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ANNUAL REPORT 2007

technologies
for tomorrow.

GILDEMEISTER

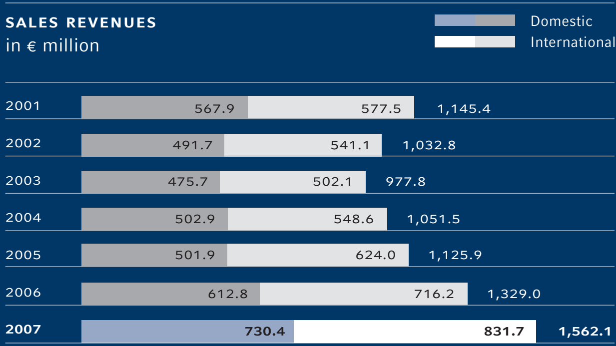
Key figures

The Consolidated Annual Financial Statements for GILDEMEISTER Aktiengesellschaft as at 31 December 2007 were prepared in accordance with the International Financial Reporting Standards (IFRS) – as they have to be applied in the European Union.

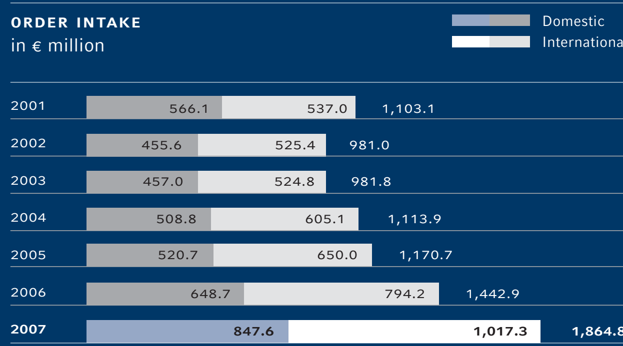
GILDEMEISTER GROUP	2007 € MILLION	2006 € MILLION	CHANGES € MILLION	2007 AGAINST 2006 %
Sales revenues				
Total	1,562.1	1,329.0	233.1	18
Domestic	730.4	612.8	117.6	19
International	831.7	716.2	115.5	16
% International	53	54		
Order intake				
Total	1,864.8	1,442.9	421.9	29
Domestic	847.5	648.7	198.8	31
International	1,017.3	794.2	223.1	28
% International	55	55		
Order backlog*				
Total	749.4	446.7	302.7	68
Domestic	273.1	156.0	117.1	75
International	476.3	290.7	185.6	64
% International	64	65		
Investments	53.1	37.2	15.9	43
Personnel costs	366.4	320.2	46.2	14
Personnel quota in %	22.9	24.1		
Employees	5,772	5,367	405	8
Plus trainees	226	191	35	18
Total employees*	5,998	5.558	440	8
EBITDA	158.2	115.1	43.1	37
EBIT	125.9	82.5	43.4	53
EBT	83.4	47.4	36.0	76
Annual profit	50.1	27.1	23.0	85

* Reporting date 31 December

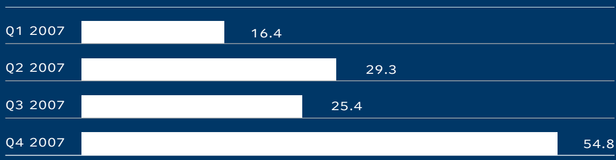
SALES REVENUES
in € million



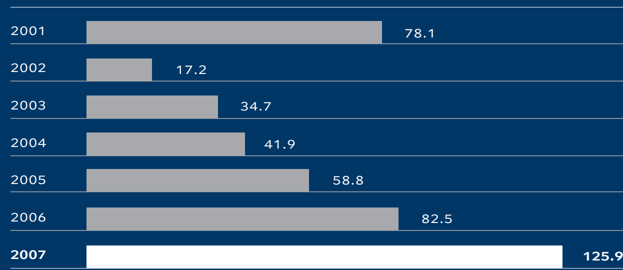
ORDER INTAKE
in € million



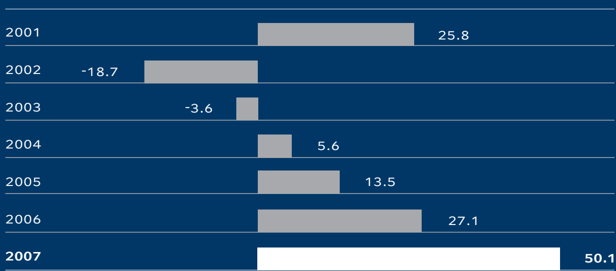
QUARTERLY RESULTS (EBIT)
in € million



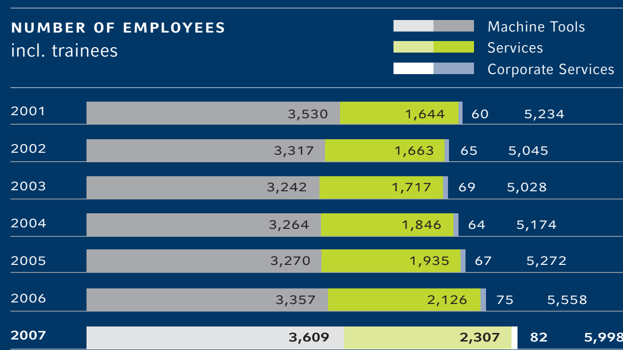
EBIT
in € million



ANNUAL RESULT
in € million



NUMBER OF EMPLOYEES
incl. trainees



technologies for tomorrow

This is GILDEMEISTER ’s motto for the year 2008. We intend to further expand our role as a technological trendsetter through our unabated strong focus on innovation. GILDEMEISTER has know-how that is unparalleled in the industry. Our core areas of expertise “turning“, “milling”, “ultrasonic” and “laser technology” are complemented by automation and software solutions for machine tools. In addition, we recognised the importance of service very early on and have developed into a full-service supplier; we will continue to promote this area in the future. All the divisions were profitable in the reporting year. We will continue our value and growth-oriented strategy in the financial year 2008. Our “Strategy 2011” is consistently directed towards profitable growth.

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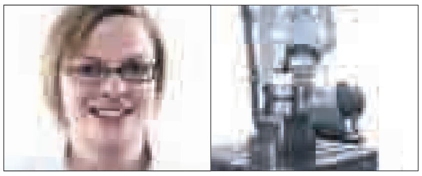


Consolidated Financial Statement of GILDEMEISTER Aktiengesellschaft

Group Overview

JANUARY

In this year, too, all signs point towards innovation: GILDEMEISTER presents a total of 19 new developments in the financial year 2007.

At the IMTEX in Bangalore, India, GILDEMEISTER receives about 2,000 industry trade visitors from January 18 to 24. The numbers having doubled within two years. The Indian growth market takes 9% per year of the machine tools delivered worldwide.

FEBRUARY

The exhibition at DECKEL MAHO in Pfronten from February 6 to 10, is a complete success once again. With 290 machines sold to a value of € 80.1 million, this traditional highlight at the start of the year surpasses expectations.

The market for machine tools in eastern Europe grows. To serve its customers locally, GILDEMEISTER has founded DMG Hungary with registered office in Budapest.

MARCH

At the exhibition of DECKEL MAHO in Seebach (March 20 to 24) the new assembly line is inaugurated. 24 machines will be simultaneously constructed on two assembly lines; this reduces production time on average by nine days.

In accordance with the Takeover Bids Directive Implementation Act (TUG) shareholders must notify the company of their share of voting rights in line with new notification thresholds. On March 5, GILDEMEISTER publishes the first obligatory notification pursuant to this amendment.

APRIL

At the CIMT in Beijing (China) from April 9 to 14, GILDEMEISTER sells 124 machines valued at € 12.2 million. This is double the order intake of the last CIMT.

MAY

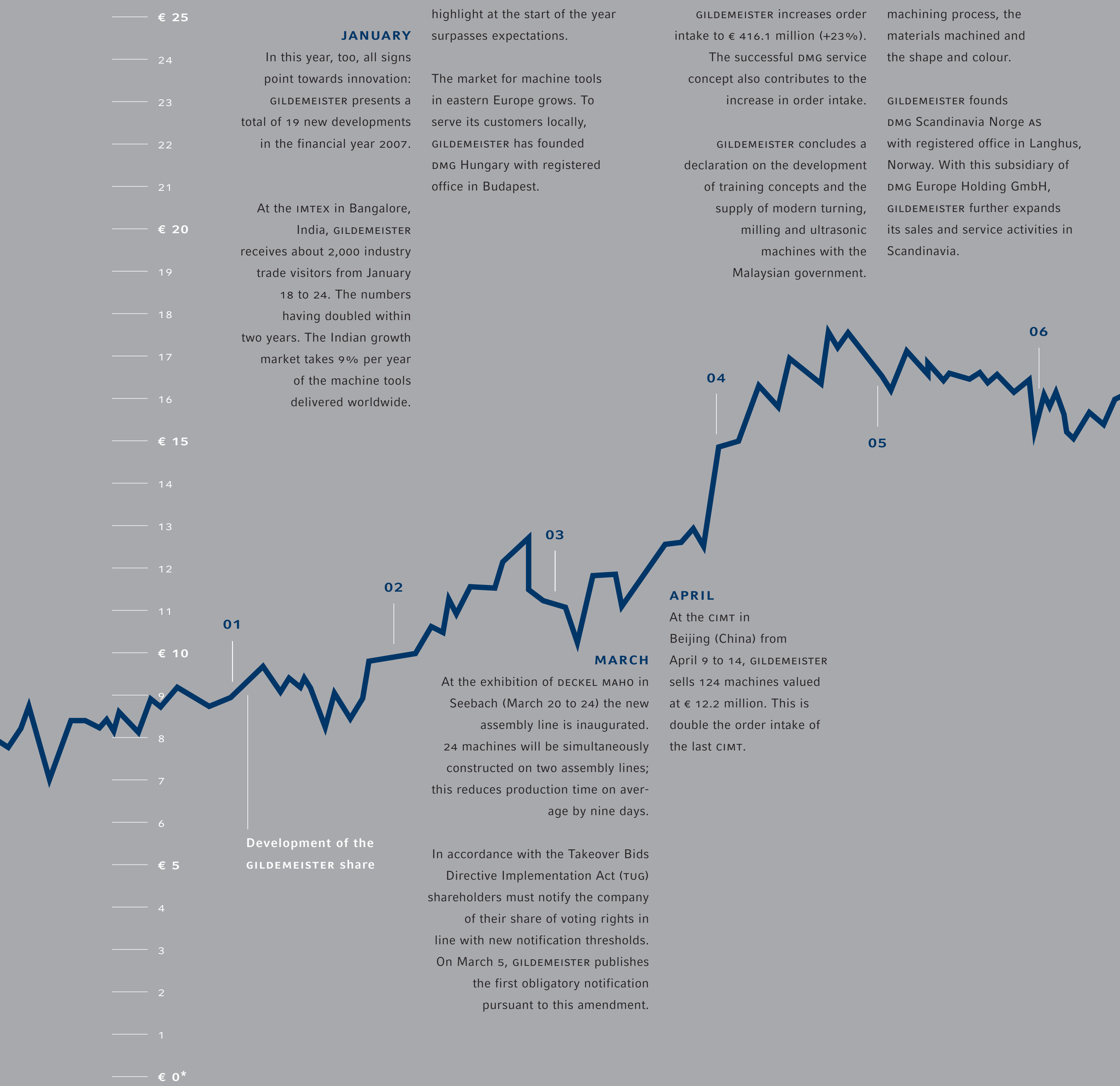
In the first quarter GILDEMEISTER increases order intake to € 416.1 million (+23%). The successful DMG service concept also contributes to the increase in order intake.

GILDEMEISTER concludes a declaration on the development of training concepts and the supply of modern turning, milling and ultrasonic machines with the Malaysian government.

JUNE

Mid-year GILDEMEISTER presents its trend-setting new machine design; it is unique in the industry for the transparency of the machining process, the materials machined and the shape and colour.

GILDEMEISTER founds DMG Scandinavia Norge AS with registered office in Langhus, Norway. With this subsidiary of DMG Europe Holding GmbH, GILDEMEISTER further expands its sales and service activities in Scandinavia.



Development of the GILDEMEISTER share

JULY

Mid-year GILDEMEISTER acquires the automation specialist, WKZ Werkzeugmaschinen GmbH, and expands its market position in automation.

GILDEMEISTER has successfully become established in the trend-setting business of solar technology. The SunCarrier is successfully presented for the first time at the Intersolar in Fribourg. a+f receives two major orders each for 150 SunCarriers at a total value of € 63.0 million.

AUGUST

Order intake, sales revenues and income rise again in the second quarter. The group reports annual profit of € 16.7 million as at June 30, 2007. Based on positive business development, GILDEMEISTER raises its targets for 2007.

At the start of the new training year, GILDEMEISTER takes on 71 trainees at the domestic companies. Once again the technology group makes it clear how important vocational training is and gives young people an entry into the modern working world.

SEPTEMBER

As the largest exhibitor at the EMO in Hanover, GILDEMEISTER presents 70 exhibits, 14 of which are world premières. With order intake of € 162.6 million and 526 machines sold, GILDEMEISTER achieves a positive result from the most important trade fair worldwide for machine tools.

GILDEMEISTER Aktiengesellschaft is awarded top place for its annual report 2006. In the annual rankings of manager magazin and the Handelsblatt, GILDEMEISTER takes first place in each.

OCTOBER

DMG Electronics GmbH starts business activities in Pfronten. Software development in the control environment, the co-ordination of control technology and the standardisation of electronics throughout the group are all combined in this one company.

GILDEMEISTER founds DMG Spare Parts GmbH with registered office in Geretsried. The company optimises spare parts logistics in the group to reduce delivery times and stocks worldwide.

On October 23, GILDEMEISTER holds a grand opening ceremony at FAMOT and DMG POLSKA in Pleszew, Poland, to inaugurate a new technology centre and a modern production hall. GILDEMEISTER has been continuously investing in the Polish site for years.

NOVEMBER

In the third quarter GILDEMEISTER achieves further growth in order intake, sales revenues and results. Order intake rises to € 1,403.7 million (+33%); sales revenues increase to € 1,074.9 million (+16%). Based on the positive business development, GILDEMEISTER raises its targets again for 2007.

DECEMBER

GILDEMEISTER moves up to the MDAX on December 12. The technology group achieves the move from the SDAX to the MDAX on the basis of its increase in market capitalisation and a higher trading volume on stock exchanges.

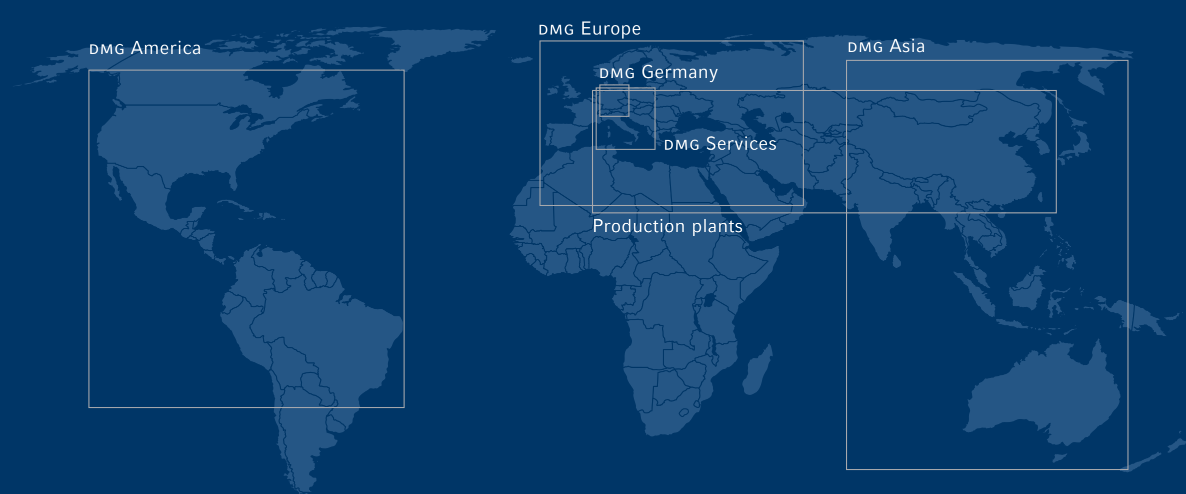
In the most successful year in the company's history, sales revenues reach € 1,562.1 million (+18%). Order intake of € 1,864.8 (+29%) exceeds the previous year. EBT rises to € 83.4 million (+76%). Group annual profit rises to € 50.1 million (+85%). GILDEMEISTER will propose to the Annual General Meeting on May 16, 2008 to distribute a 75% higher dividend of € 0.35 for the financial year 2007.

*market price of the GILDEMEISTER share in €

**Gain in value from the start of the year in %

GILDEMEISTER is the leading manufacturer of cutting machine tools worldwide. Our business activities comprise the "Machine Tools" and "Services" segments. "Corporate Services" constitute the groupwide holding functions. The "Machine Tools" segment forms the group's new machine business with the turning, milling, ultrasonic and laser technologies, as well as automation and controls. GILDEMEISTER combines its expertise in development and technology in ten production plants, as well as in DMG AUTOMATION and in DMG Electronics. The "Services" segment is operated by DMG Vertriebs und Service GmbH and its subsidiaries, which offer cross-functional services for all aspects of our machines as well as for the solar tracking systems from a+f. GILDEMEISTER is represented at 69 national and international sales and service locations in 34 countries. A total of 5,998 highly-motivated employees represent innovative machine technology, professional service and the latest software products.

GILDEMEISTER sites

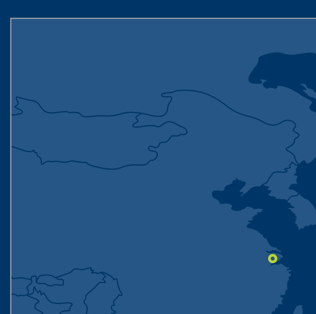


GILDEMEISTER Aktiengesellschaft; Bielefeld

Production plants (12)

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

Production plants



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

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

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

DMG Asia Shanghai, Singapore (17)			
DMG China	DMG Shanghai Co. Ltd. Shanghai	DMG Asia Pacific	DMG
	DMG Beijing Sales Office Beijing		DM
	DMG Guangdong Sales Office Guangdong		DMG
	DMG Chongqing Sales Office Chongqing		DMG
	DMG Shenyang Sales Office Shenyang		DMG
	DMG Xi'an Sales Office Xi'an		D
	DMG Nippon K.K. Yokohama, Nagoya		DMG M
	DMG India Pvt. Ltd. Bangalore, New Delhi		

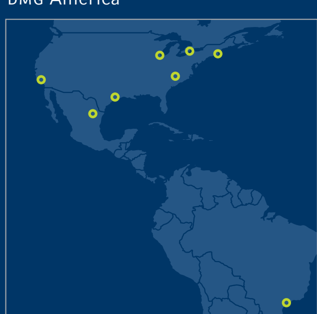
DMG Germany

DMG Europe

DMG Asia

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

DMG America



DMG Services

Simplified organisational structure according to management criteria (status: March 2008).
The legal corporate structure is presented in the Notes to the Consolidated Financial Statements on page 179 et seq.

* New group companies (8)

"The work of the Supervisory Board focuses on a sustained increase in the company's value."

Hans Henning Offen (67)

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

Report of the Supervisory Board

During the financial year 2007, the Supervisory Board has been intensively involved in the development of the group in the year under report and with strategic development up to the year 2011. Four meetings took place, two of which were held at our production sites in Seebach and Pleszew, where the Supervisory Board was updated locally. The Supervisory Board discussed strategic issues concerning corporate planning, business policy, business development, the risk status and risk management, with the Executive Board. Moreover, the Executive Board regularly prepared written, comprehensive and timely reports on any events of significant importance and on the development of key financial indicators. There were no conflicts of interest of members of the Supervisory Board in the reporting year.

Dr. jur. Klaus Kessler new member of the Supervisory Board

In the financial year 2007, there was one change to the composition of the Supervisory Board. By decision of the Local Court of Bielefeld of March 20, 2007, Dr. jur. Klaus Kessler was appointed to the Supervisory Board. The Annual General Meeting of Shareholders elected Dr. Kessler for one year on May 25, 2007. He replaces Ulrich Hocker, who resigned his position as of the end of 2006. This also caused a change in the committees: Prof. Dr.-Ing. Walter Kunerth was appointed as a member of the Personnel, Nomination and Remuneration Committee. He resigned his position as a member of the Finance and Auditing Committee as of November 27, 2007. Dr. jur. Klaus Kessler has replaced him and been elected as a new member. In 2008, new elections to the Supervisory Board, which occur every five years, will take place. Proposals for the shareholder representatives, who will be put forward for election at the Annual General Meeting of Shareholders, will be drawn up by the Nominations Committee, which was newly formed in the reporting year as a sub-committee of the Personnel, Nomination and Remuneration Committee, and whose meetings are not attended by employee representatives.

