the economic crisis. The re-organised structures shall contribute to achieving further synergies, in particular this includes an increase in innovative power and the efficient manufacture of competitive products. The newly-created **Milling Association** brings together the core areas of expertise of DECKEL MAHO Pfronten GmbH and Sauer GmbH of "milling", "ultrasonics" and "lasering". The re-organisation includes the removal and integration of the SAUER GmbH site in Kempten into the existing structures at the plant in Pfronten. Through this re-organisation we are responding to changed demand in production capacity and changing conditions. The restructuring enables optimised assembly and, at the same time through closer cooperation, strengthens the partners' innovative power.

The highlight in the reporting year at DECKEL MAHO Pfronten was the start-up of assembly of the DMC 210 U. On this machine our customers from the aerospace industry cut their production parts again with enlarged traverses whilst retaining highest precision. The new machine is presented in the milling technology centre of expertise, the "Center of Excellence – Aerospace" directly at the production site.

Insourcing strengthens capacity utilisation

In the **Milling and Assembly Association**, DECKEL MAHO Seebach and FAMOT Pleszew Sp. z o.o. complement one another in the effective control and utilisation of the group's internal manufacturing capacity. Through the targeted insourcing of parts, we were able to increase our own **capacity utilisation** on the one hand and, on the other, to strengthen our vertical integration. In spring the production of the DMC V series will be relocated from the Geretsried site to Seebach and integrated in the assembly line. Thus a total of six difference machine types in a model mix pass along the assembly line. This reduces the production area by about 20% and production becomes both more flexible and distinctly more efficient.

Since 1 July 2009, GILDEMEISTER Drehmaschinen GmbH, GRAZIANO Tortona S.r.l. and GILDEMEISTER Italiana S.p.A. have combined their core expertise of ”turning” in the **Turning Association**. As a result of this re-organisation, we have relocated SACO S.p.A.'s capacity to GILDEMEISTER Italiana S.p.A. and thus integrated it in the Turning Association. Under a central management, synergies will be achieved jointly in all business areas. By extending the production scope of the new CTX **alpha- / beta- / gamma-series**, their intelligent modular system permits us to make greater use of standard parts. Through reducing the complexity of our machines, we are able to make **process improvements** in procurement, logistics and production. In October we started to relocate the new NEF series from Pleszew to Bielefeld, in order to make better use of the assembly capacity available. At the same time, we have continued to modernise our production. At our site in Tortona (Italy), we have put a new assembly and logistics hall into operation. The new layout of the factory improves material flow and makes more efficient production possible.

In the **Ecoline Association**, DMG Ecoline GmbH and DMG Shanghai Machine Tools combine and strengthen our activities in the field of entry level machines. Efficiency, innovative technology and a convincing price are the factors that have helped the ECOLINE machine series to become a worldwide success. The production of the ECOLINE series mainly takes place in Shanghai (China) and partly Pleszew (Poland). Since the second quarter, the third **flow production line** has been in operation at the Shanghai plant. It will be used to assemble, in a flexible model mix, the ECOLINE turning machines CTX 310 *eco* and CTX 510 *eco*, as well as the ECOLINE vertical machining centre DMC 635 V *eco* and DMC 1035 V *eco*. Assembly monitors ensure a high degree of flexibility and thus a more efficient closed quality loop. Modern cross-training in the continuous assembly – from pre-assembly of construction parts to final assembly of the machine – ensures the flexible deployment of our employees.

Flow assembly expanded in Shanghai

In the fast-growing business area of **renewable energy sources**, GILDEMEISTER is setting benchmarks worldwide with the “SunCarrier” and “SkyCarrier” products. The innovative tracking system for crystalline solar modules transforms solar power with photovoltaic aid into electrical power. With four major orders to a total value of € 158.4 milion, GILDEMEISTER has further expanded its position in the Italian solar market. In the future, a+f GmbH intends to share in the growing solar markets in the USA and India. With the opening of the North American branch in Denver and reference plants in the federal states of California and Nebraska, GILDEMEISTER is purposefully following its expansion plans. For support close to the market subsidiaries have also been set up in Italy and Spain with a+f Italia S.r.l. and AF SunCarrier Ibérica S.L., respectively. The highlight of the successful trade fair presentation at the Intersolar in Munich was the world premiere of the "SunCarrier 160". The tracking system, which is only four metres high and has been specially designed for countries with height restrictions, completes the "SunCarrier" product range. a+f GmbH already made use of the grand opening of its Solar Center of Excellence in Würzburg in January for the world premiere of the newly-developed "SkyCarrier". With a module surface area of 247 square metres, the "SkyCarrier" revolves on a horizontal axis. The new presentation extends the product range of the solar division and is primarily intended for use in regions close to the equator – in particular in the Middle East.

a+f extends product portfolio

Corporate Communication

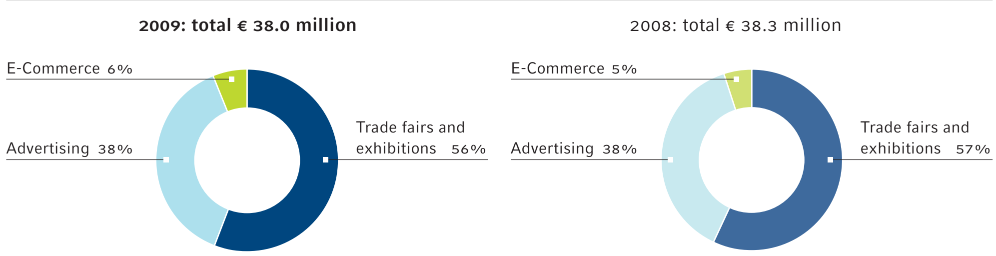
During the reporting year, GILDEMEISTER successfully continued its corporate communication. Our concept of a market and value-oriented corporate governance enabled a strong international presence. Our integrated corporate communication comprised many elements that complemented each other. Trade fairs and exhibitions formed a part, as did print information, advertising and our Internet presence, as well as investor and public relations activities. Remaining at the foreground of this were innovations and the rounding off of product lines. Activities in corporate design, sales, pricing and innovations policy were carried out in close coordination with marketing. Overall corporate communication played a role in better exploiting existing market potential within the generally difficult economic conditions. Expenses in the area of corporate communication amounted to € 38.0 million (previous year: € 38.3 million).

Trade fairs and exhibitions are of primary importance for GILDEMEISTER as marketing instruments as they allow our products to be experienced directly. In the reporting year, DMG was present at 89 trade fairs and exhibitions, both at home and abroad. It presented 786 turning, milling and ultrasonic / laser machines in operation. The total exhibition floor space at the trade fairs alone amounted to 12,502 square metres. Our strong presence was effective: in total we registered 57,064 visitors at the trade fairs and exhibitions, who represented 38,854 companies. At the events our customers ordered a total of 1,474 machines, thereby generating direct order intake of € 256.9 million. The trade fair highlight was the EMO in Milan, Italy. There we presented 41 exhibits, including

7 world premieres, over an area of 1,554 square metres. Positive signs also came from the trade fairs in Asia, for example from the CIMT in Beijing, China. The cost of trade fairs and exhibitions in the reporting year totalled € 21.2 million (previous year: € 21.7 million). This corresponds to 56% of total marketing and corporate communication expenses (previous year: 57%).

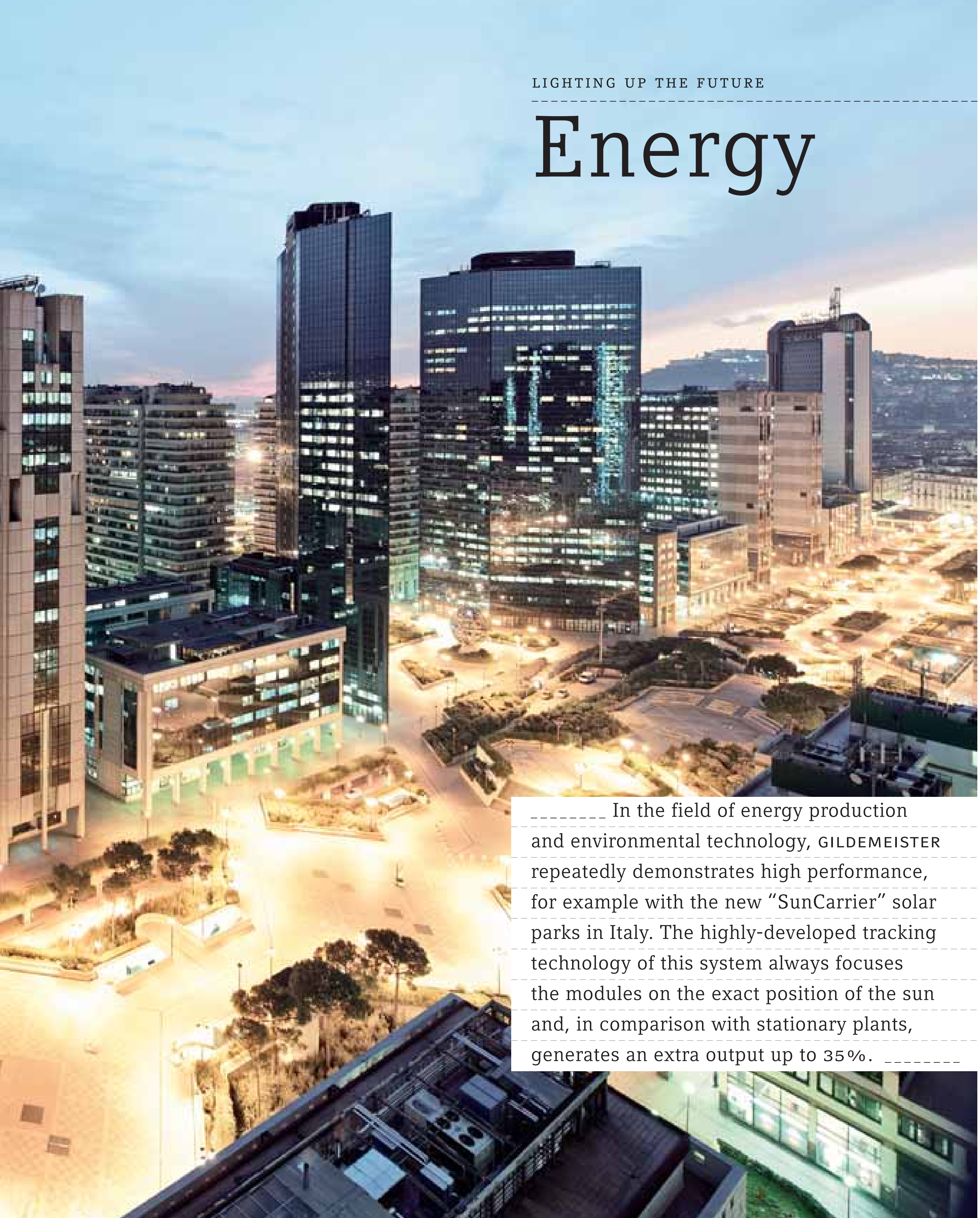
At GILDEMEISTER, **advertising** is primarily product marketing. Our customer journal is particularly well received. It was published twice in the reporting year, each time in 45 versions and 22 languages. The total circulation was 1.2 million pieces; in addition, the journal was accessed more than 20,000 times at our website. In general, our website is visited frequently. With a total of 2 million visitors, the access figures of the previous year were surpassed by 2.6%. The total number of brochures was 670,000; again, there is a growing trend of downloading the brochures from the Internet. Direct marketing with innovative product and event mailings continued in 2009 to great effect. The total distribution worldwide reached 2.9 million items, spread across 17 campaigns, and with 7,900 mailings daily. There were 22 different language versions for 55 countries. The CTX mailing totalled 330,000 addressees (29 versions in 16 languages), the ECOLINE mailing had 287,900 addressees (29 versions in 19 languages) and the year-end mailing 130,000 addressees (15 versions in eleven languages). A further priority again for GILDEMEISTER was trade press communications. Some 190 advertisements, published in 100 different trade magazines, informed readers in 23 countries about our products. GILDEMEISTER invested a total of € 14.6 million in product marketing (previous year: € 14.6 million). This represents 38% of marketing and corporate communication costs (previous year: 38%).