Annual Consolidated Financial Statement adopted

In the **annual accounts meeting of March 27, 2007** the Supervisory Board after own audit adopted the Annual Financial Statements and Management Report of GILDEMEISTER Aktiengesellschaft as at 31 December 2006. In addition, Dipl.-Kfm. Michael Welt was re-appointed as a member of the Executive Board of GILDEMEISTER Aktiengesellschaft for a further five years as of 1 January 2008; the resolution was passed unanimously. All twelve members of the Supervisory Board and the auditors attended this meeting.

Report of the Supervisory Board

In the second **Supervisory Board Meeting on May 24, 2007,** the 105th annual general meeting was prepared and the acquisition of WKZ Werkzeugmaschinen GmbH, Hüfingen, was approved unanimously. All members of the Supervisory Board were present at this meeting.

Amendment to the by-laws agreed

At the third **Supervisory Board Meeting on September 27, 2007,** the Supervisory Board was informed at length of the development and results of the EMO. Moreover, it was decided to carry out a further efficiency audit of the supervisory board of GILDEMEISTER Aktiengesellschaft. In my capacity as chairman of the Supervisory Board, I was entrusted with the handling of the audit. The audit takes place every two years pursuant to the German Corporate Governance Code (paragraph 5.6). In the course of the full implementation of the new recommendations of the German Corporate Governance Code, amendments to the by-laws for the Supervisory and Executive Boards were agreed at this meeting. The by-laws for the Supervisory Board now include the amended requirements for the formation of the Nomination Committee and for the focus of the Auditing Committee (Corporate Governance Code paragraphs 5.3.2 and 5.3.3). The by-laws for the Executive Board were amended to include definitions of responsibilities and the passing of resolutions (paragraph 4.2.1). Particular attention was paid to compliance management (paragraph 5.3.2). This includes all measures to ensure that operational processes within the group comply with international and national guidelines and legal requirements. Ten members of the Supervisory Board were present at this meeting.

Medium term corporate planning approved

The main item on the agenda for the **Planning Meeting on November 26 and 27, 2007,** was the future orientation of the group. The Supervisory Board closely analysed the corporate planning for 2008 to 2010; it unanimously approved the Executive Board's planning for the financial year 2008 and agreed to the planning for 2009 and 2010. Furthermore, the Supervisory Board agreed the priorities for the annual audit of accounts for the financial year 2007. All members of the Supervisory Board were present at this meeting.

A major part of the Supervisory Board's work is carried out by committees. In the financial year 2007, the Supervisory Board of GILDEMEISTER Aktiengesellschaft had four committees. **The Finance and Auditing Committee** met three times. The main items on the agenda were the audit of the Annual Financial Statements and the Annual Consolidated Financial Statements, the proposal regarding the assignment of the auditing mandate, the financial

and tax strategy, and corporate planning for 2008, 2009 and 2010. Further main items included risk management, details of the tax reform 2008 and the compliance management structure. At the meeting of November 26, 2007, the Finance and Auditing Committee agreed to propose the following priorities for the annual audit of the financial statements: The method and evaluation of stocks, as well as determining surcharge rates in manufacturing costs for finished and unfinished goods. The **Personnel, Nomination and Remuneration Committee** met three times to discuss, in particular, remuneration assessment and structure, general aspects regarding a change of control, as well as vocational and further training within the group. The **Technology and Development Committee** met four times. The main items on the agenda were technological trends, such as automation and simulation, the strategic alignment of the new eco machine series and the costs of manufacturing and warranties. At the meeting of September 27, the committee debated at length the results of the customer survey carried out at the EMO in Hanover on "purchasing decisions for machine tools". In the reporting year there was no need to call a meeting of the **Conciliation Committee**.

Corporate Governance Code recommendations fully met

On 31 December 2007, the Supervisory Board and Executive Board adopted the **2007 Declaration of Compliance** with the German Code of Corporate Governance. Once again GILDEMEISTER fulfilled all the recommendations. 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, is focused on a sustainable increase in the value of the company. The joint report on "Corporate Governance" can be found on pages 61 et seq.

The main topic of the **Strategy Meeting on January 29, 2008,** which all members of the Supervisory Board attended, was the GILDEMEISTER Strategy 2011 and hence the long-term group strategy. In addition, the Supervisory Board was informed in detail of the public prosecutor's investigations. The investigations are based on initial suspicions of possible infringement of tax and duties legislation and offences. The Supervisory Board has mandated an in-house investigation of the pending allegations by the internal audit / compliance as well as an independent investigation and assessment of the allegations by external. The Supervisory Board is not aware of any inappropriate behaviour on the part of any member of the Executive Board. In particular, the Supervisory Board declared its complete confidence in the chairman at the meeting of 29 January 2008.

Auditors issued unqualified opinion

Following its own audit, the Supervisory Board approved the Consolidated Annual Financial Statements and the Annual Financial Statements for the financial year 2007 at the **Accounts Meeting on March 11, 2008**. The Annual Financial Statements of GILDEMEISTER Aktiengesellschaft have therefore been certified in accordance with Section 172 of the German Companies Act (AktG). The Supervisory Board endorses the Executive Board's proposal for the appropriation of retained profits. The Executive Board prepared the Annual Financial Statements and the Management Report 2007 of GILDEMEISTER Aktiengesellschaft in accordance with the provisions of the German Commercial Code (HGB). The Consolidated Annual Financial Statements 2007 of GILDEMEISTER Aktiengesellschaft were prepared in accordance with the International Financial Reporting Standards (IFRS) – as to be applied in the European union. Pursuant to the exemption provision in Section 315A of the German Commercial Code (HBG), consolidated financial statements in accordance with the German Commercial Code were not prepared. The auditors, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin, issued an unqualified audit certificate for both financial statements and the management reports.

The Supervisory Board would like to thank the Executive Board and all employees for their extraordinary commitment and for their very successful work in the best year in the company's history.

Hans Henning Offen
Chairman of the Supervisory Board
Bielefeld, 11 March 2008

The Executive Board

"We lead our customers into a successful future with innovative technologies."

Dr. Rüdiger Kapitza (53)
has been the Chairman of the Executive Board since April 1996. He was appointed to the Board of GILDEMEISTER Aktiengesellschaft in 1992. Following his apprenticeship as a machinist and industrial clerk at GILDEMEISTER, he studied economics in Paderbon and obtained his doctorate at the Johannes Gutenberg University in Mainz. Dr. Rüdiger Kapitza is responsible for corporate strategy, key accounting, personnel, purchasing, auditing, compliance, as well as investor and public relations.

Günter Bachmann (56)
has been a member of the Executive Board since October 2006. The engineering graduate studied mechanical engineering at the Technical University of Chemnitz and started his professional career in 1974 in the production area at today's DECKEL MAHO Seebach GmbH in Thüringen. He was promoted to Head of Production in 1985 and in 1994 to Managing Director of the company. Günter Bachmann is responsible for technology and production.

Letter from the Chairman

Dear Shareholders,

The financial year 2007 was the most successful for GILDEMEISTER in its 137 years' history! From quarter to quarter we were able to raise our forecasts for order intake, sales revenues and income. We have thus further strengthened our position as the leading producer worldwide of cutting machine tools. The key figures are as follows: Order intake increased by 29% to € 1,864.8 million. Sales revenues of € 1,562.1 million surpassed the previous year by 18%. Once again we met our high standards of profitable growth: EBITDA reached € 158.2 million. EBIT rose to € 125.9 million. EBT increased by 76% to € 83.4 million. The group annual profit grew by 85% to € 50.1 million. Earnings per share increased to € 1.16. Over the course of the year, the share price has nearly doubled to achieve a value of € 18.50 (status: 28 Dec. 2007). Due to the increase in market capitalisation of 93% (€ 806.2 million at year-end), GILDEMEISTER moved up to the MDAX at 12 December 2007.

Dear shareholders, you are participating in this pleasant development: The Executive Board and the Supervisory Board will propose to the Annual General Meeting of Shareholders on 16 May 2008 that a dividend of € 0.35 per share will be distributed.

The success of the financial year 2007 has its basis in several value drivers. Both the "Machine Tools" and the "Services" segments have made a significant contribution to this. Worldwide sales of 6,758 machines (+802 compared to the previous year) confirm our successful and innovative product strategy. We were able to strengthen our leading position in nearly all the major markets despite fierce competition. In the area of renewable energy sources, we have successfully entered the market for solar technology. The SunCarrier – a sun tracking system with photovoltaic modules – is attracting brisk demand in Germany

	ORDER INTAKE in € million	SALES REVENUES in € million	EBT in € million	ANNUAL PROFIT in € million
2006	1,442.9	1,329.0	47.4	27.1
2007 Forecast Q3	> 1,800.0	> 1,500.0	> 75.8	> 43.3
2007	**1,864.8**	**1,562.1**	**83.4**	**50.1**

Letter from the Chairman

and, in particular, in Spain. With the solar technology, our subsidiary a+f was able to achieve order intake in the reporting year for the first time of € 81.5 million.

"technologies for tomorrow" – our motto for 2008 expresses GILDEMEISTER's self-image. With innovative technologies we are supporting our customers on their way to a successful future. The present business report is intended to provide you with an insight into the fascinating world of the machine tools of tomorrow. I am fully convinced that we are excellently positioned with our product mix. The importance of high-performance turning, milling, ultrasonic and laser machines will continue to grow all over the world. In the production of complex elements, our machine tools are a crucial factor for our customers in the dynamic industries – for example, those of aerospace, medical technology, automotive, mechanical engineering and precision engineering and optics. With the solar technology, we have undisputedly entered one of the most important global growth markets.

For 2008 I am expecting a clear boost from the international trade fairs an exhibitions for GILDEMEISTER. Above all, at the most important trade fair for the north American market – the IMTS in Chicago – and at the most important Japanese trade fair – the JIMTOF in Tokyo – we must strengthen GILDEMEISTER's position. We definitely still have some unsatisfied demand in both these markets. At the national level, the METAV in Dusseldorf and the AMB in Stuttgart will be trend-setting. In total, we will present 17 world innovations at 60 trade fairs and in-house exhibitions. They demonstrate our technical know-how and, in doing so, substantiate our claim to a sustained innovation leadership.

In 2008 we intend to grow in every market. In addition to the strong German market, we are paying particular attention to the Asian and eastern European growth regions. It is intended that every fifth machine tool will be sold in Asia and in eastern Europe every tenth. In the field of solar technology, our focus first is on the European markets, which have strong solar irradiation and attractive state development programmes. We face cyclical risks in the area of machine tools with our technological leadership, our comprehensive full range of service, our global presence and our successful business activities in solar technology. I also see considerable growth potential in the new group company, DMG Automation, which offers trend-setting automation solutions with robots for machine tools.

Our "Strategy 2011" is consistently directed towards profitable growth. Due to the successful course of business in the year 2007 we adjusted our strategic planning 2010 and raised the goals up to the year 2011. On the basis of the forecasts for the markets that are relevant for us, we are planning to achieve increase order intake of more than € 1.9 billion. Sales revenues should be increased to more than € 1.8 billion. Both figures should continue to grow up to the year 2011.

We once again aim at a double-digit percentage rise in EBT and the annual profit in the financial year 2008. With course of business as planned we will propose a further increase in the dividend to the Annual General Meeting of Shareholders 2009. We intend to increase sales profitability – as measured by EBT – to more than 6% in the financial year 2008 and even more up to the year 2011. With a medium-term increase in equity share by about 40%, we intend to make an important contribution to ensuring a secure future for the company. The return on capital employed (ROCE) should reach more than 18%. With these targets, we intend to increase the market value of GILDEMEISTER and thus also the shareholder value long-term into the future. We intend for growth to be primarily organic and to be driven by our own innovative strength. Acquisitions will be weighted if they can make a contribution to an increase in value of GILDEMEISTER.

GILDEMEISTER's positive development is based on the constructive and committed co-operation of all those involved. Therefore I would like – also on behalf of my colleagues on the Executive Board – to thank our employees, our customers, suppliers, investors and all our business partners.

Letter from the Chairman

The foundations of our performance capability are our highly-qualified and motivated employees. An open company culture that encourages initiative and performance promotes a high level of identification with GILDEMEISTER. We are proud that we can depend on our employees without any reservations. Our special thanks are once again due to you, our shareholders: Your trust is a pre-requirement for our work. My Executive Board colleagues and I will continue to lead GILDEMEISTER. with the goal of achieving long-term value added and in terms of good corporate governance. We will do everything to ensure that your company reports a high level of success in the future and thus remains a long-term attractive investment for you!

Yours sincerely,

Rüdiger Kapitza

Dr. Rüdiger Kapitza
Chairman of the Executive Board
Bielefeld, 11 March 2008

Dr. Thorsten Schmidt (35)
has been a member of the Executive Board since October 2006 and is responsible for sales and services. He holds a doctorate in economics from Münster University and has been working at GILDEMEISTER since January 2002. Within a very short space of time he took over management responsibility in sales and services in America and then in Asia. Before Dr. Thorsten Schmidt held the position of Managing Director of DMG Asia.

Michael Welt (53)
has been a member of the Executive Board since January 2003. He is responsible for controlling, finance, tax, financial statements and information technology (IT). He holds a degree in business administration and joined the group in 1996 as the Commercial Director of DECKEL MAHO Pfronten GmbH. He held various positions before joining GILDEMEISTER, most recently as a managing director in the field of machine and plant construction.

Business Environment

The worldwide economic revival continued dynamically in 2007. The strongest growth motor was China. A slight slowdown was noted in Japan and the USA economic cycle also lost momentum. Europe followed its path of stable growth; this also held true for the German economy.

Environment Overall Economic Development

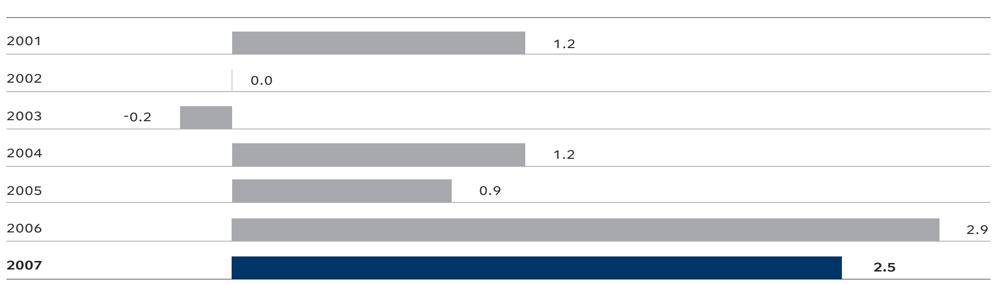
In the reporting year the **world economy** continued to follow a growth trend, whereby China kept on providing the main economic dynamics. In the USA it slowed down noticeably. The economic upturn in Europe remained strong; this also applied to the German economy. According to provisional calculations by the Institute for World Economics (IfW) at the University of Kiel, aggregate output rose globally by 5.1% (previous year: 5.4%).

In **Asia**, overall, the same distinctive pace of growth remained as in previous years. This applied to China, in particular, which thereby extended its influence on the world economy. In Japan the economy slowed down slightly over the course of the year. One of the main reasons for this was an easing off in corporate investments. According to the IfW, China's gross domestic product rose by 11.4% (previous year: 10.7%) and Japan's by 1.9% (previous year: 2.4%).

The economy in the **USA** slowed down. Primarily this was triggered by the real estate crisis and the problems this caused on the financial markets (subprime crisis). This slowed down consumer spending and capital investments. Over the year the American gross domestic product fell to 2.2% according to IfW calculations (previous year: 2.4%).

In **Europe** the basic dynamics of the economic cycle continued strongly. Every country benefited from this, albeit to different extents. Due to the higher capacity utilisation, capital investments increased overall and private consumer spending also rose. According to provisional figures, gross domestic product in the euro states rose by 2.6% (previous year: 2.8%).

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

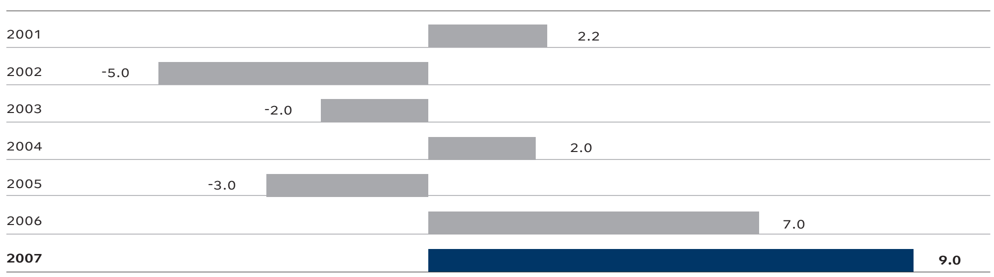


Source: Federal Statistical Office, Wiesbaden

Germany continued its strong economic revival although it did not completely reach the same level of growth as in the previous year. According to estimates of the Federal Statistical Office in Wiesbaden, gross domestic product rose by 2.5% (previous year: 2.9%). Again the driving force was exports with an increase of 8.8%. Domestic economic activity also showed itself to be in good shape: Investments in equipment rose by 8.4% (previous year: 8.3%). The employment situation also showed clear signs of recovery. In 2007 the average number of people registered unemployed was 3.8 million, some 700,000 less than the previous year. The number of company insolvencies fell by some 3,000 to approximately 27,000. Price increases quickened: The rate of inflation rose to 2.1% (previous year: 1.7%). The financial situation in public spending eased off further: A budget deficit of a mere 0.1% was far below the upper threshold of the Maastricht agreement.

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

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



Source: ifo Institute, Munich

The **exchange rate** of the currencies that are important for GILDEMEISTER was equally affected throughout the year by the strong development of the euro. The US dollar lost value against the euro. The dollar was at 0.75 euros on January 2, and fluctuated at this level in the first quarter. Following a low on April 25, 2007 of 0.73 euros, the foreign exchange rate initially developed laterally with a slight recovery trend. As a consequence of the financial crisis in the USA, the US currency became increasingly weaker as of June. Apart from a short recovery phase in August, the US dollar consistently following a downward trend to reach its lowest point against the euro since the introduction of the latter. On November 27, the US dollar was at 0.67 euros. This resulted in an average annual exchange rate of 0.73 euros (previous year: 0.79 euros). This led to our products becoming significantly more expensive in the dollar region. The Chinese yuan also came under pressure during the course of the year. On December 27, the exchange rate was at 10.65 yuan. The Japanese currency started 2007 at 157.76 yen. On March 5, it had its highest value of 150.93 yen. With the exception of a temporary rise in value in August, the yen also lost value and closed the year at 164.82 yen. The average annual exchange rate of 161.26 yen was thus clearly above that of the previous year (146.2 yen). So the yen showed a loss in value of 10% against the euro. The weaker yen gives our Japanese competitors a currency advantage. More detailed information on selected currencies can be found on page 18.

Development of the Machine Tool Industry

International development

The worldwide market for machine tools continued to develop positively in line with expectations. According to calculations of the German Machine Tool Builders' Association (VDW), **global output** was € 51.7 billion (previous year: € 47.8 billion); this represents an increase in output compared to the previous year of 8%. Japan maintained its worldwide leading position at € 10.6 billion; however, the Japanese market share of global output fell to 20% (previous year: 23%). Germany claimed second place with € 9.4 billion; this corresponds to 18% of all machine tools produced worldwide (previous year: 17%). Once again, this was followed by China with an output of € 7.4 billion or 14% of global output. Places four to seven were taken by Italy (output: € 5.3 billion; global output share: 10%), South Korea (€ 3.3 million; 6%), Taiwan (€ 3.2 billion; 6%) and the USA (€ 2.6 billion; 5%). Together these seven countries produced 79% of all machine tools (previous year: 81%).

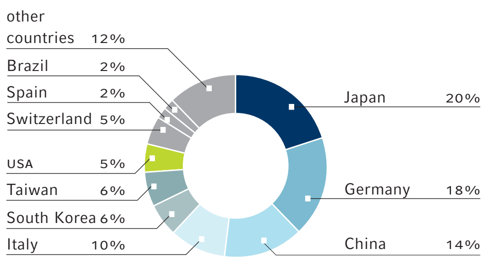
THE INDIVIDUAL WORLD REGIONS' SHARES IN INTERNATIONAL PRODUCTION*

in %	2007	2006
Shares in worldwide production		
Europe	44	43
(of which Germany)	(18)	(17)
Asian Pacific Region	48	48
(of which Japan)	(20)	(23)
(of which China)	(14)	(12)
America	8	9

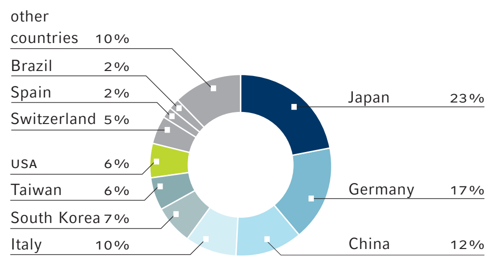
* provisional figures for 2007; revised values 2006

WORLDWIDE PRODUCTION OF MACHINE TOOLS*

2007: total € 51.7 billion



2006: total € 47,8 billion



* provisional figures for 2007; revised values 2006

In 2007, 57% of global production was exported (previous year: 56%). Germany confirmed its leading role in **exports** with an export share of 72% (previous year: 74%). Japan's exports were 53% (previous year: 48%). Together both countries accounted for 42% by value of world (previous year: 43%); these were followed by Italy (11%), Taiwan, Switzerland, South Korea and the USA each with a global export share of less than 10%.

Parallel to global output, according to calculations of the VDW, **global consumption** also rose by 8% to € 51.7 billion (previous year: € 47.8 billion). A comparison of the development of global consumption over the last ten years is presented in the chapter "Forecast report" on page 101. Once again, China was the largest market worldwide at € 10.9 billion, where 21% of all machine tools were purchased (previous year: 21%). It was followed at a noticeable distance by Japan (€ 5.6 billion). Third place was taken by Germany (€ 5.4 billion), followed closely by the USA (€ 4.5 billion). The places five to seven go to Italy (€ 3.7 billion), South Korea (€ 3.2 billion) and Taiwan (€ 1.6 billion). These seven industrial nations account for 67% of the global consumption of machine tools (previous year: 70%). India increased its importance as a sales market and was positioned before Brazil in eighth place.

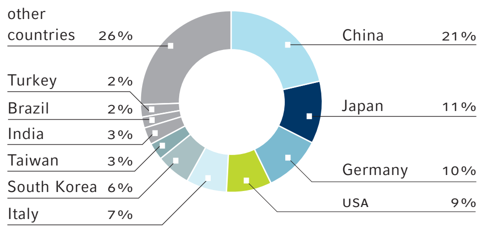
THE INDIVIDUAL WORLD REGIONS' SHARE INTERNATIONAL CONSUMPTION*

in %	2007	2006
Shares in worldwide consumption		
Europe	36	33
(of which Germany)	(10)	(9)
Asian Pacific Region	49	50
(of which Japan)	(11)	(13)
(of which China)	(21)	(21)
America	15	17

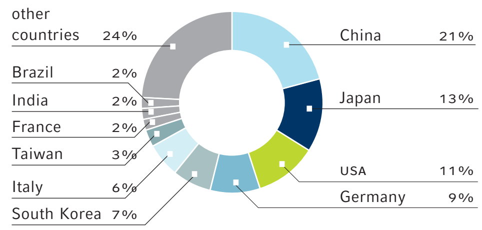
* provisional figures for 2007; revised values 2006

WORLDWIDE CONCUMPTION OF MACHINE TOOLS*

2007: total € 51.7 billion



2006: total € 47.8 billion



* provisional figures for 2007; revised values 2006

With respect to the **import** of machine tools, China recorded a decline of 13%, how-ever, it still took first place for the sixth year in a row with € 4.7 billion (previous year: € 5.4 billion). The USA reduced its imports from € 3.6 billion to € 3.1 billion (-14%). Together the two largest import nations consumed 30% of all machine tool imports (previous year: 32%). Based on total consumption, China's import share decreased by 11 percentage points to 43% (previous year: 54%). Whereas the USA had to import 69% of its consumption in 2007 (previous year: 70%). Germany's import share amounted to 50% (previous year: 49%). This was followed by Italy with an import share of 40% (previous year: 39%) and India with 84% (previous year: 80%).

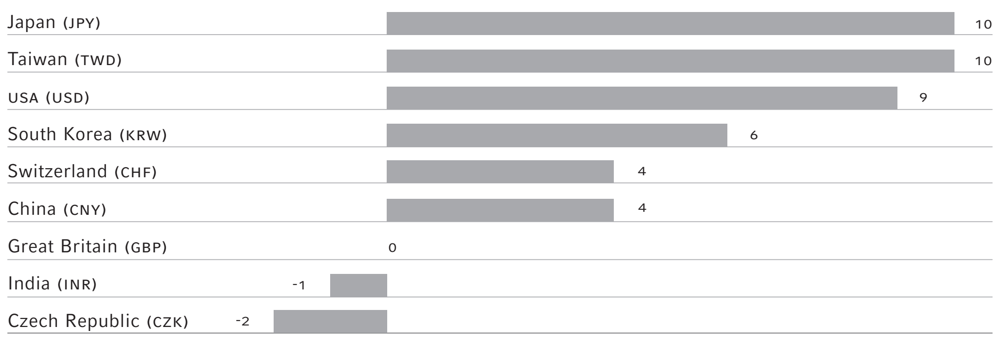
Sources: The basis of the world machine tool statistics is the data published by the VDW (the German Machine Tool Builders' Association) (excluding parts and accessories). This data is requested by the national producers' associations of each individual country and is based on the current actual values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

Explanatory notes on the problems of exchange rates

World Machine Tools Statistics

The world machine tool statistics of the VDW are shown in euros and reflect development within the eurozone, therefore without any exchange rate effects. However, with respect to third currencies, such as the US dollar, yuan or yen, exchange rate distortions remain relevant. As the chart of the changes in the euro with respect to selected currencies shows, for some currencies the shifts in purchasing power compared to 2006 were quite significant. Due to an upward revaluation of 10% against the previous year, the rise in price of the euro was felt mostly by customers from Japan and Taiwan. Compared to the previous year, the US dollar lost 9% in value. The strong euro placed a heavy burden on products that were invoiced in dollars. This was followed by the Korean Won (6%), the Swiss franc (4%) and the Chinese Renminbi (4%). No exchange rate effects, or only very slight effects, arose for Great Britain (±0%),as well as for India (-1%) and the Czech Republic (-2%).

CHANGES IN THE EURO 2007 COMPARED TO 2006 AGAINST EACH NATIONAL CURRENCY
in %

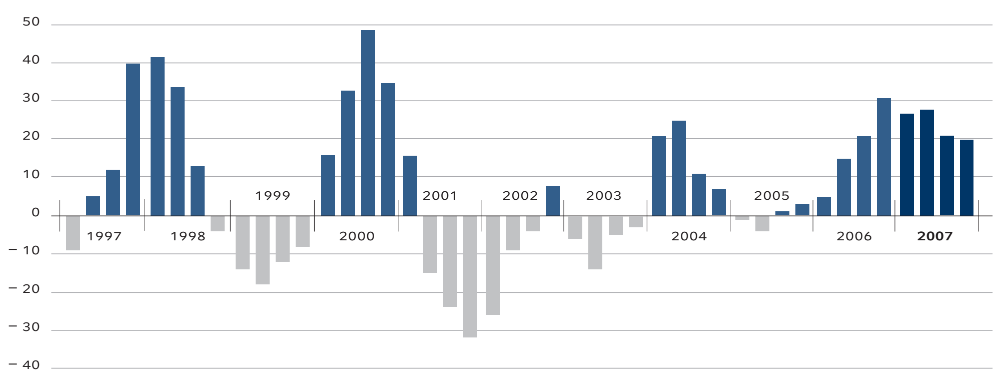


Source: German Central Bank

German Machine Tool Industry

In 2007 the German machine tool industry recorded a rise in order intake, increased production and a growth in exports. **Incoming orders** were up 29% at € 16.0 billion (previous year: € 12.4 billion). Of these, domestic demand at 33% (previous year: 27%) was even slightly stronger than international demand. International demand rose by 26% (previous year: 29%). The business climate index of the Munich-based ifo Institute reflected this positive development trend. According to this survey, the main industrial consumers (mechanical engineering, automotive manufacturing and electrical engineering) showed a high assessment value.

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

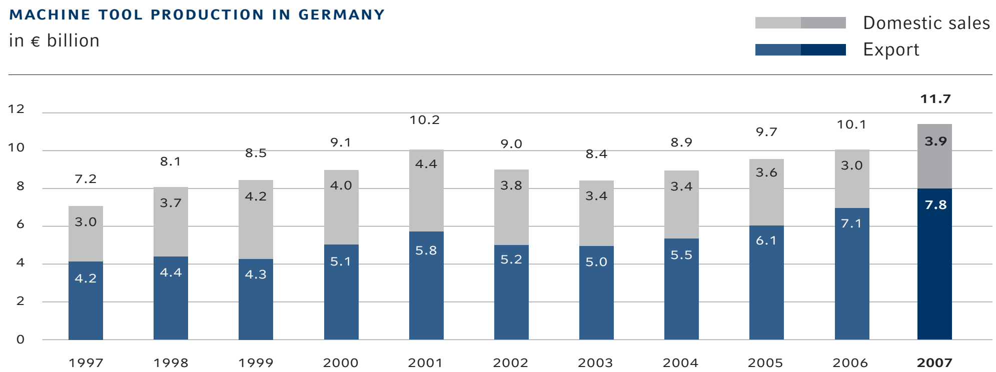


* previous year's figures partly adjusted

Production rose by 16% to € 12.5 billion (previous year: € 10.8 billion). Thus the German machine tool producers exceeded the previous record value from 2001 (€ 10.2 billion).

Exports comprised machines to a value of € 7.8 billion. This exceeded exports in 2006 by 10% or € 0.7 billion with an export share of 67% (previous year: 70%). China became established as the most important sales market for German machine tools at € 950.5 million. This corresponds to 12% of German exports (previous year: 12%). This is followed by the USA, where machines to a value of € 636.2 million were delivered (previous year: € 792.9 million). The decrease of 20% was primarily due to the weak dollar, which reduced demand for German machines. Italy replaced Austria as the third most important export market, taking delivery of machines to a value of € 449.1 million (+29%) (export share: 6%). Compared to the previous year, exports to Mexico (+63%), Romania (+61%), India (+52%), Belgium/Luxembourg (+46%), Hungary and Poland (each +38%) as well as to Russia and Denmark (each +34%) clearly increased.

MACHINE TOOL PRODUCTION IN GERMANY
in € billion



Domestic consumption reached € 7.3 billion and rose by € 1.7 billion or 29% compared to the previous year (€ 5.6 billion). With an import share of 32%, nearly every third machine tool imported came from Switzerland. This was followed by Japan, Italy, the USA and the Czech Republic. In the top 15 imports from South Korea and Spain each at 58% were strongest, followed by China (+53%) and Turkey (+50%). Machine tool **imports** rose by € 0.7 billion or 27% to € 3.3 billion (previous year: € 2.6 billion). German machine tools to a value of € 3.9 billion were sold domestically. Hence more than half of the domestic consumption has been produced in Germany, too.

Capacity utilisation at German machine tool factories at the start of the year amounted to 93% (previous year: 90%). Utilisation rose in summer to 95% (previous year: 92%) whilst at year-end it fell again slightly to 93% (previous year: 90%). At the start of the year capacity utilisation of producers of cutting machine tools amounted to 95% (previous year: 93%), in September to 95% (previous year: 92%) and at the end of the year was again 97% (previous year: 93%). Therewith German machine tool producers are nearly working to capacity.

The extent of the **order backlog** rose consistently during the year and was an average of 7.5 months (previous year: 6.4 months). The extent of order backlog is based on calculations and represents an average value for the industry. It can only be viewed as a rough indication of the actual order backlog as it takes into account not only standard machines with very short delivery periods but also special machines and non-cutting machine tools with long delivery periods.

The number of **employees** at German machine tool companies remained virtually at 66,369 (previous year: 65,044) in average.

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

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

General Statement on the Business Environment

Through its extensive international business GILDEMEISTER was able to participate in the growth in the world economy and world markets for machine tools. Our business development usually lags behind overall economic development. As a leading producer of cutting machine tools, we have increased our **world market share** in the market sectors "turning and milling" to 6.5% (previous year: 5.4%). We have further strengthened our **competitive position** in all regions. In doing so, we had to contend on the one hand with strong international competition and, on the other, on a loss of purchasing power caused by the exchange rate in our most important sales markets, namely the USA, Japan and China. In Germany and Europe we have noticeably increased our order intake. An animated course of business further strengthened our competitive position. In America orders have developed at the same level. In Asia our growth has been higher than average (+17%).

Dominic Schindler

Innovative creative. Born on April 8, 1981, graduate of the Parsons School of Design in Paris and New York, Harvard Business School in Cambridge. Dominic Schindler began his career as a product-designer for Wally Yachts in Monaco. Following this, he founded his own company and has been developing products for GILDEMEISTER since 2006.

ERGONOMIC MACHINE TOOLS:

"Tomorrow's design arises out of the perfect harmony between technology and ergonomics."

An ergonomic design can noticeably reduce physical strain.

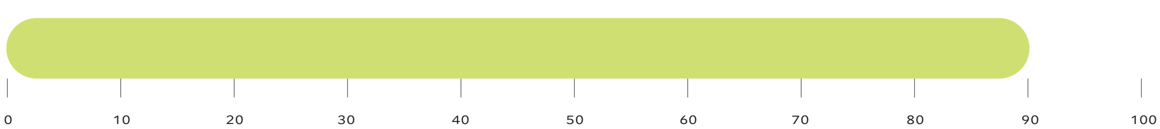
0 10 20 30 40 50 60 70 80 90 100

As a leader in technology we are always thinking of people and design machines for the user. The results are greater ergonomic comfort through 40% more transparency in the workspace, a large 19" screen and adjustable keyboard angles.

TECHNOLOGIES FOR TOMORROW:

"We are already the leader in advanced technological development with ergonomic features and are able to substantially reduce physical strain for the user."

Due to the new DMG ERGO*line*® Control the physical strain is reduced by up to 90%.



Results of Operations, Net Worth and Financial Position

GILDEMEISTER has achieved its targets for the financial year 2007 in line with plans. Sales revenues rose to € 1,562.1 million, we have completely met our prediction of more than € 1.5 billion. With an order intake of € 1,864.8 million we have also achieved our target of more than € 1.8 billion. EBT rose to € 83.4 million and annual profits increased to € 50.1 million; thus we have achieved our forecasted increase of more than 60%.

Sales Revenues

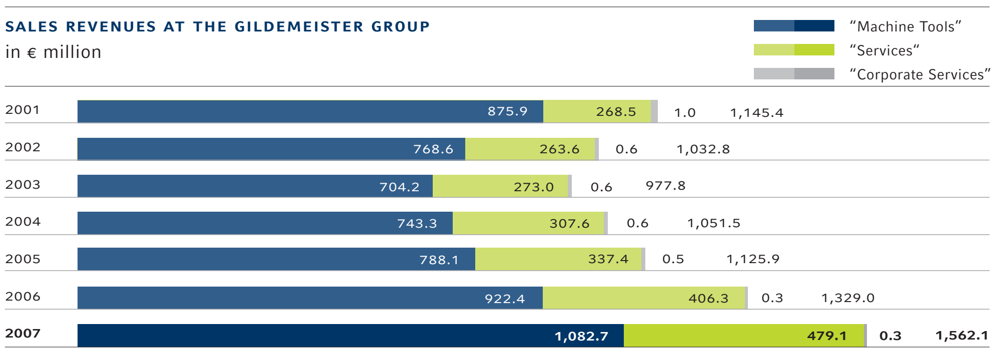
The worldwide rise in demand for machine tools had a positive impact on our development of sales. This was apparent in a greater demand for complex technological machines, which require a longer processing time in production. At the same time, we were also able to achieve a clear increase in the numbers of our standard machines. Our customer base is widely spread across all industries and is very balanced; there is no strong dependency on any one consumer industry. Sales revenues of € 1,562.1 million again exceeded the level reached in the previous year (€ 1,329.0 million); this represents an increase of 18% or € 233.1 million. In the fourth quarter sales revenues reached € 487.2 million and were thus 20% above the same period in the previous year (€ 404.8 million).

Over the whole year domestic sales revenues rose by 19% to € 730.4 million; foreign sales revenues increased by 16% to € 831.7 million. The export share amounted to 53% (previous year: 54%).

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

More detailed information on sales revenue in each segment is given on page 42 et seq.

SALES REVENUES AT THE GILDEMEISTER GROUP
in € million



Order Intake

GILDEMEISTER achieved order intake of € 1,864.8 million (previous year: € 1,442.9 million). This exceeded the previous year's record by a further € 421.9 million or 29%. In the fourth quarter, order intake rose to € 77.0 million or 20% to € 461.1 million (previous year's quarter: € 384.1 million).

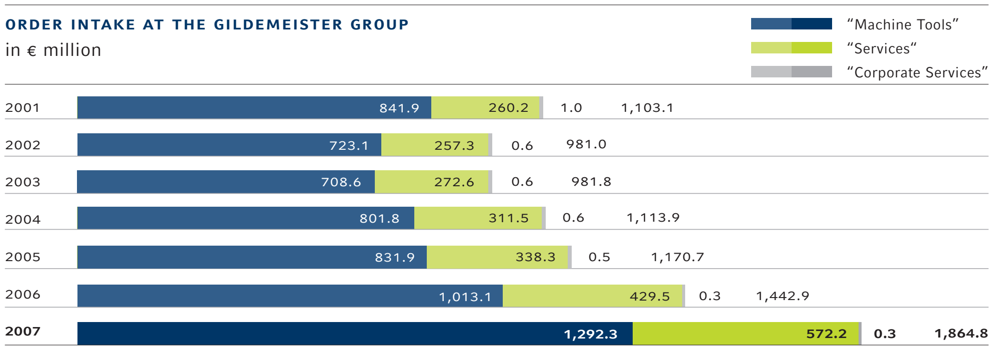
In particular, the success we enjoyed at the EMO contributed to this excellent result. At the EMO we were able to sell 526 machines and were able to record with € 162.2 million the highest order intake from a trade fair so far in the company's history. In the field of renewable energy resources, a+f SunCarrier made an appreciable contribution to order intake for the first time with € 81.5 million.

Both domestic and international sales contribute to the increase in order intake: domestic orders increased by 31% to € 847.5 million (previous year: € 648.7 million) and international orders rose 28% to € 1,017.3 million (previous year: € 794.2 million). International orders accounted for 55% of orders (previous year: 55%).

In a multiple year comparison, the individual segments shared in group order intake as follows.

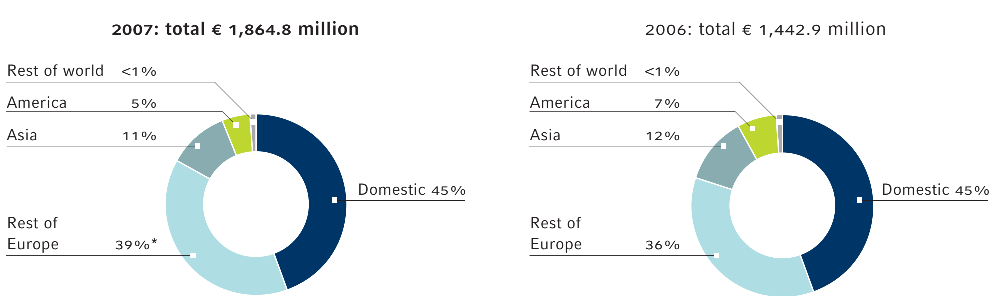
More detailed information on order intake in each segment is given on page 42 et seq.

ORDER INTAKE AT THE GILDEMEISTER GROUP
in € million



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

ORDER INTAKE AT THE GILDEMEISTER GROUP BY REGION



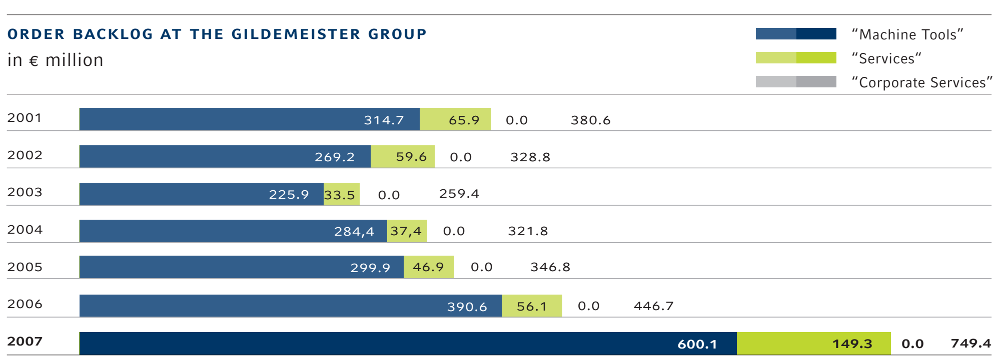
* SunCarrier 4% share

The 6,758 turning, milling, ultransonic / laser and used machines that were sold went to 4,248 different customers. The **sales volume** increased by 13% in comparison to the previous year. As demand increased in particular for our high-quality technological machines, the average value per machine rose by 13%. Throughout the year we raised the **selling prices** by 2% to 8% depending on the market conditions and the particular product. **Key accounting** again made a significant contribution: Our top customers from the automotive industry, aerospace and medical technology, as well as mechanical engineering and facility construction, contributed € 225.8 million to the rise in order intake (previous year: € 121.8 million). The support we give to our internationally operating major customers is tailored to meet their specific requirements.