DISTRIBUTION OF CORPORATE COMMUNICATION COSTS AT THE GILDEMEISTER GROUP
in %



ENERGY INDUSTRY – CHALLENGES

- Maximum cost-effectiveness
- Highest reliability
- Future-oriented materials
- Extreme physical requirements
- 100% environmentally-friendly
- Effective constant operation



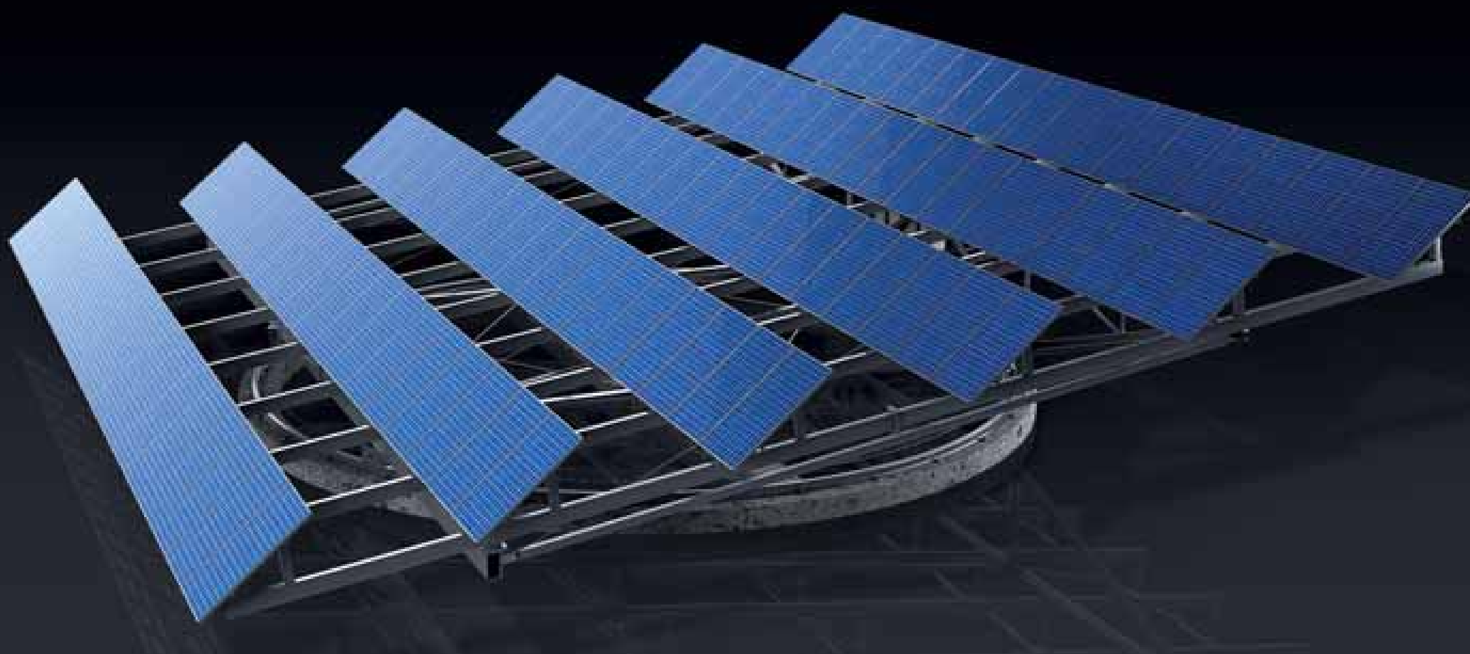
Energy

In the field of energy production and environmental technology, GILDEMEISTER repeatedly demonstrates high performance, for example with the new "SunCarrier" solar parks in Italy. The highly-developed tracking technology of this system always focuses the modules on the exact position of the sun and, in comparison with stationary plants, generates an extra output up to 35%.

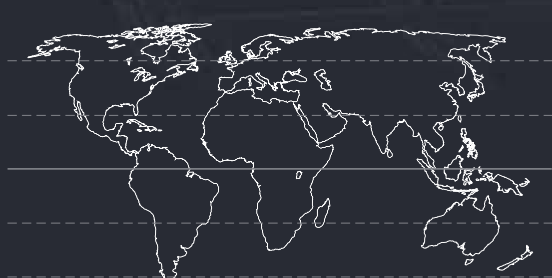
RENEWABLE ENERGY	EXPERTISE: GILDEMEISTER
Module surface area	up to 163.2 m^2
Output	up to 30 kWp
Construction height	ca. 4 metres
Deployment	as an individual installation or in solar parks

SUNCARRIER 160

Low construction height, reduced weight and optimum output through 40° tilt angles



OPTIMUM OPERATIONAL AREAS 25 – 55th line of latitude



RENEWABLE ENERGY	EXPERTISE: GILDEMEISTER
Module surface area	up to 287.5 m^2
Output	up to 53 kWp
Construction height	ca. 7.20 metres
Deployment	as an individual installation or in solar parks

SUNCARRIER 300

Up to 35% more output than standard systems through tracking over the vertical axis

New administrative centre Centro Direzionale, Naples (Italy)

Population of Italy: ca. 60 million

Annual electricity consumption: 320 billion kWh

Southern Italy: 6.8 hours of sunshine per day on an annual average

SUSTAINABLE TECHNOLOGY FOR FUTURE

Growth

________ Renewable energy sources are the raw materials of future generations. Anyone who knows how to exploit ideally this inexhaustible source of energy, will also have major reserves available to them in the future. With innovative technology, GILDEMEISTER is constantly setting the benchmark here. Because we consistently use our own "natural" resources: know-how, creativity and proximity to our customers. ________

Supplementary Report

Overall economic development followed a slight upwards trend in the first months of this year. The German machine tool industry showed no significant improvement at the start of the year.

Economic Development 2010

Overall economic development in the initial months of the current year was marked by a slight recovery, however, the consequences of the recession continued to have an effect. The Organisation for Economic Cooperation and Development (OECD) is expecting only slight momentum in the growth trend to develop initially. Positive stimulus continues to be expected from China.

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

Economic activity of the **German machine tool industry** did not show any significant improvement at the beginning of the year; sales revenues within the industry stagnated. The German machine tool builders' association (VDW) estimates order backlog to be 5.4 months.

Source: VDW (German Machine tool builders' association)

Corporate situation after the end of the reporting year

GILDEMEISTER has started the **financial year 2010** with cautious optimism. As anticipated, **order intake** is proceeding at a restrained level. In the first two months we could note increasing product interest in the machine tools business. The satisfactory order intake resulting from the first trade fairs of the season confirms our planning approach. As expected, **sales revenues** at the start of the year remained below the level of the comparative months of the previous year. The reason for this was the clear decrease in **order backlog** in the "Machine Tools" segment. The recovery in order intake will have a delayed effect over the course of the year on sales revenues. With regard to the result (EBT) losses could not be avoided at the beginning of the year. More information can be found in the "Forecast report" on page 86 ff.

An essential instrument of our marketing campaigns are trade fairs and exhibitions; here we recorded good results at the beginning of the year. In addition to the NORTEC in Hamburg, special highlights were the traditional in-house exhibition in Pfronten and the METAV in Dusseldorf. GILDEMEISTER displayed 12 exhibits at the **NORTEC** to a mainly northern German trade public. At the **traditional in-house exhibition** at DECKEL MAHO in Pfronten, GILDEMEISTER presented 55 exhibits over a surface area of 3,243 square metres.

In total, 3,913 national and international customers gathered information on the **innovations 2010**: the latest machining processes and automation solutions, as well as future-oriented software developments. An extensive programme of seminars on the energy, aerospace, automotive and medical industries met with great interest. Overall, from both industry events, GILDEMEISTER achieved order intake of € 58.5 million and 292 machines sold.

At the **METAV** in Dusseldorf, as the largest exhibitor we presented 21 innovative machines. Some 4,008 trade visitors gathered information on the latest machining processes, future-oriented industry solutions, software developments and on the energy-efficiency of the machines. In addition, we took part in the German Machine Tool Builders' (VDW) special exhibitions "Energy Efficiency", "Medical Technology" and "Young People". With order intake of € 29.3 million and 160 machines sold, GILDEMEISTER took positive stock of this important fair for the industry.

"Supplier-of-the-Year-Award" presented for the tenth time

The GILDEMEISTER **Suppliers' Day** took place on 2 February 2010 during the in-house exhibition in Pfronten. For the tenth time the "Supplier of the Year Award" was presented to the TOP suppliers invited in the categories of quality, supply performance, innovation and overall winner.

We have further intensified our **cooperation** with the Japanese machine tool builder, Mori Seiki. At the Bielefeld site with a turning-milling centre of Mori Seiki the first step was marked in complementing our product portfolios in the area of large machines. Labelled as a CTX delta TC, this machine makes it possible in the future to machine work-pieces of up to six metres in length.

In the first two months of the year we did not make any significant **investments**. In the first two months there were no changes in the **legal corporate structure** or in the organisational structure. Neither were any **shareholdings** acquired.

Opportunities and Risk Report

Using a systematic process of opportunities and risk management, GILDEMEISTER records and assesses opportunities and risks timely. This allows us to respond in an optimum manner and to initiate any measures necessary.

GILDEMEISTER is exposed to various opportunities and risks in its global corporate dealings. Our opportunities and risk management assists in recognising and evaluating these timely. The Executive Board and the Supervisory Board are informed regularly about the current risk position of the group and of the individual corporate areas. The opportunities and risk management system comprises five elements:

1. the company-specific Risk Management Manual, in which the system is defined,
2. a central Risk Management Representative, who is supported by a local Risk Representative from each group company, and who updates the risk management system (including software),
3. area-specific risk schedules, in which individual risks are quantitatively assessed and the risks are ranked, which is carried out by the value-at-risk as a measure of risk,
4. the general internal divisional and cross-divisional reporting structure of the group, which is governed by thresholds and 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.

MIS identifies individual opportunities

Opportunities management system: Opportunities are identified and analysed within the opportunities and risk management system by also simulating positive deviances from planning assumptions. The marketing information system (MIS) identifies significant individual opportunities, by collecting all customer data worldwide and evaluates market and competitor data. On this basis we measure, evaluate and check all sales and service activities, as well as all measures for effectiveness and cost-efficiency. This allows us to draw up short-term and medium-term forecasts on expected customer orders per machine type and sales region.

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

Specific industry opportunities: With the "SunCarrier" of a+f GmbH, GILDEMEISTER is sharing in the growing solar market. Increasing demand for power favour constant positive developments in this business area. We expect that global energy policies will continue to support renewable energy sources. We take advantage of market opportunities in global markets through our ECOLINE series. Moreover, we see opportunities in the automation of machine tools.

Strategic corporate opportunities present themselves to GILDEMEISTER through sustained leadership in innovations and technology, as well as by offering the leading product quality in the market. In order to further extend our leadership in innovations, we are constantly developing new products. In this way we create the potential to consistently extend our lead in markets. The MIS data also serves this purpose and provides us with a variety of **operative early indicators**, such as market potential or order intake. As a full-liner, we are consistently building upon our services and expanding our advanced technologies in ultrasonic and lasering technologies. We are increasingly regionalising production and, through this, exploit the opportunities that arise with respect to cost and value creation structures. The cooperation with Mori Seiki is advantageous for our international customers with regard to a more comprehensive product range and increases GILDEMEISTER's efficiency.

Cooperation with Mori Seiki creates important advantages

Performance effective opportunities arise by our actively involving our suppliers in the value added process and thus strengthened their supplier loyalty. Our worldwide direct sales and service network guarantees excellent service for our customers.

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

- Local risks are individual risks that the group companies are exposed to and that can be assessed locally.
- Central risks are risks that, at least in part, can only be assessed centrally. These include, for example, risks arising out of the group's financing.
- Group effects usually arise from consolidation requirements; these include, for example, the dual recording of risks, which has to be corrected accordingly.

Internal control system ensures accounting standards

The Internal Control System: The accounting-related internal control system is part of the overall internal control system (ICS) of the GILDEMEISTER group and is embedded in the risk management system throughout the enterprise. It includes not only the organisation, but also the control and monitoring structures to ensure the recording, preparation and evaluation of business accounting and its ultimate inclusion in the IFRS financial statements. The analyses carried out by risk management contribute to identifying risks that may have an effect on financial reporting and to introducing measures to minimise these risks. The accounting-related internal control system includes basic principles, procedures and measures to ensure that accounting principles are adhered to in group accounting. In this respect, we analyse new legislation, accounting standards and other communiqués with respect to their effect on the consolidated financial statements.

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

Increasing regional production

General economic risks: The economic slump on the world markets, as well as possible financing constraints on customer investment projects, led to a clear decline in order intake in machine tool building. The current crisis will also have a noticeable effect on business development at GILDEMEISTER in the financial year 2010. Due to the economic situation, there has been a strong increase in order cancellations and suspensions. The risk of bad debts has risen. Changes in the price of energy and raw materials, as well as delays in supplier services and supplier insolvencies, present further risks. Exchange rate fluctuations may affect the future competitive position (economic currency risk). We are counteracting this risk through international sourcing as well as a growing regionalisation of our production. Apart from cyclical developments, we consider damages from other economic risks to be unlikely.