Order Backlog

As of December 31, 2007, the order backlog for the group amounted to € 749.4 million; it was thus € 302.7 million or 68% above the previous year's level (€ 446.7 million). Of these orders, international orders accounted for 64% (corresponding date of the previous year: 65%). The domestic order backlog increased by € 117.1 million or 75% to € 273.1 million (previous year: € 156.0 million). The international order backlog grew by € 185.6 million or 64% to € 476.3 million (previous year: € 290.7 million).

In a multiple year comparison, the individual segments shared in group order backlog as follows. More detailed information on order backlog in each segment is given on page 42 et seq.



The order backlog signifies production capacity utilisation of about six months on average and thus represents a good basic capacity utilisation for the current financial year. At the same time, this signifies a further increase in delivery times. More information in this respect can be found on page 79 et seq.

Results of Operations

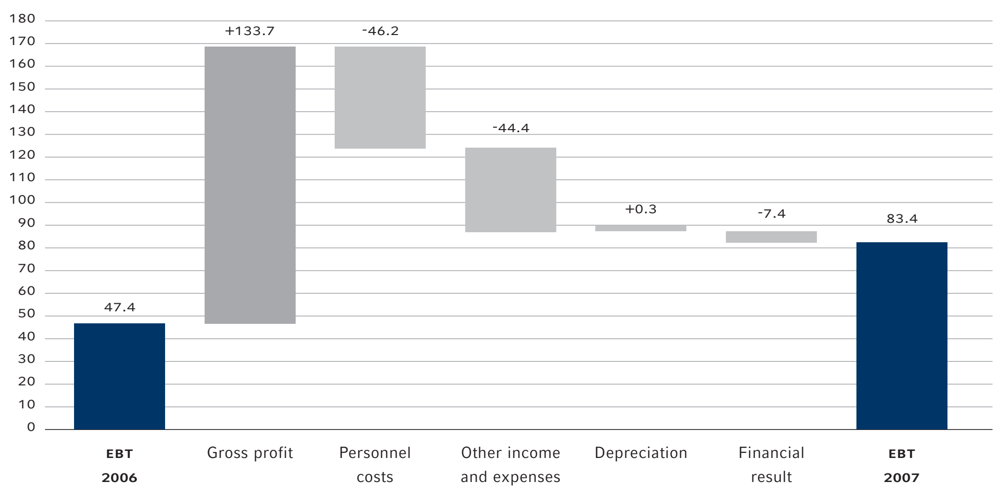
Annual profit increased by 85%

The GILDEMEISTER group profit situation continued to develop positively and showed an improvement on the previous year according to plan. **EBITDA** reached € 158.2 million (previous year: € 115.1 million); **EBIT** rose by 53% to € 125.9 million (previous year: € 82.5 million). **EBT** rose by 76% to € 83.4 million (previous year: € 47.4 million). The **annual profit** grew by 85% to € 50.1 million (previous year: € 27.1 million). Through an increase in sales revenues of 18%, EBT rose by 76%. We have thus met our results expectations – an increase in EBT and in the annual profit of more than 60%.

CONSOLIDATED INCOME STATEMENT OF THE GILDEMEISTER GROUP	2007		2006		CHANGES AGAINST PREVIOUS YEAR	
	€ K	%	€ K	%	€ K	%
Sales revenues	**1,562,037**	**97.7**	**1,328,971**	**99.9**	**233,066**	**17.5**
Change in finished goods and work in progress	30,399	1.9	-5,131	-0.4	35,530	692.5
Capitalised payments	7,165	0.4	6,276	0.5	889	14.2
Total work done	**1,599,601**	**100.0**	**1,330,116**	**100.0**	**269,485**	**20.3**
Cost of materials	-833,948	-52.1	-698,153	-52.5	-135,795	19.5
Gross profit	**765,653**	47.9	**631,963**	**47.5**	**133,690**	**21.2**
Personnel costs	-366,411	-22.9	-320,201	-24.1	-46,210	14.4
Other income and expenses	-241,024	-15.1	-196,691	-14.7	-44,333	22.5
EBITDA	**158,218**	**9.9**	**115,071**	**8.7**	**43,147**	**37.5**
Depreciation of fixed assets	-32,311	-2.0	-32,600	-2.5	289	0.9
EBIT	**125,907**	**7.9**	**82,471**	**6.2**	**43,436**	**52.7**
Financial results	-42,458	-2.7	-35,053	-2.6	-7,405	21.1
EBT	**83,449**	**5.2**	**47,418**	**3.6**	**36,031**	**76.0**
Taxes on profit	-33,312	-2.1	-20,318	-1.6	-12,994	64.0
Annual profit	**50,137**	**3.1**	**27,100**	**2.0**	**23,037**	**85.0**

The increase in finished goods and work in progress led to a change in stocks of € 30.4 million (previous year: € -5.1 million). Further explanations in this respect are contained in the "Financial position" chapter. Total operating revenue rose to € 1,599.6 million, it was thus about € 269.5 million or 20.3% above the previous year's figure (€ 1,330.1 million). The materials quota decreased to 52.1% (previous year: 52.5%). Gross profit at € 765.7 million was € 133.7 million (+21.2%) above the previous year (€ 632.0 million); the gross profit margin rose to 47.9% (previous year: 47.5%).

DEVELOPMENT OF RESULTS (EBT) AT THE GILDEMEISTER GROUP 2006 AGAINST 2007
in € million



The personnel quota fell to 22.9% (previous year: 24.1%). Personnel expenditure amounted to € 366.4 million (+ € 46.2 million; previous year: € 320.2 million). More information can be found in the "Employees" chapter on page 82. The balance of other expenses and income rose by € 44.4 million to € 241.0 million due to the increase in volume. Other operating income rose at the same time to € 30.9 million (+ € 7.4 million). Within the other operating income, income from the release of provisions, services / refund of expenses and currency exchange gains rose. Other operating expenses amounted to € 271.9 million (previous year: € 220.1 million). The increase resulted mainly from sales-related expenses, for example those for outward freight, temporary employees and higher trade fair costs incurred as a result of our presence at the EMO. Costs of rents and leases amounted to € 26.6 million (+ € 1.5 million). Further details on the breakdown of other operating costs and income can be found in the Notes to the Consolidated Financial Statements on page 138 et seq. Depreciation fell by € 0.3 million to € 32.3 million (previous year: € 32.6 million). The financial results amounted to € -42.4 million (previous year: € -35.1 million). This includes one-off expenses (€ 11.8 million) for the planned premature redemption of the bond in the financial year 2008. The transaction costs that result from the issue have been closed nearly completely in the reporting year; in addition, it contains pro rata prepayment costs which will be recorded. Further information is given in the "GILDEMEISTER Share and Bond" chapter on page 54.

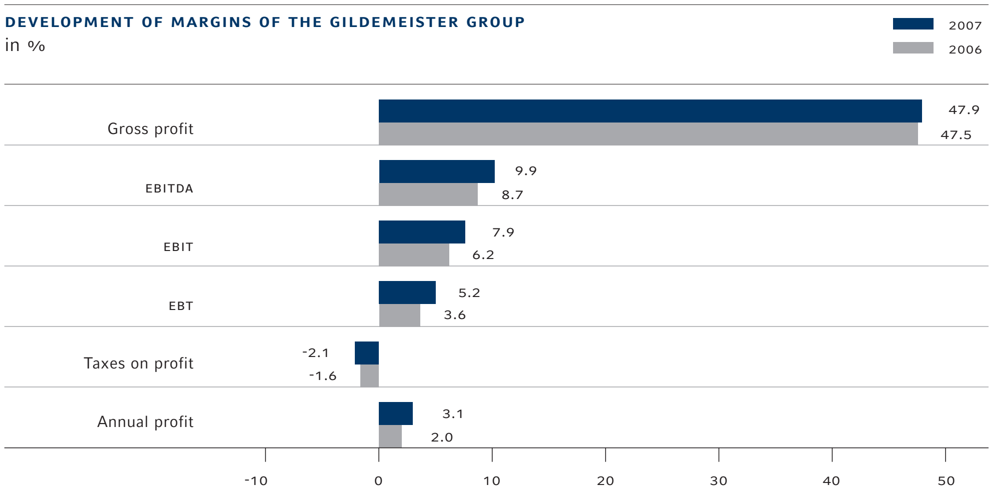
The tax load ratio improved further according to plan and was at 39.9% (previous year: 42.8%). **Tax expenditure** amounted to € 33.3 million (previous year: € 20.3 million).

The earnings margins, which are determined on the basis of total work done, have developed positively. With a gross profit margin increase to 47.9% (previous year: 47.5%) the EBITDA, EBIT and EBT margins have improved disproportionately high compared to

Our earnings margins continue to improve

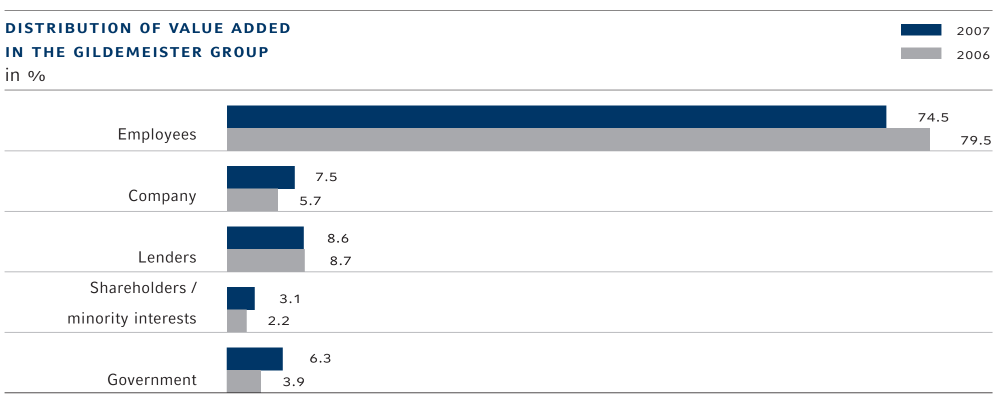
the previous year. The EBITDA margin reached 9.9% (previous year: 8.7%); the EBIT margin rose by 1.7 percentage points to 7.9% (previous year: 6.2%). The percentage of material and personnel expenditure, as well as of depreciation, which decreased compared to the previous year, has had a positive impact on the earnings margins. The rise in the percentage of other expenses and income had an opposite effect. The EBT margin rose by 1.6 percentage points to 5.2% (previous year: 3.6%). Taking into account tax expenditure, the annual profit improved by 1.1 percentage points to 3.1% (previous year: 2.0%).

DEVELOPMENT OF MARGINS OF THE GILDEMEISTER GROUP
in %



In the financial year 2007 the **value added** achieved by the GILDEMEISTER group amounted to € 492.9 million (previous year: € 403.1 million); this corresponds to an increase of 22.3% or € 89.8 million. Following the distribution of the contributions to the value added, the company is left with a positive share of € 37.2 million (previous year: € 22.9 million). The rise in the annual profit is thus reflected in the company's share.

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	2007 € MILLION	%	2006 € MILLION	%	CHANGES AGAINST PREVIOUS YEAR € MILLION	%
Source						
Sales revenues	1,562.0	95.8	1,329.0	98.2	233.0	17.5
Other revenues	68.5	4.2	24.5	1.8	44.0	179.6
Operating performance	**1,630.5**	**100.0**	**1,353.5**	**100.0**	**277.0**	**20.5**
Cost of materials	833.9	51.1	698.2	51.6	135.7	19.4
Depreciation	32.3	2.0	32.6	2.4	-0.3	-0.1
Other expenses	271.3	16.7	219.6	16.2	51.7	23.5
Purchased materials and services	**1,137.6**	**69.8**	**950.4**	**70.2**	**187.2**	**19.7**
Value addes	**492.9**	**30.2**	**403.1**	**29.8**	**89.8**	**22.3**
Distribution						
Employees	367.0	74.5	320.6	79.5	46.4	14.5
Companies	37.2	7.5	22.9	5.7	14.3	62.4
Lenders	42.5	8.6	35.0	8.7	7.5	21.4
Shareholders/minority interests	15.2	3.1	8.7	2.2	6.5	74.7
Government	31.0	6.3	15.9	3.9	15.1	95.0
Value added	**492.9**	**100.0**	**403.1**	**100.0**	**89.8**	**22.3**

Financial position

The cash flow of the group continued to develop positively in the reporting year. The **free cash flow** increased in the reporting year to € 84.8 million (previous year: € 74.8 million). We have therefore clearly surpassed our forecast of achieving free cash flow of more than € 40 million. The difference is particularly attributable to the increase in provisions and advanced payments received for orders. We have mainly used the free cash flow to reduce net financial liabilities as well as for the distribution of the dividend.

CASH FLOW	2007 € MILLION	2006 € MILLION
Cash flow from current operations	128.2	108.1
Cash flow from investment activity	-46.7	-35.1
Cash flow from financing activity	-27.7	-52.5
Changes in cash and cash equivalents	53.4	20.3
Liquid funds at the start of the reporting period	42.2	21.9
Liquid funds at the end of the reporting period	95.6	42.2

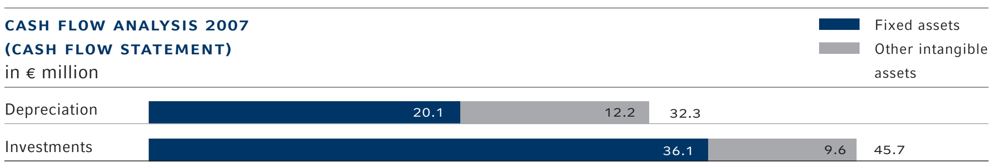
Cash flow from running operations (cash received) was positive in the reporting year at € 128.2 million (previous year: € 108.1 million). Based on earnings before tax (EBT) of € 83.4 million (previous year: € 47.4 million), both depreciation of € 32.3 million (previous year: € 32.6 million) and the increase in provisions (€ 40.4 million) contributed to this cash flow. A further positive effect was achieved by the rise in other equity and liabilities (€ 88.9 million). Contrary effects reducing cash flow were caused by the increase in inventories due to the volume of sales (€ 66.5 million) and trade receivables (€ 37.8 million). Payment of taxes on earnings (€ 27.8 million) and of interest (€ 28.1 million) also led to a reduction in cash flow.

Due to the increase in investments caused by capacity expansation, **cash flow from investment activity (outflow of funds)** rose by € 11.6 million to € 46.7 million (previous year: € 35.1 million). Investment in tangible fixed assets was € 36.1 million (previous year: € 27.2 million) and in intangible assets was € 9.6 million (previous year: € 7.7 million). Further details are set out in the “Investments” chapter on page 40.

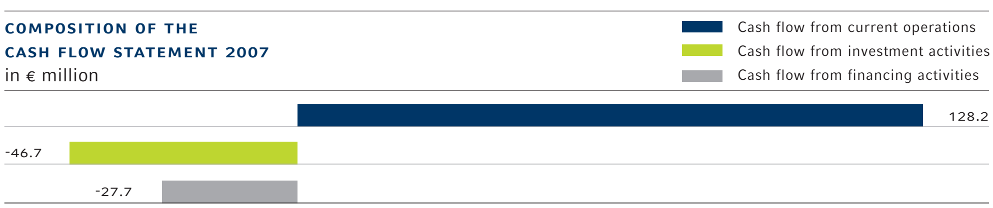
The **cash flow from financing activity (outflow of funds)** was affected by the further re-payment of financial liabilities of € 19.1 million and the distribution of the dividend for the financial year 2006 (€ 8.7 million). Within the scope of overall financing, GILDEMEISTER had liquid funds at year-end of € 95.6 million (previous year: € 42.2 million), open cash lines of € 95.1 million (previous year: € 148.6 million) and further open credit lines (guaranteed bills outstanding, bills of exchange, asset backed securities (ABS) and factoring) of € 26.5 million (previous year: € 41.0 million). The portfolio of receivables sold through the ABS programme amounted to € 63.8 million and those through factoring agreements to € 32.9 million.

A detailed cash flow statement is given on page 116. The most important key financial indicators for an analysis of the financial position are presented in the “Multiple Year Overview” given on page 186 et seq.

CASH FLOW ANALYSIS 2007
(CASH FLOW STATEMENT)
in € million



COMPOSITION OF THE
CASH FLOW STATEMENT 2007
in € million



GILDEMEISTER capital requirements are covered by the operating cash flow and by short, medium and long-term financing. The most significant components of this are the syndicated loan, the subordinated bond and the ABS programme, which we introduced in 2007. In addition, there are still a few long-term loans and bilateral financial commitments to individual subsidiaries with a total volume of € 50.1 million (previous year: € 67.9 million). With regard to the main terms, we refer to the explanatory notes on "Financial Liabilities" on page 160 et seq. in the Notes to the Consolidated Financial Statements.

The main financing includes customary restrictions such as agreements on compliance with certain key indicators (covenants). On December 31, 2007 GILDEMEISTER had complied with all contractual obligations. For the syndicated loan and the subordinated bond, the shareholdings in six main group companies continued to be pledged first ranking to the bank consortium and subordinated to the bond creditors. The financing was extended through off balance sheet operating leasing agreements. The main financing instruments and future financial obligations are specified in the Notes to the Consolidated Financial Statements under "Financial liabilities" on page 160 et seq. and under "Other financial obligations" on page 165 et seq.

Liquidity secured for further growth

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

In principle, the GILDEMEISTER group financing is carried out centrally. Only when group financing is not advantageous due to the legal framework, local financing is used in individual cases. Cash pooling is used to utilise liquidity surpluses of subsidiaries in the group.

In the "Opportunities and Risk Report" on page 94 and in the Notes to the Consolidated Financial Statements under "Derivative financial instruments" on page 166 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 risks of price changes, non-payment and liquidity risks.

Net worth

The assets and capital structure developed as planned. The **balance sheet** total amounted to € 1,150.1 million (previous year: € 954.9 million). The increase arises from the higher funds tied down in inventories and receivables due to the sales volume as well as to an increase in liquid funds. This led to an **equity ratio** of 28.7% (previous year: 30.2%). Through the positive development of our financial position we were able to further reduce net financial liabilities (debt) by € 51.7 million to € 165.0 million (previous year: € 216.7 million).

BALANCE SHEET OF THE GILDEMEISTER GROUP	31 DEC. 2007		31 DEC. 2006		CHANGES AGAINST PREVIOUS YEAR	
	€ K	%	€ K	%	€ K	%
Assets						
Long and medium-term assets						
Fixed assets	285,262	24.8	265,420	27.8	19,842	7.5
Current assets	43,144	3.8	50,781	5.3	-7,637	-15.0
	328,406	28.6	316,201	33.1	12,205	3.9
Short-term assets						
Inventories	361,044	31.4	292,964	30.7	68,080	23.2
Receivables and other assets	365,123	31.7	303,511	31.8	61,612	20.3
Liquid funds	95,552	8.3	42,181	4.4	53,371	126.5
	821,719	71.4	638,656	66.9	183,063	28.7
Balance sheet total	**1,150,125**	**100.0**	**954,857**	**100.0**	**195,268**	**20.4**
Equity and liabilities						
Long and medium-term financing resources						
Equity	329,513	28.7	288,574	30.2	40,939	14.2
Outside capital						
Provisions	59,085	5.1	51,529	5.4	7,556	14.7
Liabilities	56,137	4.9	245,870	25.8	-189,733	-77.2
	115,222	10.0	297,399	31.2	-182,177	-61.3
	444,735	38.7	585,973	61.4	-141,238	-24.1
Short-term financing resources						
Provisions	154,956	13.5	114,677	12.0	40,279	35.1
Liabilities	550,434	47.8	254,207	26.6	296,227	116.5
	705,390	61.3	368,884	38.6	336,506	91.2
Balance sheet total	**1,150,125**	**100.0**	**954,857**	**100.0**	**195,268**	**20.4**

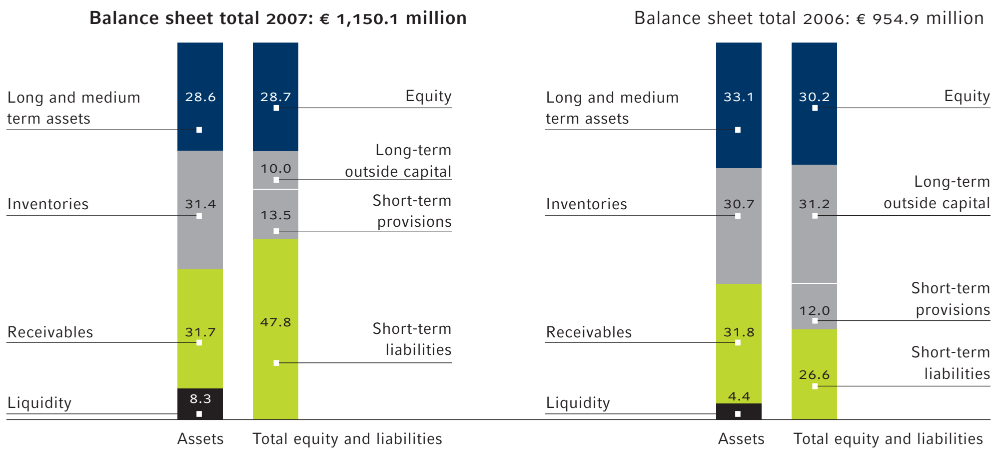
On the **assets side**, **fixed assets** rose by € 19.8 million or 7.5% to € 285.3 million (previous year: € 265.4 million). Tangible assets rose by € 17.0 million and the intangible assets by € 2.7 million. The asset additions are set out in detail in the “Investments” chapter on page 40.