Specific industry risks: We counteract risks arising out of economic developments with a technological lead and by focusing on our customers and markets. At the same time, GILDEMEISTER also clearly feels the restrained demand, in particular in the machine tools area. Competitors are operating in the difficult market environment with aggressive pricing policies. The major solar orders are subject to special approval procedures, which are costly and time-consuming abroad. The bureaucratic hurdles can cause time delays in the construction of solar plants and thus to a delay in sales revenues.

Corporate strategy risks: False estimates of future market development and erroneous technological development may be a risk. In research and development there is a risk of budget excesses, erroneous development, increased start-up costs for new products and a delay in introducing innovations onto the market. We counteract these risks through intensive monitoring of the market and competition, regular strategy discussions with customers and suppliers, a comprehensive trade fair presence in all important markets and through our MIS early warning system as well as through the development partnerships with customers, suppliers and universities. We consider the probability of occurrence of losses from corporate strategic risks to be slight.

Early warning system shows risks

We are subject to **procurement and purchasing risks** on the grounds of supplier shortfalls and quality problems. We reduce these risks through the standardisation of structural parts and components and through international sourcing. We have calculated potential losses from purchasing and procurements risks at about € 7 million with a low probability of occurrence.

Production risks are subject to continuous control by GILDEMEISTER through key figures on assembly and manufacturing progress, process time and continuity. In principle, as we avoid incalculable projects, we consider these risks to be manageable and controllable. Moreover, GILDEMEISTER uses numerous other quality and product-related indicators to monitor potential risks. These include, for example, the contribution margin per machine type and the turnover rate of raw materials and consumables, as well as of inventories. We strive to counteract plagiarism with our innovations-focused product strategy, by which we ensure a technological lead through our high speed of development. We have calculated any possible losses arising out of this at about € 13 million with a low probability of occurrence.

Personnel risks arise mainly from the fluctuation of employees in key positions. GILDEMEISTER limits these risks through intensive further training and management trainee programmes to increase employee qualifications and skills, as well as through performance-oriented remuneration with a profit-based incentive system, substitution arrangements, which should cushion any loss of key employees, and early succession planning. We counteract risks of dismissal by preventive forms of contract as well preferably through settlement with those making claims. On the basis of the above-mentioned measures, we consider the probability of occurrence of estimated damages in an amount of about € 5 million as slight.

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

Regular investments in hard- and software

Risks from operative tasks: As before, our products continue to be subjected to constant price competition in the international markets, which we are counteracting through cost reductions, improved manufacturing and procurement processes, and by optimising product start-ups.

Financial risks: Currency-related risks arise out of our international activities, which we safeguard within the scope of our currency strategy. For this purpose the hedging instruments permitted are specified in a currency guideline. These hedging instruments are used exclusively to safeguard underlying transactions but not for trading or speculative purposes. More detailed information in this respect is given in the Notes to the Consolidated Financial Statements on page 156 et seq. According to our evaluations, currency-related risks are low. The main funding components of GILDEMEISTER are syndicated loans, borrowers' notes and factoring programmes. Details of these can be in bound in the chapter "Financial position" on page 29 et seq. An interest rate change risk from the borrowers' notes does not exist as a fixed rate of interest agreement has been concluded through a hedging instrument (swap). All financing agreements include an agreement to comply with standard covenants (key figures); upon non-compliance with the covenants, the banks have the right to terminate the financing agreements. A counterparty risk exists with respect to the banks, who are partners to the agreement, in the hedging activities in the interest rate and currency area. We have carefully selected our banks. GILDEMEISTER's liquidity is sufficient. A risk could arise from the time occurrence of payments in the project business. The financial framework agreed can cover any possible time delays that are identifiable today. The risks from financing are controllable. Possible damages amount in theory to about € 31 million. The probability of occurrence of damages is slight.

Other risks: Legal risks may arise from the operational business, particularly possible warranty and third party liability claims of our customers with respect to the sale of machine tools and services. GILDEMEISTER strives to monitor these risks through efficient quality management; nevertheless, such claims of our customers cannot always be avoided. To maintain the resulting risks at a manageable and calculable level, GILDEMEISTER follows a policy of limiting the time period of our warranties and liabilities. We dispose of a modern contract management system and, moreover, regularly train our employees in the area of efficient contract agreement and risk minimisation. The value of deferred tax assets allocated to losses carried forward may be adversely impacted by changes in countries' national rates of tax. Overall, we have calculated any possible losses arising from tax risks at about € 7 million with a low probability of occurrence

Consistent liability and warranty regulations

Overall risk: Any possible deviations from the planned result are identified as risks. Factors that have already been taken into account in planning are therefore no longer shown as a risk. A summary addition of the main individual risks is not appropriate in our opinion as a simultaneous occurrence of hypothetical losses is improbable. Reciprocal effects, thus diversification or correlation effects of individual risks, are therefore taken into account through a risk simulation process ("Monte Carlo simulation"). With the overall risk position determined, the equity requirement is calculated, which, with a pre-defined probability (confidence level), can bear any possible losses related to risk. GILDEMEISTER's equity exceeds the defined overall risk position at a probability level of 97.5%. The risks are therefore manageable and from today's perspective the future of the GILDEMEISTER group as a going concern is not at risk. In view of the continuing tense economic situation, however, a new rise in risks cannot be excluded.

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:

SWOT ANALYSIS OF THE GILDEMEISTER GROUP

	Strengths	**Weaknesses**
company-specific	_ worldwide direct sales and services network to win market shares, _ comprehensive analysis of market and competition data by the marketing information system (MIS), _ consequent implementation of cost reduction measures, _ shareholding in the financing company MG Finance, _ consistent market and customer focus through highly-integrated multi-channel marketing, _ good starting point for advancing consolidation in the industry, _ large and diverse customer base, _ modern product range focused on customer needs, _ full range of products for turning and milling _ high innovative strength, _ customised range of services covering the entire life cycle of the machine (full-service supplier), _ profitable service business _ modular products / standard parts concept, _ high production flexibility, _ long-term and flexible financing measures	_ Dependency on the volatile machine tool market, _ global presence demands high level of management resources, _ high operational readiness costs through ensuring production capacity, _ low margin products as part of the full-liner range, _ high start-up costs for a large number of new products
	Opportunities	**Threats**
market-specific	_ business area of "renewable energy" with dynamic growth, _ targeted expansion of strategic partnerships and international alliances (Mori Seiki) _ offer of individual financing solutions for customers through MG Finance, _ meeting customer requirements for simple machines with high quality standards (ECO series), _ focusing on growth industries, such as aerospace and medical technology, _ targeted expansion of strategic partnerships and international alliances, _ leveraging market potential, _ global sourcing through tapping into new procurement markets, _ increasing legal stability in the growth markets in Asia and eastern Europe, _ currency-related price advantages, _ price premiums for additional benefits in new developments, _ larger area of application with new controls and software for comprehensive processing support, _ global presence to make fast use of local market opportunities	– complete change in the global economic environment due to international economic crisis and impact on order intake and order backlog, _ pricing pressure from competitors in the difficult market environment, _ shortfall in suppliers for key components due to economic crisis, _ economic instability in crisis regions, _ currency-related price risks, _ logistics and quality problems through global purchasing activities

Forecast Report

According to economic experts, the global economy will only recover slowly in the current financial year. Forecasts of the German Engineering Federation (VDMA) anticipate stagnation in machine production and the German Machine Tool Builders Association (VDW) is expecting a further global decline in production in the machine tool business.

Future business environment

In 2010, **entire economic development** will continue the recovery trend that has started, however, the momentum will remain moderate. The Institute for the World Economy (IfW) predicts an increase in global gross domestic product (GDP) of 3.4%; 3.4% is also expected for 2011. The business world is also making progress in the **USA**. However, restraint can still be observed in private consumption and in corporate investments. According to IfW estimates, gross domestic product in the USA in 2010 will grow by 2.0%. The clearest progress is expected in **Asia**. **China** will continue its role as the motor of the world economy. A rise in gross domestic product is forecast there of 10.4% (2010) and 9.5% (2011). **Japan**, on the other hand, will only advance painstakingly. The forecast for the current year is 1.7% and, for 2011, 1.1%. This applies, similarly, to **Europe**. In the eurozone countries, economic researchers are expecting gross domestic product to grow in 2010 by 0.8%. In 2011, acceleration to 1.6% is conceivable.

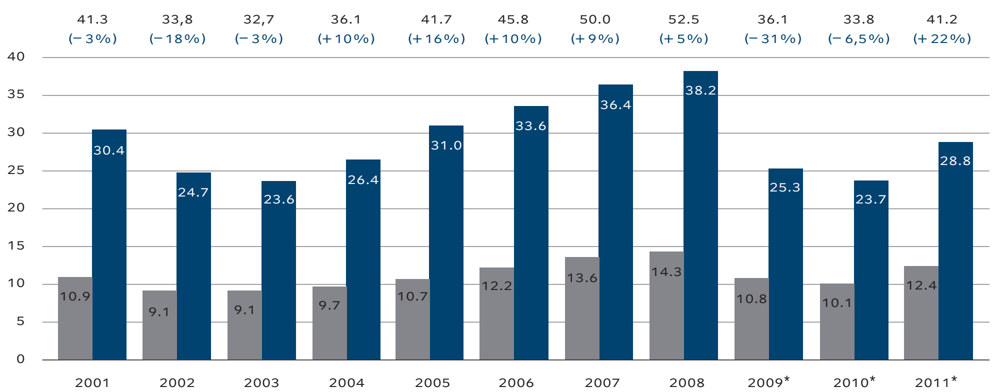
In **Germany**, growth is likewise assumed. The ifo Institute is expecting an increase in gross domestic product of 1.7% in the current year and 1.2% next year. In their autumn survey 2009 / 2010, the German Council of Economic Experts on the Assessment of Economic Trends held growth of 1.6% for 2010 to be likely. A marked deterioration in the unemployment situation is expected this year. This also applies to national debt; the fixed deficit ratio of 3.0 will be exceeded considerably according to all forecasts.

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

The **worldwide market for machine tools** in 2010 will again be declining. Current forecasts of the German machine tool builders' association (VDW) and the British economic research institute, Oxford Economics, expect an increase in **production output** and **market volume** of 6.5%. We are therefore expecting a decline in **sales revenues in the industry** of 6.5%. These estimates are based on the ongoing marked reluctance to invest worldwide and on continuing uncertainty as to whether and when the economic revival will commence. In 2011 the VDW expects worldwide growth in consumption of 22%. (Status: October 2009). At present no current statements on the **market potential** for machine tools are available. Nor are there any available on the development of the **industry's profitability**, or on **price and wage** trends.

GLOBAL CONUSMPTION OF MACHINE TOOLS (2001 – 2011)
in € billion

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



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

The **German machine tool industry** is starting the year 2010 with subdued expectations of the **industry's economy**: the VDW and the economic research institute, Oxford Economics, are expecting a decline of 10% in production and 25% in consumption.
On a medium-term basis, forecasts for the years 2010 to 2012 anticipate average growth in consumption of about 3.6% annually. The risk factors in this assumption are formed by continuing uncertainty as to economic development, the development of prices for raw materials and energy, changes in exchange rates and the prevailing political conditions.

Source: "Global Machine Tool Outlook", Oxford Economics

The **consolidation process** (mergers and acquisitions) in the machine tool industry will continue in 2010. 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 will overcome the coming challenges with its innovative product portfolio, which has been tailored to meet the requirements of its customers. The extent of the crisis, where even machine tool producers especially been pulled into its wake, is still ongoing. In the weak machine tool market worldwide, we intend to expand our customer base and to do better than the industry. We will further strengthen our competitive position with highly-innovative machines and services. Through our balanced industry mix, we are in a good position to be resistant. Many branches of industry rely on high-performance turning, milling, ultrasonic and laser machines from GILDEMEISTER. Over the course of the year we will gain momentum through market orientation and a product offensive. Solar technology has matured into a noteworthy business unit and thus to a firm part of our corporate strategy.

Growth potential in the BRIC countries

We consider the **future consumer markets** with growth potential to be primarily those of the BRIC countries. In Brazil, Russia, India and China we will further strengthen sales and cement our competitive position. We will concentrate our strengths and focus on growing sales sectors, such as aerospace, medical technology and renewable energy sources. In the financial year 2010, we plan to extend the cooperation with Mori Seiki in the field of sales and services to additional Asian markets, as well as to India and the USA. Together we want to achieve efficiency advantages for our customers.

With the aim of offering optimum financing solutions to our customers, we will develop tailor-made and country-specific financing together with Mori Seiki and the Japanese commercial enterprise, Mitsui & Co. Ltd through **MG Finance GmbH** from April 2010. In a first step, German and British customers can benefit from the financing on offers. In future we intend to extend this offer. In this way, the enterprises are responding to the financing needs of their customers.