Current assets decreased by € 7.6 million or 15.0% to € 43.1 million (previous year: € 50.8 million). At the same time deferred taxes decreased by € 4.0 million and other assets by € 3.0 million. The intangible assets comprise discounted bills receivable amounting to € 13.8 million (previous year: € 16.1 million).

Inventories rose by € 68.0 million to € 361.0 million (previous year: € 293.0 million). Whereas the inventory of finished goods fell by € 2.0 million to € 92.8 million, the inventory of raw materials and consumables rose by € 30.4 million to € 129.5 million (previous year: € 99.1 million) and the inventory of work in progress rose by € 35.1 million to € 131.6 million (previous year: € 96.5 million). A significant part of this increase resulted from the necessary disposals for solar modules and advance performance for the SunCarrier, which amounted to € 26.3 million for raw materials and consumables and € 12.7 million for work in progress.

The total inventories share in the balance sheet was 31.4% (previous year: 30.7%). In relation to sales volume, the turnover rate of inventories fell from 4.5 to 4.3.

ASSETS AND CAPITAL STRUCTURE OF THE GILDEMEISTER GROUP
in %



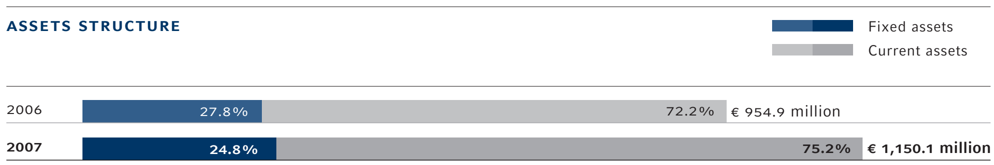
Short-term receivables and other assets have risen in comparison with the previous year by 20.3% or € 61.6 million to € 365.1 million. Overall the rise in trade receivables of € 39.7 million to € 292.2 million was disproportionately small when set against the increased sales performance. The continuous optimisation of our receivables management made a positive contribution to this development. The volume of receivables sold through the ABS programme and factoring agreements amounted to a total of € 96.7 million (previous year: € 83.8 million). Other assets increased by € 22.9 million to € 72.9 million. Other assets include the statement of discounted bills receivable of € 14.4 million (previous year: € 5.5 million). The turnover rate of trade receivables improved to 6.2 (previous year: 5.3).

Receivables management continous optimized

At the balance sheet date **liquid funds** amounted to € 95.6 million (previous year: € 42.2 million) with a relative share in the balance sheet total of 8.3% (previous year: 4.4%).

In the assets structure the share of long and medium-term assets decreased by 4.5 percentage points to 28.6% (previous year: 33.1%).

ASSETS STRUCTURE



On the **liabilities side**, equity rose by € 40.9 million or 14.2% to € 329.5 million (previous year: € 288.6 million). We were able to improve **gearing** (proportion of net indebtedness to equity) to 50.0% (previous year: 75.0%), as we reduced net financial liabilities whilst at the same time equity increased.

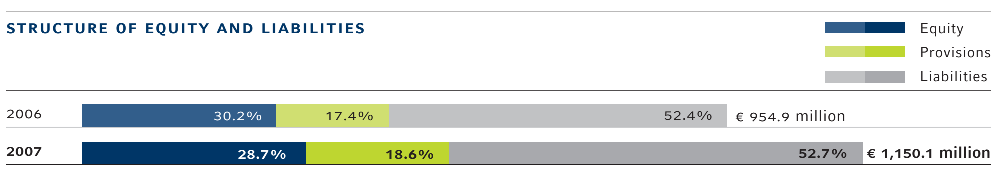
Long and medium-term borrowed funds decreased by € 182.2 million to € 115.2 million. Their share in the balance sheet total decreased by 21.2 percentage points to 10.0% (previous year: 31.2%). The share of long and medium-term provisions amounts to 5.1% (previous year: 5.4%). This includes company pension provisions of € 27.8 million (previous year: € 28.0 million) and other provisions for personnel obligations in an amount of € 24.3 million (previous year: € 19.2 million). Due to the planned redemption of the bond long-term financial liabilities decreased by € 184.3 million to € 42.3 million (previous year: € 226.6 million). Liabilities of € 3.0 million (previous year: € 9.7 million) relate to deferred tax liabilities.

In the reporting year **long and medium-term financing resources** fell by € 141.2 million or 24.1% to € 444.7 million. Long and medium-term fixed assets are 135.4% financed (previous year: 185.3%) by funds that are available on a long and medium-term basis.

Short-term financing resources increased by € 336.5 million or 91.2% to € 705.4 million, whereby provisions increased by € 40.3 million or 35.1% to € 155.0 million (previous year: € 114.7 million). This includes increased provisions for risks arising from warranties and retrofittings of € 37.3 million (previous year: € 28.9 million) due to sales and for obligations arising from sales of € 29.8 million (previous year: € 17.3 million). Short-term financial liabilities rose by € 185.9 million to € 218.1 million (previous year: € 32.2 million). Advance payments received for orders increased by € 57.1 million to € 112.1 million (previous year: € 55.0 million) and trade creditors increased by € 12.2 million to € 142.4 million (previous year: € 130.2 million).

The total of fixed assets and inventories of € 646.3 million (previous year: € 558.4 million) is 68.8% covered (previous year: 104.9%) by long and medium-term financing resources. When compared to the previous year the structure of total equity and liabilities showed a 1.5 percentage points decrease in equity ratio and an increase in provisions of 1.2 percentage points. The liabilities ratio rose by 0.3 percentage points to 52.7% (previous year: 52.4%).

STRUCTURE OF EQUITY AND LIABILITIES



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)	2007 € K	2006 € K
Assets		
Fixed assets		
Shares in affiliated companies	359,840	344,809
Other fixed assets	19,725	18,237
	379,565	**363,046**
Current assets		
Receivables from affiliated companies	289,604	288,548
Other current assets	53,764	26,860
	343,368	**315,408**
Balance sheet total	**722,933**	**678,454**
Equity and liabilities		
Equity	**336,760**	**323,954**
Provisions	**30,712**	**26,119**
Liabilities		
Financial liabilities	184,647	192,902
Liabilities to affiliated companies	151,725	118,643
Other liabilities	19,089	16,836
	355,461	**328,381**
Balance sheet total	**722,933**	**678,454**

INCOME STATEMENT OF GILDEMEISTER AKTIENGESELLSCHAFT (HGB)	2007 € K	2006 € K
Sales	13,146	23,589
Other operating income	5,688	6,969
Other expenses and income	-48,045	-46,116
Income from financial assets	88,166	54,356
Financial result	-16,602	-5,731
Profit / loss of ordinary activities	42,353	33,067
Income taxes	-20,886	-18,120
Annual profit	21,467	14,947
Profit brought forward	**7,925**	**9,109**
Transfer to revenue reserves	-10,730	-7,470
Net profit	**18,662**	**16,586**

The GILDEMEISTER Aktiengesellschaft result was determined primarily by income from financial assets comprising transfers of profits from domestic subsidiaries (€ 88.2 million) (previous year: € 54.4 million). The financial result was € -16.6 million (previous year: € -5.7 million). The change is due, in particular, to prepayment costs (€ 8.5 million), which were recognised as a one-off expense for the planned bond redemption. Tax expenditure of € 20.9 million is primarily due to corporate income and trade tax expenditure (previous year: € 18.1 million).

The financial year 2007 of GILDEMEISTER Aktiengesellschaft closes with an annual profit of € 21.5 million (previous year: € 14.9 million). The transfer to other revenue reserves amounted to € 10.7 million (previous year: € 7.5 million). The retained profits increased following transfer to revenue reserves and taking into account the profit carry forward (€ 7.9 million) by € 2.1 million to € 18.7 million (previous year: € 16.6 million).

€ 0.35 dividend for 2007

The Executive Board and the Supervisory Board will propose to the Annual General Meeting of Shareholders on May 16, 2008 that a 75% higher **dividend** of € 0.35 per share be distributed (previous year: € 0.20). This corresponds to an amount of € 15.2 million (previous year: € 8.7 million). Moreover it will be proposed to the Annual General Meeting of Shareholders to carry forward the remaining balance of GILDEMEISTER Aktiengesellschaft of € 3.5 million to new account (previous year: € 7.9 million).

Value Reporting

In its corporate communications GILDEMEISTER lays claim to a value-oriented reporting system. Value reporting is a regular, structured, capital market communication, which enables capital investors to determine corporate value more easily. To meet the high demands and requirements of the capital market, we give detailed information in the Group Management Report and Consolidated Financial Statements, as well as during the financial year in our comprehensive interim reports. The main focus of our corporate management is a sustainable increase in the value of the company.

To ensure value-oriented control of the group and the individual companies, we use an in-house controlling and monitoring system. Our principle internal target and key performance indicators are **earnings before tax** (EBT) and the **return on capital employed** (ROCE). Including the ROCE and the relative economic value added – the difference between ROCE and cost of capital – in the control process is based on the assumption that corporate value increases when a positive economic value added is achieved. ROCE is a measure of the returns being realised on capital employed before taxes. ROCE reflects the efficiency of capital employed in the form of a relative variable and arises from the ratio of EBIT to the average operating assets.

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

ROCE AND ECONOMIC VALUE ADDED

	2007	2006
EBIT (€ million)	125.9	82.5
Capital employed (€ million)	708.6	671.5
ROCE (in %)	17.8	12.3
WACC (in %)	9.9	9.9
Relative economic value added before taxes (in %)	7.9	2.4
Economic value added before taxes (€ million)	56.0	16.1

In the reporting year the ROCE increased to 17.8% (previous year: 12.3%); we have therefore met our target of achieving ROCE of above 12%. This is a result of the improvement in EBIT of € 43.4 million to € 125.9 million with a simultaneous increase in capital employed. The ROCE achieved is thus 7.9 percentage points above the average weighted cost of capital (WACC) of 9.9%; GILDEMEISTER achieved an economic value added of € 56.0 million (previous year: € 16.1 million) or 7.9% (previous year: 2.4%). The derivation of the cost of capital can be found in the Glossary on page 190 et seq. In order to safeguard financing, GILDEMEISTER controls the group according to the following key performance indicators:

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

We give details of other relevant key performance indicators for the capital market in the “Results of operations” chapter on page 29 et seq. and in “GILDEMEISTER Share and Bond” on page 54.

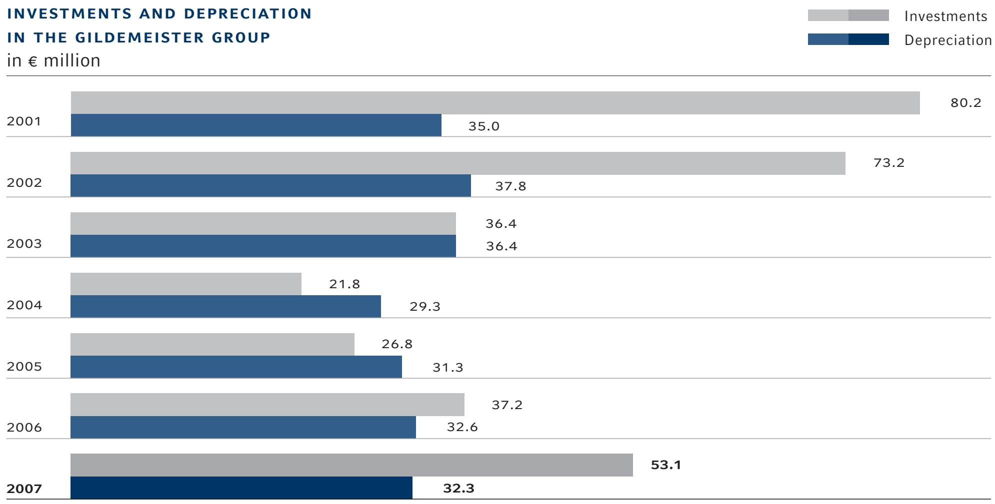
Investments

Investments amounted to € 53.1 million (previous year: € 37.2 million). Of these, € 37.9 million were invested in tangible assets (previous year: € 27.5 million), in particular for the optimisation of production, and € 2.3 million in intangible assets (previous year: € 2.1 million. Moreover, € 7.4 million were attributable to capitalised development costs (previous year: € 6.0 million), and € 5.2 million to goodwill additions (previous year: € 1.6 million). We have invested € 0.3 million in financial assets. In the second quarter GILDEMEISTER increased the investment volume for the financial year 2007 by € 7.5 million to € 52.5 million in order to strengthen the automation area and to purchase premises in Bangalore (India) for the technology centre that is planned there.

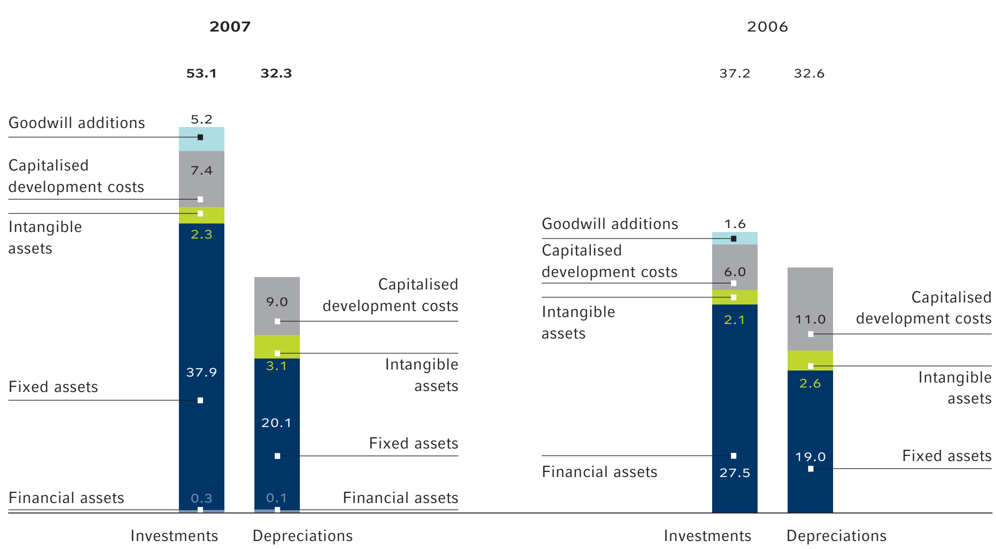
In the reporting year depreciation of fixed assets, including capitalised development costs and finance leases, amounted to € 32.3 million; this was as expected in line with the previous year (€ 32.6 million).

The main focus of investments was placed on the expansion of our assembly capacities and processes due to the increased production output. Furthermore, we have invested in the development of new machine types and in the acquisition of models, fixtures and tools. More detailed information on investments in each segment is included in the "Segmental Report" chapter on page 79 et seq.

INVESTMENTS AND DEPRECIATION IN THE GILDEMEISTER GROUP
in € million



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



Segmental Reporting

Our business activities include the "Machine Tool" and "Services" segments. The "Corporate Services" segment constitutes the groupwide holding functions. The individual segments shared in the sales revenues, order intake and EBIT of the group as follows:

SEGMENT KEY INDICATORS OF THE GILDEMEISTER GROUP

	„MACHINE TOOLS"			„SERVICES"			„CORPORATE SERVICES"		
	2007 € MILLION	2006 € MILLION	CHANGES 2007 AGAINST 2006 %	2007 € MILLION	2006 € MILLION	CHANGES 2007 AGAINST 2006 %	2007 € MILLION	2006 € MILLION	CHANGES 2007 AGINST 2006 %
Sales revenues	1,082.7	922.4	17	479.1	406.3	18	0.3	0.3	0
Order intake	1,292.3	1,013.1	28	572.2	429.5	33	0.3	0.3	0
EBIT	75.4	46.0	64	84.2	56.0	50	-33.1	-19.1	-7.3

Further information on the segmentation by business segments and geographical regions is given in the Notes to the Consolidated Financial Statements on page 122 et seq.

"Machine Tools" segment

The "Machine Tools" segment forms the group's new machine business with the turning, milling and ultrasonic / laser technologies, as well as DMG Automation GmbH and DMG Electronics GmbH. Our range of products consists of 18 product lines. Our product programme can be viewed in a removable supplement on the front folding cover page.

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

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

GILDEMEISTER for the first time offers low cost access to the area of standard machines with the ECO-machines. These universal turning and milling machines are produced at FAMOT Pleszew S.A. and DECKEL MAHO GILDEMEISTER Shanghai Machine Tools Co., Ltd.

SAUER GmbH is responsible for the ultrasonic / lasertec division. Both the ultrasonic and lasertec product lines complement our range of machines. With the integration of DMG Automation GmbH in the GILDEMEISTER group, we have extended our range of products to include comprehensive integration solutions with robots. DMG Electronics GmbH ensures the development of software throughout the group in the control environment as well as the coordination of control technology and electronic standardisation for our machine tools.

More detailed information on our products in the "Machine Tools" segment can be found in the "Production, Technology and Logistics" chapter on page 79 et seq.

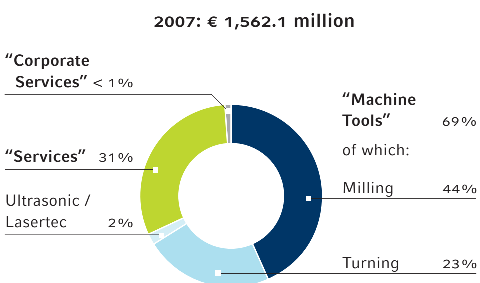
KEY FIGURES "MACHINE TOOLS" SEGMENT	2007 € MILLION	2006 € MILLION	CHANGES 2007 AGAINST 2006 € MILLION	%
Sales revenues				
Total	1,082.7	922.4	160.3	17
Domestic	495.7	404.7	91.0	22
International	587,0	517.7	69.3	13
% International	54	56		
Order intake				
Total	1,292.3	1,013.1	279.2	28
Domestic	558.7	434.0	124.7	29
International	733.6	579.1	154.5	27
% International	57	57		
Order backlog*				
Total	600.1	390.6	209.5	54
Domestic	182.1	119.2	62.9	53
International	418.0	271.4	146.6	54
% International	70	69		
Investments	38.3	25.4	12.9	51
Employees	3,383	3,166	217	7
plus trainees	226	191	35	18
Total employees*	3,609	3,357	252	8
EBITDA	99.9	70.5	29.4	42
EBIT	75.4	46.0	29.4	64
EBT	65.5	34.8	30.7	88

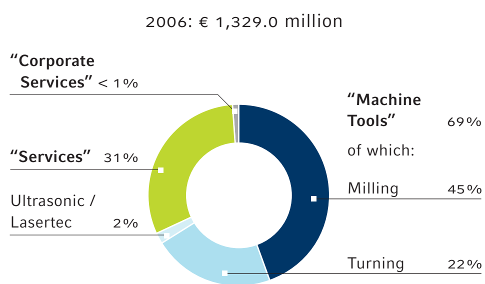
* Reporting date December 31

The machine tool business continued to develop positively in the reporting year. **Sales revenues** rose by € 160.3 million or 17% to € 1,082.7 million (previous year: € 922.4 million). International sales revenues increased by 13% to € 587.0 million (previous year: € 517.7 million). The international quota amounted to 54% (previous year: 56%). Domestic sales revenues increased by € 91.0 million to € 495.7 million (previous year: € 404.7 million). The "Machine Tools" segment had a 69% share of group sales revenues (previous year: 69%). The milling technology of DECKEL MAHO contributed 44% (previous year: 45%). The turning technology of GILDEMEISTER amounted to 23% (previous year: 22%). New technologies accounted for 2% (previous year: 2%). The sales volume of new machines increased by 16% compared to the previous year.