The development of **order intake** is also marked at the start of the year by a generally subdued trend in demand. For the first quarter 2010, we are expecting growth in order intake in comparison with the previous year's quarter (€ 236.8 million). The satisfactory outcome of the NORTEC (Hamburg), our traditional in-house exhibition in Pfronten and the METAV (Dusseldorf) reflects growing investment interest in our machine tools. We are planning additional impetus from other scheduled worldwide industry highlights: The AMB in Germany, the BIMU in Italy, as well as the IMTS in America and the JIMTOF in Japan, will be trend-setting. In the machine tools business we are assuming that we will increase order intake percentually in double figures. The service business should likewise increase in double figures. Due to our full order books and limited sales capacity, we are planning order intake for the solar business below the previous year's figure. From today's perspective, we plan to achieve order intake for the whole year of about € 1.2 billion.

Industry highlights will be trend-setting

Sales revenues in the first six months of 2010 will be significantly below the previous year's level. The reason for this is the heavily reduced order backlog in "Machine Tools" segment. Here we are expecting a sustainable revival in the second half of the year at the earliest. Over the whole year, sales revenues in "Machine Tools" will be less than in the previous year. In "Services", we are expecting a rise in sales revenues. On the basis of the high order backlog, we expect to be able to double sales revenues in the solar business. Overall, for the financial year 2010, we are planning sales revenues of more than € 1.2 billion. More detailed statements for the current financial year are not possible at present.

In the first quarter, the **order backlog** will be lower than the previous year's figure of € 636.5 million; it will not increase significantly throughout financial year 2010.

For the first and the second quarter we are therefore expecting negative **results** (EBT). More exhaustive statements for the current financial year are not yet possible. Despite the continuing unfavourable global economic conditions, we are working on maintaining the enterprise's profitability. Essential influence factors on the profitability are the development of order intake and their price quality as well as the sales volume. We are working on the positive effects of the operative and structural measures initiated. With regard to the current difficult financial year 2010 we are not planning payment of a dividend.

We assume there will be a positive **free cash flow**. Our measures are focused on maintaining the **financing structures** in the financial year 2010 and keeping gearing at a stable level. A reduction in working capital also continues to be a priority.

For the existing financing, **capital costs** will rise compared to the previous year. The new sound financing framework makes it possible for us, according to today's estimates, to provide the necessary **liquidity** for business development in 2010, as well as having suitable leeway in the credit lines.

Our **value reporting** will also be an essential part of our value oriented business management in 2010. Given the business development actually claimed we expect a decline in ROCE. Capital costs (WACC) will increase.

In the financial year 2010, GILDEMEISTER will continue to follow a strategy of **investments**, in keeping with the economic development. First of all, we plan to further reduce investments in group companies in property, plant and equipment and intangible assets further to about € 25 million. The investment volume planned will be lower than the level of planned depreciation. The main focus of our investment activities – as in previous years – will be on continuous innovation of our products.

In the **"Machine Tools"** segment investments of about € 13.7 million are planned. In this area we will primarily invest in the development of new machine types, as well as in the provision of equipment necessary for production, models and operations. For the presentation of our high-precision traditional HSC (high-speed cutting) series, a new

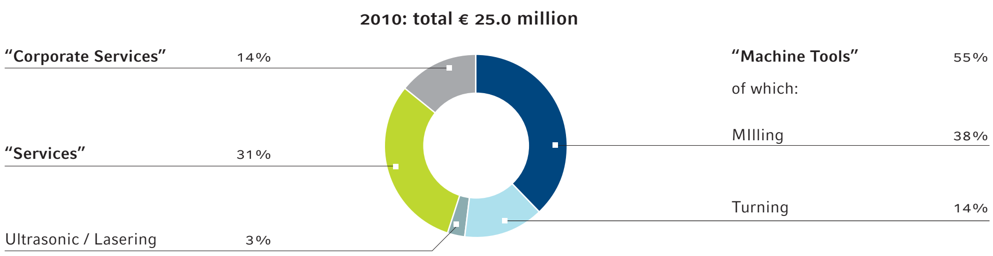
"Center of Excellence – HSC" – will be set up at the Geretsried site. We have allowed for investments of about € 7.8 million in the **"Services"** segment. With our cooperation partner Mori Seiki we will invest jointly in the building of a new technology centre in India. By this, we wish to extend our presence in this strong growing market. To ensure our quality of service, we will also equip our service employees with the most up-to-date equipment in financial year 2010. Through further enhancement of our DMG Spare Parts GmbH at the Geretsried site, an even better supply of spare parts and components should be ensured for our customers. In the **"Solar Technology"** division, investments of about € 1.3 million are planned to drive the further development of our solar products. Further investments are planned for equipping the subsidiary companies of a+f GmbH founded in 2009 in Italy, Spain and the USA.

Further optimisation of DMG Spare Parts

We are planning to make investments of about € 3.5 million in the **"Corporate Services"** segment. The focus is being placed on the optimisation of business processes and IT-systems. Moreover reinvestments at the Bielefeld site are planned.

The **investment structure** remains well-balanced. Both the production plants and the sales and services companies will be taken into account in investments. There are no identifiable risks arising out of planned investments according to current estimates.

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



The number of **employees** in financial year 2010 will be further reduced in direct dependency on the further business development. As of year-end, we actually plan to have employee numbers of about 5,200, of whom about 230 will be trainees. Through the use of short-time working, any surplus in personnel capacity will be eliminated. In particular, in the "Machine Tools" segment at the companies, short-time working was applied for early for financial year 2010; the use of qualification measures at the individual business units is constantly being reviewed and implemented according to need. Further measures will be agreed timely, depending on business development at the individual companies.

In the area of **research and development** we will continue to pursue our strategic targets and focal points in the financial year 2010. We will strengthen and expand our successful product lines through consistent further development. The expense volume for research and development is expected to be about € 41 million. In total, some 15% of the staff of the plants will be working in research and development to further extend our technological lead. Through the cooperation with the Japanese machine tool builder, Mori Seiki, further synergy effects will be generated in the area of research and development. In doing so, we will make use of reciprocal know-how and extend the existing product portfolio. The joint development of selected machine projects places us in a position to respond quickly to market trends and to offer our customers an extended innovative range of products. In addition to joint machine projects, we expect to achieve cost advantages from the group-wide standardisation of modules and from combining our purchasing volume.