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

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





In the "Machine Tools" segment **order intake** increased by € 279.2 million or 28% to € 1,292.3 million (previous year: € 1,013.1 million). International orders rose by € 154.5 million or 27% to € 733.6 million (previous year: € 579.1 million). The international share therefore amounted to 57% (previous year: 57%). Domestic order intake amounted to € 558.7 million (previous year: € 434.0 million). The "Machine Tools" segment accounted for 69% of all orders (previous year: 69%). Both our technology machines and our entry level machines have contributed to the increase in order intake. Our products met with great interest in the market. The "New Design" of our machines, which was presented at the EMO 2007 for the first time, was enthusiastically received and, in connection with targeted marketing measures and large visitor numbers at the trade fairs, led to higher orders.

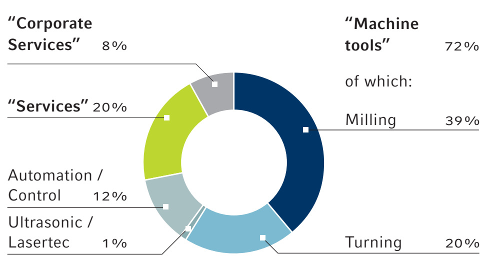
The **order backlog** on December 31, amounted to € 600.1 million or 54% more than in the previous year (31. Dec. 2006: € 390.6 million). International orders recorded the major share at 70% (previous year: 69%); in total they increased by € 146.6 million or 54% to € 418.0 million (previous year: € 271.4 million). The volume of domestic orders amounted to € 182.1 million (previous year: € 119.2 million).

Earnings in the "Machine Tools" segment increased due to a rise in sales volume and improved earnings margins. **EBITDA** grew by 42% or € 29.4 million to € 99.9 million (previous year: € 70.5 million). **EBIT** with a plus of 64% amounted to € 75.4 million (previous year: € 46.0 million). **EBT** rose by 88% to € 65.5 million (previous year: € 34.8 million).

Investments in the "machine tool" segment amounted to € 38.3 million (previous year: € 25.4 million). The following graphics show the amount and distribution of investments in each segment and division:

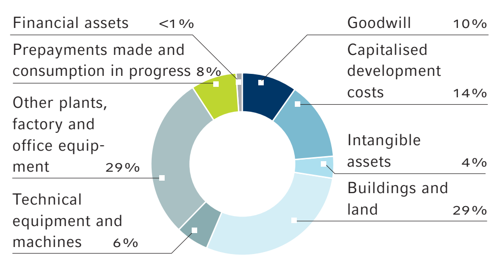
SHARE OF THE INDIVIDUAL SEGMENTS/ DIVISION IN INVESTMENTS
in %

2007: € 53.1 million



DISTRIBUTION OF INVESTMENT VOLUME BY TYPE OF INVESTMENT
in %

2007: € 53.1 million



In the **turning division**, GILDEMEISTER Drehmaschinen GmbH invested € 2.7 million overall, of this € 0.9 million was invested in models for new machine types, tools and equipment. A further € 0.5 million was spent on updating office equipment. GRAZIANO Tortona S.r.l. invested € 0.9 million primarily in cast models for the new CTX beta-series as well as in tools and fixtures. GILDEMEISTER Italiana S.p.A. also placed the main focus of its investment activities on models, tools and fixtures to a value of € 0.7 million. In the turning division the volume of capitalised development costs amounted to € 2.9 million.

In the **milling division** investments made by DECKEL MAHO Pfronten GmbH amounted to € 14.0 million. The main investment at € 6.0 million was a 3,440 square metre extension of the assembly area. Furthermore, DECKEL MAHO Pfronten invested € 1.5 million in models, tools, fixtures and measuring equipment. The company invested € 1.1 million in warehouse facilities and the replacement of plant and office equipment. DECKEL MAHO Seebach GmbH invested € 5.9 million. Here the focus at € 1.8 million was on the purchase of models, operating equipment for the series start-up of new machine types and tools. In addition, € 1.1 million was invested in a lightweight hall in order to improve logistics in processing the increased business volume. DECKEL MAHO Seebach spent € 0.4 million on a new shelving systems, transport system, and warehouse equipment. DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd. invested a total of € 0.5 million. The main focus at the Chinese site was on constructing an assembly line and equipping the production plant with tools, measuring equipment and shelving systems. Capitalised development costs in the milling division amounted to € 3.3 million.

In the **ultrasonic / lasertec division** SAUER GmbH made investments of € 0.8 million; of which € 0.4 million were used for activating development costs. Further investment of € 0.4 million was made for series start-up of new machines and to maintain operational readiness.

A further priority was placed on the acquisition of WKZ Werkzeugmaschinen GmbH with goodwill of € 5.2 million.

At the end of the year, the "Machine Tools" segment had 3,609 **employees** (previous year: 3.357). This represents 60% of total staff at the GILDEMEISTER group (previous year: 61%). Compared to the corresponding date of the previous year, the number of employees has increased by 252. In particular, additional personnel were hired specifically at the Pfronten, Pleszew and Shanghai sites due to the significantly higher sales performance. Further staff additions occurred as a result of the new DMG Automation and DMG Electronics companies. Personnel expentiture in the "Machines Tools" segment amounted to € 186.2 million (previous year: € 164.5 million); the personnel expenditure quota decreased to 17.2% (previous year: 17.8%).

"Services" segment

The "Services" segment mainly includes the business activities of DMG Vertriebs und Service GmbH and its subsidiaries. **DMG Service Solutions** offers worldwide customised service solutions and service products over the entire lifespan of the DMG machine tools. The service solutions include various services, which, through our highly-qualified service staff and our worldwide sales and service network, ensure direct customer contact and rapid availability. **DMG service products** – such as DMG power tools, adjustment devices and tool management from DMG MICROSET, DMG SPARE PARTS, as well as systems from a+f and components from SACO – allow users to increase the productivity of their DMG machines tools significantly.

KEY FIGURES "SERVICES" SEGMENT	2007 € MILLION	2006 € MILLION	CHANGES 2007 AGAINST 2006 € MILLION	%
Sales revenues				
Total	479.1	406.3	72.8	18
Domestic	234.4	207.8	26.6	13
International	244.7	198.5	46.2	23
% International	51	49		
Order intake				
Total	572.2	429.5	142.7	33
Domestic	288.5	214.4	74.1	35
International	283.7	215.1	68.6	32
% International	50	50		
Order backlog*				
Total	149.3	56.2	93.1	166
Domestic	91.0	36.9	54.1	147
International	58.3	19.3	39.0	202
% International	39	34		
Investments	10.7	7.7	3.0	39
Employees*	2,307	2,126	181	9
EBITDA	90.0	61.5	28.5	46
EBIT	84.2	56.0	28.2	50
EBT	75.8	43.6	32.2	74

* Reporting date December 31

The positive development in the "Services" segment was a further reason for the good business development in the group. Demand for our professional services rose again. In the reporting year for the first time our customers are served by DMG Service worldwide at any time – 24 hours a day, seven days a week. Our successfully introduced "24/7" offer has been well received and has strengthened customer loyalty long-term. **Sales revenues** increased by € 72.8 million or 18% to € 479.1 million (previous year: € 406.3 million). International sales revenues from services rose by € 46.2 million or 23% to € 244.7 million; this represents a share of 51% (previous year: 49%). In Germany sales revenues also showed clear growth: Following € 207.8 million in 2006, sales revenues in the reporting year amounted to € 234.4 million; this represents an increase of 13% or € 26.6 million. The "Services" segment contributed 31% of total group sales revenues (previous year: 31%).

Order intake also developed satisfactorily with an increase of € 142.7 million or 33% to € 572.2 million (previous year: € 429.5 million). 50% of all orders came from abroad. In total, international orders had a value of € 283.7 million, which represents an increase of 32% compared to the previous year (previous year: € 215.1 million). Domestic orders grew by € 74.1 million or 35% to € 288.5 million (previous year: € 214.4 million). With its SunCarrier a+f GmbH reached a sales volume of € 81.5 million. "Services" accounted for 31% of all orders (previous year: 30%).

The **order backlog** on December 31, amounted to € 149.3 million (previous year: € 56.2 million).

In the reporting year earnings in the "Services" segment increased due to a rise in sales volume. The earnings margins improved further. **EBITDA** increased by € 28.5 million or 46% to € 90.0 million (previous year: € 61.5 million). **EBIT** amounted to € 84.2 million (previous year: € 56.0 million). EBT rose to € 75.8 million (previous year: € 43.6 million).

Investments of the DMG sales and service companies amounted to € 10.7 million (previous year: € 7.7 million). € 2.2 million was spent on continuously supplying service personnel with tools and measuring devices. A further focal point was the acquisition of a plot of land in Bangalore, India, for the construction of a new technology centre, as well as an extension to the showroom in Chicago, USA. A further € 0.4 million was invested to continue implementation of the standardised showroom concept. Capitalised development costs amounted to € 0.7 million.

The number of **employees** rose by 181 to 2,307 (previous year: 2,126). In particular, we increased our regional service capacity in Europe and Asia with the aim of better meeting the needs of our customers. Within the scope of the staff expansion, we specifically reinforced our distribution. Thus the percentage of staff in this segment was 39% (previous year: 38%). Personnel costs in "Services" amounted to € 165.0 million (previous year: € 144.0 million); the personnel expenditure quota decreased to 34.5% (previous year: 35.4%).

"Corporate Services" segment

The "Corporate Services" segment essentially includes the GILDEMEISTER Aktiengesellschaft with its groupwide holding functions 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 as well as the group-standardised IT integrated in GILDEMEISTER Beteiligungen AG.

KEY FIGURES "CORPORATE SERVICES" SEGMENT	2007 € MILLION	2006 € MILLION	CHANGES 2007 AGAINST 2006 € MILLION
Sales revenues	0.3	0.3	0.0
Order intake	0.3	0.3	0.0
Investments	4.1	4.2	-0.1
Employees*	82	75	7
EBITDA	-31.1	-16.5	-14.6
EBIT	-33.1	-19.1	-14.0
EBT	-57.3	-30.5	-26.8

* Reporting date December 31

Both **sales revenues and order intake** in the “Corporate Services” segment of € 0.3 million each 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 - € 33.1 million (previous year: - € 19.1 million). This change in the result (EBT) is due mainly to one-off expenses (€ 11.8 million) for the planned premature redemption of the bond and increased operating expenses as a result of higher demand for core functions. Detailed information on the bond can be found in the “GILDEMEISTER Share and Bond” chapter on page 54 et seq.

Investments amounted to € 4.1 million (previous year: € 4.2 million). Of this, € 2.5 million was invested in completion of the improved logistics concept at the Bielefeld site and € 0.5 million in plant and office equipment.

On December 31, 2007 this segment had 82 employees (previous year: 75 employees), which, as in the previous year, represents a staff percentage of the group of 1%.

General Statement on Business Development

GILDEMEISTER was able to clearly improve all key performance indicators and has completely met all its annual forecasts. Primary key indicators, such as sales revenues, order intake, EBT and the annual profit, have risen in double figures. Cash flow and investments developed according to plan. We were able to reduce our net financial liabilities once again and to increase equity further. Development in our segments was also in line with our forecasts. As a worldwide leading manufacturer of cutting machine tools, we have further expanded our market share. Our goal is to continue following this positive development in the current financial year. The first months of 2008 fulfilled our expectations, which were also confirmed by the order intake at the important trade fairs for the industry and our in-house exhibitions at the start of the year. Further information on the current economic situation can be found in the “Supplementary Report” on page 92 et seq.

Wolfgang Pieper

Keenly analytical. Born on October 10, 1953, graduate in electrotechnology from the University of Applies Sciences, Bielefeld. Employee at GILDEMEISTER for 20 years. Wolfgang Piper worked at GILDEMEISTER Drehmaschinen GmbH as the head of electrical engineering and then as the development coordinator throughout the group for control technology. Since January 2008 he has been putting his technical experience to work in the newly founded DMG Electronics.

INTELLIGENT MACHINE TOOLS:

"Tomorrow's technologies will play a decisive role in optimising and facili-tating work with machine tools."

Intelligent machine access systems make production processes safer.

The SMART*key*® from DMG is a truly intelligent device. It enables up to four different authorisation profiles for various users with personalised user data. The selector switch for the type of operation and a modern safety system make this possible.

TECHNOLOGIES FOR TOMORROW:

"The DMG Smartkey is already much more than just a key. Product safety has been clearly increased through additional functionalities and transponder technology."

Through the new SMART*key*® technology, the rights of use to the machine tools correspond 100% to the user's skills.

Corporate Situation

GILDEMEISTER continuously increases the added value of its products and services for its customers: The new machine design has been particularly well received. Moreover, GILDEMEISTER has extended its range of products to include automation solutions for machine tools and renewable energies. Our employees' high qualifications, motivation and identification with the company form the basis of our efficiency.

GILDEMEISTER Share and Bond

The trading year 2007

2007 presented a split picture. In the first half of the year, the European **share markets** were initially marked by positive announcements both with regards to the economy and the business sector. Against the background of a stable, global, business environment, a whole range of share indexes reached historical levels. The crisis in the financial markets brought with it a loss of confidence, which, combined with liquidity shortfalls, led to extreme turbulence on the international capital markets (subprime crisis). This resulted in increased share index volatility. The following picture emerged from the German indexes: the DAX rose by 22.3%, the MDAX by 4.9%, whilst the SDAX performed negatively at -6.8%. The European EURO STOXX 50 rose by 6.9%, the American DOW JONES by 7.2%, and the S&P 500 Index by 4.2%. However, the British FTSE-100 Index lost 4.1% and the Japanese NIKKEI 225 Index had to contend with a loss of -11.1%.

Stock market listing, trading volume and shareholder structure

The GILDEMEISTER share has been listed in the **MDAX** since December 12, 2007 and fulfils the internationally valid transparency requirements of the "Prime Standard". The move from the SDAX to the MDAX was achieved on the basis of an increase in market capitalization and a higher trading volume on the stock exchanges. Through inclusion in the midcap index, GILDEMEISTER will now attract more attention from international investors. 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.

The trading volume at year-end was 94.1 million shares (previous year: 46.6 million shares); on the basis of the total share number of 43.3 million shares, this represents an annual turnover of 2.2 (previous year: 1.1). Concurrently, the average **trading volume** rose by 104% (previous year: 14%) to about 373,000 shares per trading day (previous year: 183,000 shares).

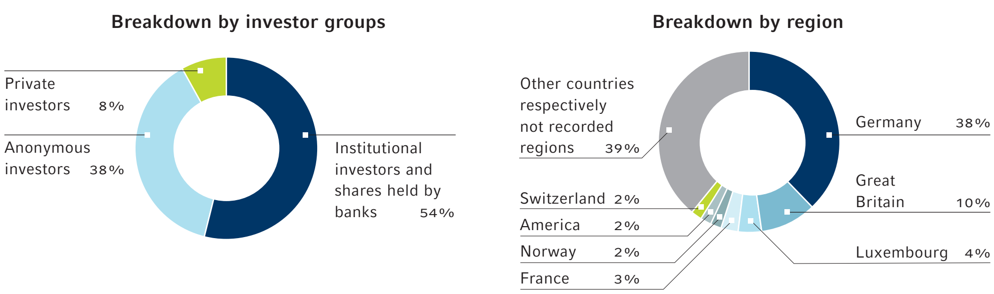
In the reporting year, the GILDEMEISTER shares were held in wide portfolio investments (**100% free float**). As of January 20, 2007, the Takeover Bids Directive Implementation Act (TUG) is applicable. According to Section 21, paragraph 1, clause 1 of the German Securities

Trading Act (WPHG), shareholders are obliged to inform the company and the Federal Financial Supervisory Authority (BaFin) of the amount of their voting stock insofar as certain thresholds are exceeded or are not met. The following thresholds trigger a duty of notification: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%.

As of December 31, 2007, the following changes had arisen in the shareholder composition: JPMorgan Chase & Co., New York, USA – assigned through its subsidiaries – has fallen below the threshold of 5% of the voting rights in GILDEMEISTER Aktiengesellschaft. Union Investment Luxembourg S.A., Luxembourg, the Governance for Owners LLP, London, Great Britain, UBS AG, Zurich, Switzerland, and Financière de l'Echiquier, Paris, France, have fallen below the threshold of 3% of the voting rights.

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

SHAREHOLDER COMPOSITION OF THE GILDEMEISTER GROUP
in %



Performance of the GILDEMEISTER share

The GILDEMEISTER share gained considerably in value in 2007. The share price gain of 93% outperformed the MDAX (+5%) and the SDAX (-7%). The share started the stock market year 2007 at a quoted price of € 9.83 (2 Jan. 2007); the lowest value of the year was € 9.20 (18 Jan. 2007). Over the course of the year the share performed positively and reached its highest value of the year of € 22.80 on October 26, 2007; the share price quoted at the close of the year was € 18.50 (28 Dec. 2007). At the start of 2008, the share was following the general development trend in the capital markets. The share is currently quoted at € 15,90 (12 March 2008). Up to now the stock market value inadequately reflects the group's performance.

An analysis of the company is carried out by various banks. The latest assessments are as follows: "buy" (LBBW Bank, 22 Feb. 2008), "buy" (BHF bank, 15 Feb. 2008), "buy" (Bayerische Landesbank, 13 Feb. 2008), "buy" (UniCredit, 12 Feb. 2008), "buy" (Dresdner Kleinwort, 12 Feb. 2008) "buy" (WestLB, 12 Feb. 2008), "buy" (DZ Bank, 12 Feb. 2008), "buy" (equinet, 12. Feb. 2008), "sell" (Bankhaus Lampe, 6 Feb. 2008), and "neutral" (HSBC, 12 Nov. 2007). Up-to-date studies may be accessed via the internet or requested from our investor relations team.

THE GILDEMEISTER SHARE IN COMPARISON WITH THE MDAX® AND SDAX®
JANUARY 2007 TO MARCH 2008
in %

*2 January 2007 = 100 stock performances indexed, XETRA stock prices
Source: Deutsche Börse Group

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

THE GILDEMEISTER SHARE IN COMPARISON WITH THE MDAX® AND SDAX®
JANUARY 2007 TO MARCH 2008
in %

*02 January 2001 = 100 stock performances indexed, XETRA stock prices
Source: Deutsche Börse Group

Market capitalisation

Market capitalisation rose in the year under report by 93% or € 385.4 million to € 801.1 million (previous year: € 415.7 million). The development in a multiple year comparison is as follows:

		2007	2006	2005	2004	2003	2002	2001
Market capitalisation*	€ MILLION	801.1	415.7	255.1	225.2	245.5	112.6	268.9

* Basis: XETRA year-end stock prices

Earnings per share

In accordance with IAS 33, earnings per share are determined by dividing the consolidated earnings by the average weighted number of shares as follows:

DETERMINATION OF EARNINGS

	2007	2006
Group result excluding profit share of minority interests	€ 50,086,593	€ 27,243,266
Average weighted number of shares	shares 43,302,503	shares 43,302,503
Earnings per share acc. to IAS 33	€ 1.16	€ 0.63

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

Dividend

The Executive Board and the Supervisory Board of GILDEMEISTER Aktiengesellschaft will propose to the Annual General Meeting of Shareholders, to be held on 16 May 2008, to distribute a 75% higher **dividend** of € 0.35 per share for the financial year 2007 (previous year: € 0.20). With regard to the 43.3 million shares entitled to a dividend, total distribution amounts to € 15.2 million. Based on the 2007 year-end closing price, this results in a dividend yield of 1.9% (previous year: 2.1%).

MASTER DATA OF THE GILDEMEISTER SHARE

Security code number		**(ISIN-CODE)**	**DE0005878003**
		(SCN – SECURITY CODE NUMBER)	**587800**
Code			
Stock exchange			GIL
Reuters	Frankfurt Stock Exchange		GILG.F
	Xetra		GILG.DE
Bloomberg			GIL GR

GILDEMEISTER SHARE KEY FIGURES

		2007	2006	2005	2004	2003	2002	2001
Registered capital	€ million	112.6	112.6	112.6	112.6	75.1	75.1	75.1
Number of shares	million shares	43.3	43.3	43.3	43.3	28.9	28.9	28.9
Year-end price [1]	€	18.50	9.60	5.89	5.20	8.50	3.90	9.31
Annual high [1] [2]	€	22.80	9.75	6.39	8.98	8.50	12.04	9.65
Annual low [1] [2]	€	9.20	5.86	4.82	4.98	2.96	3.29	6.79
Annual average market price [1] [3]	€	15.30	7.62	5.67	6.52	5.25	8.24	8.74
Dividend	€	0.35	0.20	0.10	-	-	-	0.60
Dividend total	€ million	15.2	8.7	4.3	-	-	-	17.3
Dividend yield	%	1.9	2.1	1.7	-	-	-	6.4
Earnings per share [4]	€	1.16	0.63	0.32	0.15	-0.13	-0.66	0.85
Price-to-earnings ratio [5]	€	15.9	15.2	18.4	34.7	-	-	11.0
Cash flow per share [6]	€	2.9	2.5	0.63	0.30	0.99	1.65	1.09
Price-to-cash-flow ratio [6] [7]	€	6.37	3.84	9.35	17.33	8.59	2.36	8.54

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

GILDEMEISTER Bond

The GILDEMEISTER Aktiengesellschaft subordinated bond with a volume of € 175 million was issued in July 2004 and matures on July 19, 2011. The coupon amounts to 9.75% per year. We intend to redeem the bond on July 19, 2008, the first possible date before maturity, as to 104.875%. GILDEMEISTER's rating assessment for **corporate rating** was raised by the credit rating agency Standard & Poor's from B+ to BB- and by the agency Moody's from Ba3 to Ba2. The bond's credit worthiness improved in the credit ratings of Moody's from B2 to B1.

The bond is continuously monitored by bond analysts, who present their ratings in the form of letters and figures. Moody's uses figures as an additional notation (A1, A2, A3), whereas Standard & Poor's add a plus and minus sign (B+, B, B-). The letters AAA represent the highest rating and D represents an inability to pay.

Source: Deutsche Börse Group

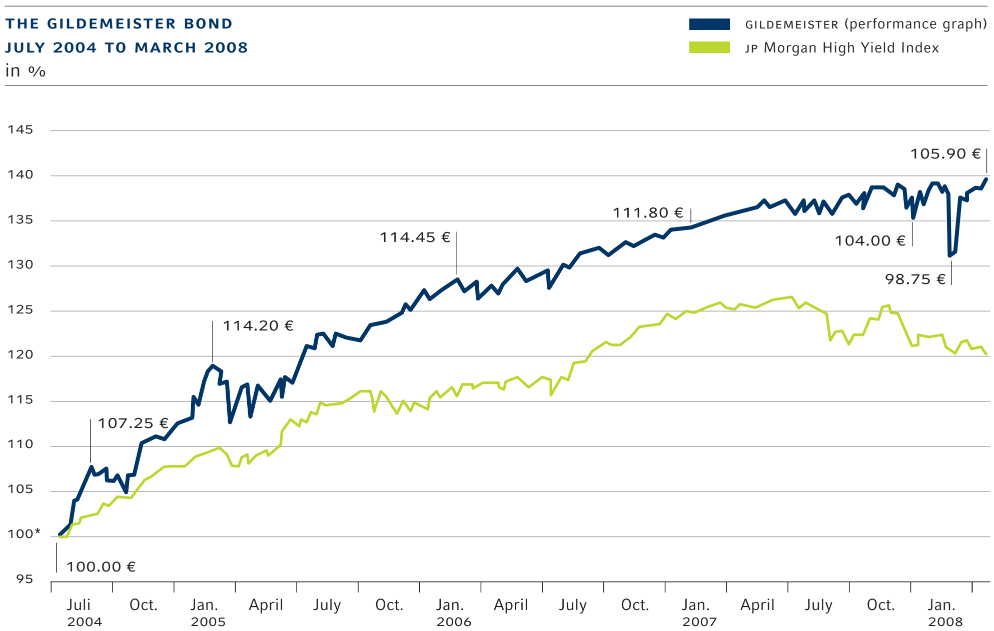
GILDEMEISTER RATING IN MULTIPLE YEAR COMPARISON

	2007	OUTLOOK	2006	OUTLOOK	2005	OUTLOOK	2004	OUTLOOK
Moody's								
Corporate	Ba2	Stable	Ba3	Stable	Ba3	Negative	Ba3	Stable
Corporate bond	B1	Stable	B2	Stable	B2	Negative	B2	Stable
Standard & Poor's								
Corporate	BB-	Stable	BB-	Stable	B+	Stable	B+	Stable
Corporate bond	B	Stable	B	Stable	B-	Stable	B-	Stable

Bond performance

The bond's quoted starting price on January 2, 2007 was € 111.80, which was also the annual high. The annual low of € 104.00 was reached on November 27, 2007, thus closely approaching the redemption value. The GILDEMEISTER bond closed the financial year 2007 at a price of € 106.97 (28 Dec. 2007). The bond was thus quoted over the year on average above the issue price of € 100.00. Currently the price is quoted at € 105.90 (12 March 2008).

THE GILDEMEISTER BOND
JULY 2004 TO MARCH 2008
in %



*19 July 2004 = 100 price trends indexed, Frankfurt quotations prices
Sources: Deutsche Börse Group, Bloomberg

MASTER DATA OF THE GILDEMEISTER BOND

Security code number	Europe	USA
ISIN	xs0196635402	xs0196669724
WKN	A0BVFC	A0BVFD
Common	19663540	19666972

GILDEMEISTER BOND KEY FIGURES

in €	2007	2006
Year-end price 1)	106.97	111.90
Annual high 1) 2)	111.80	114.70
Annual low 1) 2)	104.00	109.98
Annual average market price 1) 3)	109.37	112.26

1) Bloomberg prices
2) Highest / lowest prices on the basis of variable prices
3) Average monthly price on the basis of the closing price

Investor and Public Relations

In our **investor relations** work we have continued to extend a continuous and open exchange of information with all participants in the capital market. At road shows and financial market conferences in Germany and Europe, the Executive Board has provided details of the company's development and strategy in numerous one-on-one interviews. Moreover, investors have been comprehensively informed in telephone conferences and at analysts' events of the annual results 2006 and the quarterly figures for 2007. In the year under report we were once again able to welcome more than 1,200 shareholders to our annual general meeting. 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: 15,443 annual and quarterly reports – including 4,315 in English – have been accessed at our website **www.gildemeister.com**.

Our **public relations** activities are a further important factor in our communications concept. They maintain and strengthen GILDEMEISTER's excellent public image. We place great value on open dialogue with the national and international business press, with capital investors and financial experts, as well as with the associations, institutions and decision-makers who are relevant for our business. We achieve this by always being competent, fast, open and reliable in providing information on the group's current position and its companies. The resources necessary to accomplish this are used efficiently. They flow into a carefully harmonised and designed catalogue of measures. In this year's manager magazin ranking, GILDEMEISTER was awarded first position for its annual report 2006. The company thereby accomplished the jump from the SDAX winner in the previous year to take the top position of around 200 reports evaluated. Content, design, language and reporting efficiency are analysed. This competition is independent and is both the most comprehensive and most valid comparison in Germany and Europe, as well as being one of the main ones worldwide. GILDEMEISTER's annual report also took first place in the Handelsblatt company check of November 2, 2007. It impressed the experts and jurors with its high degree of transparency, quality of language and innovative design. In the area of investor and public relations, expenditure were at € 2.9 million (previous year: € 1.9 million).

The change compared to the previous year is especially due to the greater need of information on the part of the financial markets, a more intensive support of international investors and new investor circles in connection with the MDAX listing and to increased compliance requirements.

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Corporate Governance

Complete fulfilment of the Corporate Governance Code

Good corporate governance continues to be a core element of corporate management at GILDEMEISTER. All areas of the company are aligned with these measures. Even following the amendments resolved by the Commission of the German Corporate Governance Code on June 14, 2007, GILDEMEISTER continues to fulfil all the recommendations. The Executive Board and Supervisory Board issued the following **declaration of compliance on December 31, 2007**; our shareholders can view the declaration on our website at any time.

"GILDEMEISTER Aktiengesellschaft complies with all recommendations of the "Government Commission of the German Corporate Governance Code", as amended on June 14, 2007, and has complied with these since making the last declaration of compliance on December 31, 2006."

Corporate governance is regarded as an integral part of corporate management at GILDEMEISTER. We have amended our internal company guidelines to comply with these rules and principles. These are applied throughout all areas of the group. The Executive Board and Supervisory Board practice corporate governance through responsible and transparent management, as well as by monitoring of the group, with the aim of achieving a sustainable increase in the company's value.

Remuneration of the Executive Board and Supervisory Board

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

Remuneration of the Supervisory Board of GILDEMEISTER Aktiengesellschaft

The remuneration of the Supervisory Board is determined by the Annual General Meeting of shareholders and is regulated under Section 12 of the articles of association of GILDEMEISTER Aktiengesellschaft. The remuneration includes performance-related and non-performance related components. The remuneration components not dependent upon performance include the fixed remuneration that each member of the Supervisory Board receives and remuneration for committee work. The performance-related components comprise a short-term incentive (STI) and a long-term incentive (LTI), which support a sustainable value-based management.

Breakdown of remuneration

In the financial year 2007, the fixed remuneration for each individual member of the Supervisory Board was € 12,000; the chairman received 2.5-times that amount (€ 30,000) and the deputy chairman 1.5-times that amount (€ 18,000). The fixed remuneration therefore totalled € 165,403 (previous year: € 167,967).

Remuneration for committee work amounted to a total of € 106,586 (previous year: € 86,368) and took into account the work carried out by the Finance and Auditing Committee, the Personnel, Nominations and Remuneration Committee, and of the Technology and Development Committee. There was no remuneration for work carried out by the Conciliation and Nominations Committee, which is a sub-committee of the Personnel, Nominations and Remuneration Committee. The individual committee members each received € 6,000. The chairperson of a committee also receives an additional fixed remuneration of a further € 6,000 and the deputy chairperson € 3,000.

The performance-related remuneration components, STI and LTI, are based on index-oriented target values. The earnings per share (EPS) are used as the performance-related index in both remuneration components. The EPS is a fixed index, by which a performance orientation is given under consideration of the respective share capital. It is calculated by dividing the annual profit, less the profit share of minority interests, by the weighted average number of shares. The STI and LTI are variable, which means they are not a secured remuneration. Again the Supervisory Board chairman receives 2.5-times the amount in each component and the deputy chairman 1.5-times the remuneration of the other members of the Supervisory Board. Both the STI and the LTI are capped at the level of the respective fixed remuneration.

Performance-related components

The STI is only paid if, in the reporting year, the EPS amounts to at least € 0.15. The performance-based remuneration for the Supervisory Board calculated from the STI totalled € 165,403 (previous year: € 132,274). The LTI takes into account not only the reporting year but also the two previous years. The index is the mean average of the EPS values in the corresponding financial years. The LTI is only paid if the average EPS for the relevant three years amounts to at least € 0.15. The LTI calculated performance-based remuneration for the Supervisory Board totalled € 144,727 (previous year: € 75,585). In 2007 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, remuneration nomination & remuneration (PNR) in €	Committee renumeration technology & development (T&D) in €	STI in €	LTI in €	Total in €
Hans Henning Offen Chairman SB, Chairman PNR	30,000	6,000	12,000	0	30,000	26,250	104,250
Prof. Dr.-Ing. Uwe Loos Chairman T&D	12,000	0	0	12,000	12,000	10,500	46,500
Günther Berger Chairman F&A	12,000	12,000	0	0	12,000	10,500	46,500
Dr.-Ing. Jürgen Harnisch	12,000	0	0	6,000	12,000	10,500	40,500
Dr. jur. Klaus Kessler (since 20 March 2007) (Member F&A Committee since 27 Nov. 2007)	9,403	559	0	0	9,403	8,227	27,592
Prof. Dr.-Ing. Walter Kunerth (Member PNR Committee since 27 March 2007) (Retirement from the F&A comittee on 27 Nov. 2007)	12,000	5,441	4,586	0	12,000	10,500	44,527
Gerhard Dirr Deputy Chairman SB, Deputy Chairman PNR	18,000	6,000	9,000	6,000	18,000	15,750	72,750
Wulf Bantelmann	12,000	0	0	6,000	12,000	10,500	40,500
Harry Domnik Deputy Chairman F&A	12,000	9,000	6,000	0	12,000	10,500	49,500
Norbert Zweng	12,000	6,000	0	0	12,000	10,500	40,500
Günther Johann Schachner	12,000	0	0	0	12,000	10,500	34,500
Rainer Stritzke	12,000	0	0	0	12,000	10,500	34,500
Total	165,403	45,000	31,586	30,000	165,403	144,727	**582,119**

In the financial year 2007 the total remuneration of the Supervisory Board amounted to € 582,119 (previous year: € 462,194). Notices from the members of the Supervisory Board or other persons subject to reporting requirements on the 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, were not received.

Insurance for Supervisory and Executive Board members of the GILDEMEISTER group

GILDEMEISTER has directors' and officers' liability insurance and legal expenses' insurance. Those covered by the insurance are all members of the Supervisory and Executive Boards, and managing directors. The D&O insurance provides for a reasonable retention amount.

Remuneration of the Executive Board of GILDEMEISTER Aktiengesellschaft

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

Performance-related Executive Board remuneration

Members of the Executive Board receive direct and indirect remuneration components, whereby the indirect components primarily consist of pension plan expenses. The direct remuneration of the Executive Board members of GILDEMEISTER Aktiengesellschaft contains fixed and variable components. The variable components comprise a short-term incentive (STI) and a long-term incentive (LTI). Both variable components are fixed in such a way that they represent a clear incentive for the 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 € 5,407 K (previous year: € 3,974 K). Of this amount, € 1,297 K were attributed to fixed remuneration (previous year: € 1,236 K), € 4,000 K to the STI (previous year: € 2,643 K), and € 110 K as payment in kind (previous year: € 95 K). In 2007 the direct remuneration of the Executive Board was made up as follows:

EXECUTIVE BOARD DIRECT REMUNERATION

	FIXED € K	STI* € K	PAYMENT IN KIND € K	TOTAL € K
Dr. Rüdiger Kapitza, chairman	455	1,000	37	1,492
Michael Welt	314	1,000	22	1,336
Günter Bachmann	252	1,000	29	1,281
Dr. Thorsten Schmidt	276	1,000	22	1,298
Total	1,297	4,000	110	**5,407**

* Previous year: Management bonus

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

The STI is based on index aligned target values. In the reporting year the earnings after taxes (EAT) provided the reference value used. The scale of the target values is re-defined annually. In addition, this is capped at € 1,000 K, respectively, for 2007. The cap is also fixed anew each year. Should the EAT not reach the fixed value that is also set annually, the STI is not paid.

Remuneration components dependent on share price

As a remuneration component with long-term incentive effect, the LTI combines the achievement of fixed targets in relation to the EBIT of the company with the performance of the GILDEMEISTER share. This involves a **performance-units plan** which is comparable to virtual shares and which does not include any dividend payments or voting rights. In addition, the units may not be traded nor sold to third parties. The tranches offered at the beginning of each year have a term of three years, so that the first tranche will be allocated on 31 December 2009. The first payment will be made following the Annual General Meeting in 2010 on the basis of the EBIT target achieved for the allocation year 2009 and the corresponding share price. A cap has been set at 2-times the annual fixed salary of each Executive Board member per tranche for the year in which the award takes place. The following table shows the number of performance units awarded in 2007 and the amount of the provisions for each executive board member.

NUMBER OF PERFORMANCE UNITS

	PERFORMANCE UNITS 2007 TRANCHE SHARES	AMOUNT OF PROVISIONS AS AT 31 Dec. 2007 € K
Dr. Rüdiger Kapitza, Chairman	14,401	271
Michael Welt	11,521	217
Günter Bachmann	11,521	217
Dr. Thorsten Schmidt	11,521	217
Total	48,964	**922**

Both the STI and the LTI are variable, which means neither is a secure remuneration. Remuneration in kind arises mainly from amounts for the use of company cars, which will be assessed in accordance with applicable tax regulations, and individual insurance contributions. Every member of the Executive Board is contractually entitled to remuneration in kind, which may vary depending on the personal situation and is subject to tax payable by each Executive Board member.

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

INDIRECT REMUNERATION FOR EXECUTIVE BOARD MEMBERS

	€ K
Dr. Rüdiger Kapitza, Chairman	119
Michael Welt	45
Günter Bachmann	60
Dr. Thorsten Schmidt	50
Total	**274**

In accordance with the International Accounting Standards (IAS), provision expenses of € 119 K arose for the defined-benefit contribution commitment in 2007 (previous year: € 123 K) as well as one-off past service costs pursuant to IAS of € 197 K for an adjustment of the pension commitments. The payments restricted to the contribution-based pension plan amounted to € 155 K (previous year: € 200 K). For an adjustment of the contribution-based pension plan of Michael Welt, a one-off payment of € 392 K was made.

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 € 587 K (previous year: € 591 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 € 7,007 K (previous year: € 7,612 K).

Responsible management of opportunities and risks

GILDEMEISTER uses a systematic opportunity and risk management to identify and monitor significant opportunities and risks regularly. Continuous further development and adjustment to the changing business environment also form part of responsible management of opportunities and risks. More information on the opportunities and risk management system can be found in the chapter “Opportunities and risk report” on pages 94 et seq.

Close collaboration between the Executive Board and the Supervisory Board

In the reporting year the Executive Board and Supervisory Board once again co-operated closely and with complete trust. The Executive Board informs the Supervisory Board regularly, timely and comprehensively on the current business development, corporate planning, risk situation, risk management and compliance. Moreover, the strategic direction and further development of the group was discussed, whilst any deviation in business development from the targets or plan were explained immediately. The Articles of Association provide approval reservations for the Supervisory Board for any transactions of major significance.

Avoidance of conflicts of interest

Members of the Executive Board and Supervisory Board are obliged to act in the interests of the company. In making decisions and in connection with their functions, the members of the Executive Board and of the Advisory Board may not pursue any personal interests or business opportunities that the company is entitled to neither on their own behalf nor may they grant any unjustified benefits to any other person. Such transactions or secondary occupations must be immediately reported to, and approved by, the Supervisory Board. The Supervisory Board reports any conflicts of interest and the handling of these to the Annual General Meeting. In the reporting year there were no conflicts of interest with respect to the members of the Executive Board or with respect to members of the Supervisory Board.

Safeguarding the interests of the shareholders

For years GILDEMEISTER has placed a very high value on transparency and communication. Therefore we provide regular and timely information on the company's current performance. A detailed financial calendar is an inherent part of our annual and quarterly reports, as well as our website www.gildemeister.com. On our website we update all deadlines continuously and publish press releases, as well as our annual and quarterly reports. Through candour and transparency, the Executive Board and the Supervisory Board aim to strengthen the confidence of our shareholders and investors, business partners and employees, as well as of the public, in our company. Shareholders may either exercise their voting rights themselves at the Annual General Meeting or through an authorised person of their choice or through a proxy bound by their directives.

Reporting and auditing of annual accounts

In accordance with the regulations of the German Corporate Governance Code, it has been agreed with the auditor, KMPG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin, to inform the chairman of the Supervisory Board promptly of any grounds of exclusion or bias that may arise during the audit. It has been further agreed that the auditor shall report promptly on all findings and events arising during the audit that are of significance for the duties of the Supervisory Board. Moreover, the auditor will inform the Supervisory Board of, or include in the auditing report, any facts found during the audit process that are inconsistent with the Declaration of Compliance with the German Corporate Governance Code given by the Executive Board and Supervisory Board pursuant to Section 161 German Companies Act (AktG).

Suggestions of the German Corporate Governance Code

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

- Contracts of members of the Executive Board: In the agreements a severance cap should be agreed, which sets an upper limit on payments to be made upon the premature termination of board membership. When first appointed the maximum duration of five years should not be the rule.
- Annual General Meeting: As before, for organisational reasons, we have not provided for the complete transmission of the Annual General Meeting over the internet. The Code suggests that the proxy exercising the shareholder's voting rights at the shareholder's directive should be contactable during the Annual General Meeting.
- Supervisory Board: It is not intended to introduce different terms of office for shareholder representatives on the Supervisory Board as recommended by the Code. Supervisory Board meetings are only separately arranged by representatives of the shareholders and the employees, respectively, in exceptional cases.

Organisation and Legal Corporate Structure

The GILDEMEISTER group is controlled centrally by GILDEMEISTER Aktiengesellschaft as the controlling company. All cross-divisional key positions are held 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 "Segment Report" chapter on page 42 et seq.