Cooperation facilitates further synergy effects

We intend to further drive the alignment of our products with the requirements of specific future-oriented industries, such as medical technology, aerospace and energy technology. In the field of software, we will increase our efficiency and improve the ergonomics and user-friendliness of our machines. Focus is being placed on the development of future oriented user interfaces to further increase customer's benefit.

The **"Machine Tools" segment** will be strengthened by 17 innovations. The Turning Association will enlarge the range of products of the universal turning machines and open a new dimension in large piece machining within the successful CTX series. Within the Milling Association, DECKEL MAHO Pfronten is working on further expanding universal milling machines to large machining centres. DECKEL MAHO Seebach will complement the range of travelling column and universal milling machines. The Ecoline Association will optimise and extend the existing product range.

New dimension in large piece machining

In the **"Services" segment**, we will direct our activities towards the consistent development of the solutions on offer. This includes, among others, further enhancement of our central spare parts supply through DMG Spare Parts, the constant expansion of automation solutions at DMG AUTOMATION, and the further development of the tool management from DMG MICROSET.

In the growing business area of **renewable energies** we will further extend our market position. On the product side, the further development, cost optimisation and standardisation of our successful "SunCarrier" series lie at the core. Customer benefits should be increased through the introduction of a monitoring web portal for large solar plants.

Joint machines with Mori Seiki

In the area of **production, technology and logistics**, the improvement of and greater flexibility in production and logistics processes will be consistency pursued in the current financial year. Projects within the **cooperation** with Mori Seiki experience special attention. The close cooperation is reflected in the development and production in partnership of joint machine types. In this way we are responding to the growing requirements of the market. We are pursuing the goal of being able to offer a wide range of products with ideal pricing and a variety of options. The core components of the cooperation are combined production and the related standardised components. Activities in the production area are focused for GILDEMEISTER on the manufacture of joint entry level machines at the Shanghai plant in China.

Through the newly-created **production associations**, we have achieved further synergies in the financial year 2010. The **Milling Association** is concentrating on the final integration of the Kempten site in the existing structures in Pfronten. Through the extended cooperation, we are benefitting from the increased power of innovation and the rise in the competitive capability of our products. The consistent integration of business processes causes adaptation requirements in the spatial structures. The enlarged display area offers improved conditions for customer demonstrations and integrated applications technology.

In the **Milling and Assembly Association**, the group-wide assembly process will be made more flexible long-term and consolidated through integrative measures. In addition to extending the cooperation with FAMOT, special attention was paid to series start-up of the further developed DMF series at DECKEL MAHO.

Opening up of further saving potentials

An important goal of the **Turning Association** is opening up further savings potential, by optimising, standardising and integrating existing business processes. At GILDEMEISTER Drehmaschinen GmbH in Bielefeld, additionally the use of assembly monitors for digital provision and the interactive exchange of information are constantly being pushed. Extending the flow principle to the pre-assembly of the CTX gamma series ensures lower inventories, faster process times and more flexible production.

In the **"Services"** segment, the opening of the "Center of Excellence" for our HSC machines in Geretsried will be the highlight of 2010. It offers our customers – among others from the future-oriented industry of medical technology – extensive advice on the use of high-speed cutting precision centres (HSC). Moreover, work will be done in Geretsried on expanding the spare parts centre and thus on the constant improvement of logistics processes. The main focus of activities in the business unit of **renewable energies** is, on the one hand, extending the product range and, on the other, the continuous development of our service business. This year, a+f GmbH will erect further "SunCarrier" solar parks in Apulia, Italy. Based on the successful markets of Italy and Spain, we intend to also grow in other regions. Further important steps are the expansion of our market position in the USA, the Czech Republic and India. The product portfolio will be complemented with the further development of the "SunCarrier 160" – a design with environmentally-friendly bolted foundations for locations with environmental regulations on dismantling capability.

a+f GmbH opens new markets

In **procurement**, we will place a high priority on driving the expansion of our global sourcing activities. In this respect, we will extend our purchasing capacity in China and India, and will set up global sourcing teams at sites, which will comprise an employee from each of purchasing, quality management and construction. The teams will play a decisive role in decision-making within the scope of global sourcing. The primary aim of these measures is to make even greater use of the local advantages of our globally-operating suppliers with respect to quality, costs and performance.

The cooperation with Mori Seiki and the associated joint working together in the area of purchasing, makes it possible for us to tap into the Japanese market in a targeted and precise manner. By combining the purchasing volume from joint suppliers, we will achieve savings. We anticipate additional potential through the use of exchange rate advantages (natural hedge) from greater purchasing in the dollar region. At the same time, due to the shortage of production at raw materials suppliers, we are calculating a price increase of some 1% in the material groups heavily dependent on raw materials. Overall for the current year we are expecting savings of 3% related to the entire purchasing volume.

Close communication with our TOP suppliers

Further focus will be placed on close communication with our TOP suppliers. Through the fall in order backlog, the lead time for material disposition will be considerably shorter; only if our supply partners are extremely flexible we will be able to fulfil customer requirements that are given at short notice in good time. In addition, possible insolvencies in the supply chain require timely adjustment of capacity at our TOP suppliers.

In the logistics area we will realign procurement transport. In doing so, we will not only take account of changes in our supplier structure but also involve our suppliers actively in our procurement processes within the framework of workshops in the continuous improvement process (CIP), for example in optimising packaging. We will contract out outward transport constantly and for short periods, in order to take account of fast-changing conditions in the transport market.

For non-production materials, together with external partners, we will introduce an up-to-date trend-setting energy concept, which will ensure long-term low, stable energy prices for us. Furthermore, we will organise our fleet and travel management concept with more restrictions and adapt it to the growing structures in the enterprise. The IT-supported purchasing management will be further extended and we will focus on supplier and process development.

In financial year 2010, the **legal corporate structure (future group structure)** is not expected to change significantly.

General statement on future business development 2010 and 2011

The **financial year 2010** will put GILDEMEISTER to the test once again; we are facing another difficult year. We have reacted quickly and the adjustment measures carried out create a good starting position for the future. On the basis of the market forecasts relevant for us, in financial year 2010 we will aim to achieve a rise in order intake and sales revenues.

In “Machine Tools” we are expecting a difficult international market environment. Due to the decreased order backlog sales revenues will be declining once again. In “Services”, we are assuming a recovery in the market. For the solar business we expect a positive development. Due to the increasing importance we are planning a separate segmental reporting for this business unit as of first quarterly report 2010.

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