All GILDEMEISTER group companies work as profit centres and are bound by clear guidelines for the best possible performance and results. The management structure is shown in the group structure on page 6 et seq. All operational processes and procedures are standardised by way of the IT infrastructure that is harmonised throughout the group. The IT system therefore acts as an integral link within the group. The organisational expenses of GILDEMEISTER Aktiengesellschaft amounted to € 16.5 million (previous year: € 14.6 million).

We are expanding our global market leader position

Changes in the **legal corporate structure** of the GILDEMEISTER group in the financial year 2007 focused mainly on the formation of new sales and service companies to expand further our global sales and service networks. We are extending our market leader position in the world market by working all the markets intensively and covering all areas. The new company formations are an important element in our globalisation strategy. Sales and services have also been strengthened in the reporting year and response times have been shortened. Specifically the following significant changes were made:

_ On March 2, 2007, DMG Europe Holding GmbH founded DMG Hungary Kft, with registered office in Budapest, Hungary, to strengthen its sales and services activities in eastern Europe.
_ In June 2007, DMG Scandinavia Norge AS, with registered office in Langhus, Norway, commenced business operations. It was founded as a 100% subsidiary on April 3, 2007 by DMG Europe Holding GmbH.
_ As of July 1, 2007, GILDEMEISTER Beteiligungen AG took over 100% of the shares in WKZ Werkzeugmaschinen GmbH, with registered office in Hüfingen (Germany). Through this GILDEMEISTER has now integrated a specialist for integration solutions with robots into the group and, with DMG Automation GmbH, will now also be able to meet customer requirements with its own products in this market segment.
_ With DMG South East Europe E.P.E. Thessaloniki, Greece, which was founded on August 3, 2007, DMG Europe Holding GmbH (99%) has another subsidiary, which is intended to drive the expansion of GILDEMEISTER's activities in Greece and Bulgaria. The remaining 1% of the shares are held by DMG Benelux B.V.
_ On August 9, 2007, DMG Benelux B.V. founded DMG Romania Sales & Services S.R.L., with registered office in Bucharest, Romania, to strengthen sales and service activities in eastern Europe.

- On September 6, 2007 GILDEMEISTER Beteiligungen AG founded DMG Electronics GmbH, Pfronten, as a 100% subsidiary. The aims of this new company are to combine software development in the control environment throughout the group, to coordinate control technology and the standardisation of electronics.
- On September 13, 2007, DMG SPARE PARTS GmbH, with registered office in Geretsried, was founded and is held as to 100% by GILDEMEISTER Beteiligungen AG. This company will commence operations on April 1, 2008; it is to optimise spare parts logistics throughout the group and reduce delivery times and stocks of spare parts worldwide.

A detailed overview of the shareholding relationships within the GILDEMEISTER group as of 31 December 2007 and further explanations of the changes in the legal corporate structure are set out in the Notes to the Consolidated Financial Statements starting on page 124 et seq. Also included in the Notes to the Consolidated Financial States on page 179 et seq. is a summary of all present controlling agreements and profit and loss transfer agreements.

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

69 national and international sales and service locations

DMG Vertriebs und Service GmbH, Bielefeld, is a 100% subsidiary of GILDEMEISTER Aktiengesellschaft. It operates 69 national and international sales and service locations and sales offices, as well as branch offices abroad that are not legally independent enterprises. 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), DMG Nippon K.K., Yokohama (Japan) 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 € 112,586,507.80 and is distributed in 43,302,503 individual shares in the name of the holder. Each share has a notional value of € 2.60 of the subscribed capital.
- Pursuant to Section 84 of the German Companies Act (AktG) the Supervisory Board shall appoint and revoke the appointment of members of the Executive Board. This authority was specified to that effect in Section 7 para. 2 of the Articles of Association of GILDEMEISTER Aktiengesellschaft, by which the Supervisory Board appoints the members of the Executive Board, determines their number and assigns their duties.
- Pursuant to Section 119, para. 1.5 of the German Companies Act (AktG), the Annual General Meetings of Shareholders decides any changes to the Articles of Association. The correspondingly defined rules of procedure are contained in Sections 179, 181 of the German Companies Act (AktG) in connection with Section 15 para. 4 of the Articles of Association of GILDEMEISTER Aktiengesellschaft.

_ A resolution of the Annual General Meeting passed on May 19, 2006 authorises the Executive Board, with the approval of the Supervisory Board, to increase the registered capital of the company in the period up to May 15, 2010, through a one time only issue or through several issues of new shares for cash or non-cash contributions to a nominal amount of € 56.0 million (authorised stock). This authorisation is set out in Section 5 para. 3 of the Articles of Association. Moreover, the company is authorised to purchase its own shares up to a pro rata amount of almost 10% of the registered capital, this corresponds to € 11,258,650.00. This authorisation is intended to place the company in a position of having its own shares available at short notice, without having recourse to the stock market, in order to offer these to the seller in return for the acquisition of companies or interests in other companies. Furthermore, there has been a contingent increase in the registered capital up to a further € 37.5 million through the issue of up to 14,423,076 individual shares in the name of the holder (contingent capital I). The conditional capital increase is to be effected only insofar as the options or conversion rights relating to warrant or convertible bonds, issued or guaranteed pursuant to the authorisation resolution of the Annual General Meeting of Shareholders of May 14, 2004, are exercised in the period until March 31, 2009, or any conversion obligation or obligation to exercise an option under the aforementioned bonds are fulfilled.

_ Ultimately, the Executive Board is authorised to issue shares to a value of € 5.0 million to employees of the company and of companies affiliated with the company (cf. Section 5 para. 3 of the Articles of Association).

_ Two significant agreements of GILDEMEISTER Aktiengesellschaft are subject to a **change of control** condition (that is the acquisition of 50% or more of the voting rights) as a result of a takeover offer within the meaning of Section 315 para. 4, no. 8 German Commercial Code (HGB): a syndicated loan and the bond issued in 2004 with a volume of € 175.0 million.

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

_ As at December 31, the registered capital of the company amounts to € 112,586,507.80 and is distributed in 43,302,503 individual shares in the name of the holder. Each share has a voting right and is the determining factor for the share of profits.

_ The company is managed by the Executive Board and is represented by the Executive Board towards third parties. The appointment and revocation of appointment of members of the Executive Board is the responsibility of the Supervisory Board pursuant to Section 84 of the Companies Act (AktG).

_ The most recent amendment to the Articles of Association took place at the 104th Annual General Meeting of Shareholders on May 19, 2006, when Section 12 of the Articles of Association was amended.

_ In the reporting year the Executive Board did not exercise the above-referred authorisation.

_ The conditions for a change of control comply with the customary agreements. They do not lead to an automatic termination of the above-referred agreements but, in the event of a change of control, merely grant our contractual partners the possibility of terminating these, if necessary.

Research and Development

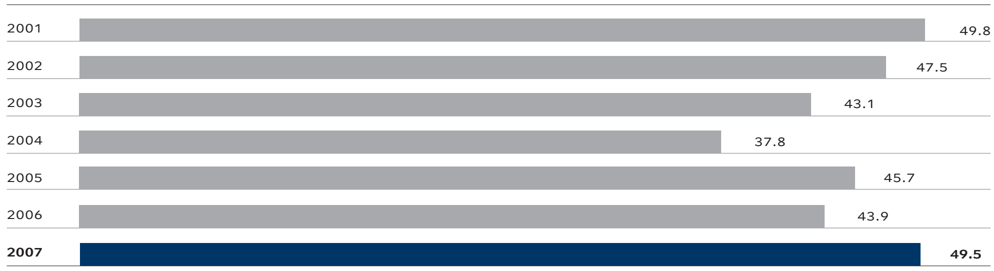
The aim of our development activities is to increase further the added value of our products and services for our customers. We have the aim of offering technologically advanced products at a competitive price and to set ourselves distinctly apart from our competitors.

Through our ongoing research and development once again in the reporting year we were able to increase the efficiency and quality of our products. We achieved notable success with respect to speed, precision and the ease of use of the machines. The highlight was the presentation of selected machine types in the **"New Design"** at the EMO 2007. Moreover, GILDEMEISTER extended its range of products to include automation solutions for machines tools and solar installations for the industrial sector.

Innovation offensive for increased customer's benefit

With a renewed innovation offensive for the EMO 2007, GILDEMEISTER raised the research and development budget. Expenditure were € 49.5 million; that is 13% above the previous year (€ 43.9 million). The percentage proportion of sales revenues in the "Machine Tools" segment amounted to 4.6% and was thus slightly below the previous year's figure (4.8%).

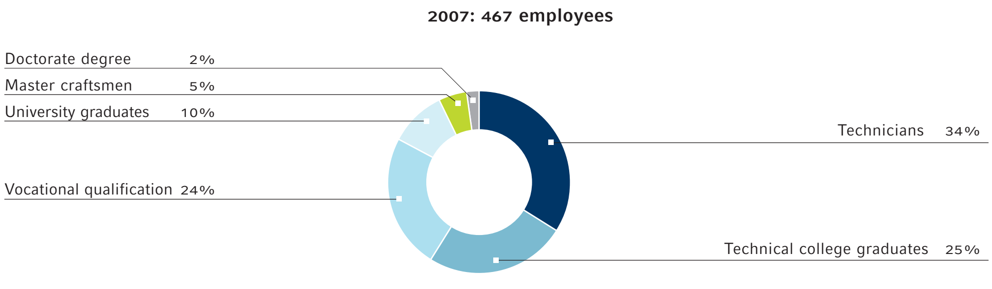
EXPENDITURE ON RESEARCH & DEVELOPMENT AT THE GILDEMEISTER GROUP
in € million



In addition to our own research and development activities, we have also used the external development know-how of our system suppliers. In the area of research and development, in the reporting year we mainly used the services of third parties for aspects relating to industrial design.

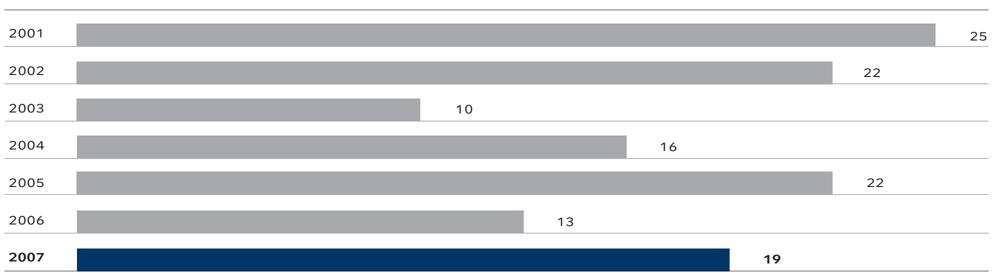
A total of 467 employees (previous year: 421 employees) work on developing our products (13% of the workforce at the plants). GILDEMEISTER has thus increased its development capability by nearly 11%; this emphasises the high value placed on innovations. As a growth driver, research and development capabilities make a clear contribution to the group's results. However, it is not possible to quantify the contribution made by individual measures.

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



In the reporting year 27 patents (for example, the "New Design", the DMG ERGO*line*® and the SunCarrier), utility patents and design patents, as well as brands and trademarks in the "Machine Tools" segment, were registered in order to protect our inventions and developments. Overall the value of our portfolio of protected rights, defined by the market value method, amounts to € 320 million (previous year: € 300 million).

NUMBER OR INNOVATIONS AT THE GILDEMEISTER GROUP



By strengthening our development activities, we were able to present 19 new developments to our customers at a total of 61 trade fairs and exhibitions. At the most important machine tool trade fair, the EMO, GILDEMEISTER presented 14 world innovations. This trade fair, which takes place every two years, influences our development activities to a great extent.

The "New Design", which was launched at the EMO, is registered as patent and a utility patent and is distinguished by its unique colour and shape, as well as by its especially high-quality surface materials. The integration of larger doors and panes, as well as the improved work space illumination, increase transparency in the machining process and access to the work space. The new machines offer improved user interfaces with enhanced ease of use. The patented machine control, DMG ERGO*line*® Control, has modern DMG SOFT*keys*® and a 19" flat screen. The angle of the screen and keyboard are adjustable independent of each other, as an option, an integrated seating support for the user can increase ergonomics during workshop programming. By means of transponder technology, the non-contact DMG SMART*key*® replaces the conventional authorisation access. This allows authorisation levels to be assigned more flexibly than before. At the EMO we received 2,300 customer enquiries about the new design. Of those asked, 86% rated the new design as “good” or “very good”, 81% considered it to be a factor when selecting and purchasing a machine tool.

In the **turning division**, we presented ten new products. The highlight was the new CTX series in the 5th generation. Three platforms form the basis for the alpha, beta and gamma series; they enable a modular construction with maximum efficiency at a competitive price. The beta and gamma machines can be fitted with a high-performance milling spindle with B-axis and physical Y-axis, as well as with a fully automatic tool changer. This results in an increase in flexibility of use as well as the autonomy of the machines for integrated machining.

In the **milling division** we have introduced eight new models. Our universal milling machines from Pfronten and Seebach are characterised by an even higher distinct increase in performance. New performance characteristics are the pallet changer with an working extremely high, as well as high-performance spindles which, for example, are used in the chipping of aerospace materials.

With the introduction of the **ECO machines**, GILDEMEISTER consequently has extended its range of products for the first time in the lower price category. These machines are especially determined for the Asian, American and eastern European markets.

With DMG Automation GmbH GILDEMEISTER has extended its full line range to include **automation solutions** especially with industrial robots. The DMG Automation applications are characterised by an availability of more than 97%, easy operability, a compact construction and high productivity. The range of automation technology extends from mechanical and pneumatic feeding systems to loading portals and 6- or 7-axis robots. In addition to the work piece changer, our systems can also carry out added value ancillary processes, such as labelling, cleaning and deburring, parallel to the machining time and outside the working area. In order to offer the best possible solutions at a favourable price, we have developed standardised automation solutions for selected machines in the DMU, DMC and CTX series.

With the newly founded DMG Electronics GmbH, GILDEMEISTER stays abreast of the high level of importance attached to **electronics** as a customer benefit in machine tool technology. Our aim is to design the interfaces in the future to be even more user-friendly for the user. By combining our expertise, the standardisation of electronic components and co-ordinating the development of user interfaces, we can increase the speed of our innovation developments and the quality of our products across the board. DMG Electronics GmbH serves as the centre of expertise for strategy, technology and purchase of electronic components. This allows us to tap into savings potentials and to arrange collaborations with suppliers more effectively. The DMG Powertools software products will also be developed and distributed by the new group company.

In the **"Services" segment**, GILDEMEISTER provides a wide range of modern service packages. The new DMG Messenger, a component of the DMG Powertools software package, allows our customers to monitor the status and productivity of the machines at any time by way of an integrated online monitor. The DMG Virtual Machine was successfully presented at the EMO 2007. This service product allows all operations and processes to be planned and checked carefully on the computer before work piece machining commences. Additionally, the DMG Virtual Machine supports the user in the set up time, it reduces idle time significantly and thus assists in clearly accelerating production start-up, resulting in faster and more cost-effective work.

GILDEMEISTER successfully entered the **solar technology** division with the SunCarrier. This solar tracking system has a 30 degree angle module surface of 250 square metres and follows the sun's position by rotating on its axis by up to 220 degrees. In this way output can be increased by about 32% compared to fixed systems, without the need for a technically complex angle technology, which is susceptible to wind, for a second axis. Depending on the region, a SunCarrier in Spain can provide up to 20 households with electricity or produce electrical power of up to 30 Kilowatts. The a+f concept has been registered as a patent. It is characterised by proven, low maintenance technology and specially developed directional guides, and sets itself apart from its competitors. The long lifespan of the installations provides additional cost-effectiveness for our customers. The high output – whilst at the same time incurring low service costs and low energy consumption – means that the operator has particularly fast amortisation.

A SunCarrier provides up to 20 households in Spain with electricity

Purchasing and Procurement

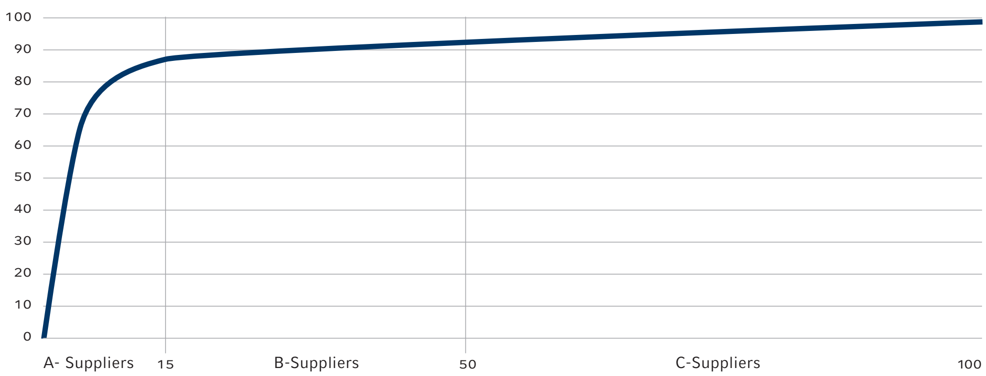
In the area of **purchasing and procurement** GILDEMEISTER intensified its close, partnership-based collaboration with its suppliers. Expenditure on materials and purchased services amounted to € 833.9 million (previous year € 698.2 million). Of this, € 689.0 million (previous year: € 580.2 million) was spent on raw materials and consumables (RHB). The **materials quota** further improved to 52.1% (previous year: 52.5%). Our real net output ratio was 31.6% (previous year: 30.3%). Purchase price increases in the reporting year were about 1%. As we actively include our suppliers in the value-added process, we have been able to counteract price increases, particularly in the area of cast iron and steel. With our award-winning procurement management, which is based on the three pillars of coSupply® – supplier management system, material group management and integrated global sourcing, GILDEMEISTER has further extended and strengthened its collaboration with its TOP suppliers. As a result, the purchase volume from our TOP 50 suppliers rose to about 80% (previous year: 75%), whereby we favoured system suppliers who had high vertical integration and could supply pre-assembled modules. The seventh supplier day serves to mark our close collaboration with our **supplier capital**: Before 150 invited representatives, we awarded prizes for the "Supplier of the Year" in the categories of quality, delivery performance, innovation and overall winner.

Together with our suppliers, we are focusing on **security of supply** and **improvement in the quality** of input parts. Close communication at all levels allows us to respond quickly in critical situations, so that, for example, production schedule increases occurring at short notice can be matched by our suppliers through the efficient use of maximum capacity. This is made possible by the early exchange of requirements and stock information along the whole supply chain. The Supplier Cockpit ensures a smooth exchange of information with our suppliers. Optimisation of the front office quality management also showed further positive effects. Product and process quality increased markedly.

To optimise the transport management long-term, we are working closely together with our globally active logistics partners. In doing so, we place our orders with service providers who have expertise in the various shipping regions. This has resulted in faster delivery times and an improvement in quality and service. Moreover, we were able to counteract effectively the worldwide increase in transport costs.

GILDEMEISTER plans to extend its strategic supply partnerships in order to exploit further the know-how of its supply partners and thereby also to reinforce our innovation strength long-term. With our coSupply® supply management system we develop our supply relations transparently and objectively through key figures. In particular, our communication platform **www.coSupply.de** is very extensively used by our supply partners; this is shown by an increase of 11% to 50,300 online sessions (previous year: 45,500).

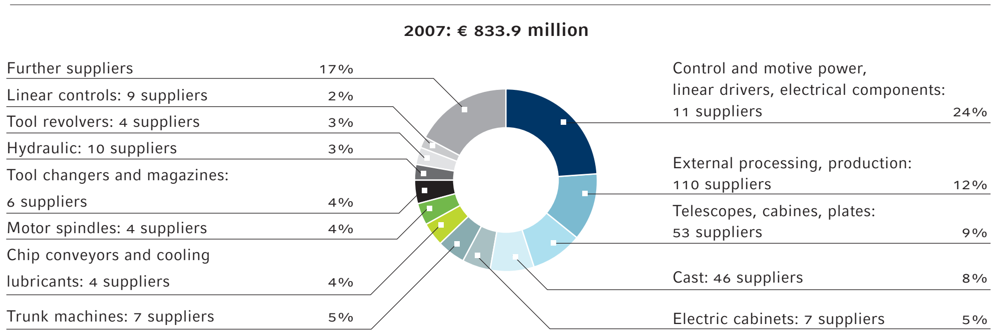
STRUCTURE OF COSUPPLY® SUPPLIERS
Share of suppliers in purchasing volume
in %



The **materials groups management** coordinates team-oriented collaboration between purchasing and technology through strategic purchasing activities. In various projects, such as in the area of drive technology and electronic components, this allowed system integration to be pushed forward and the supply programme to be streamlined. Component standardisation achieved considerable savings in the cost of materials in the reporting year.

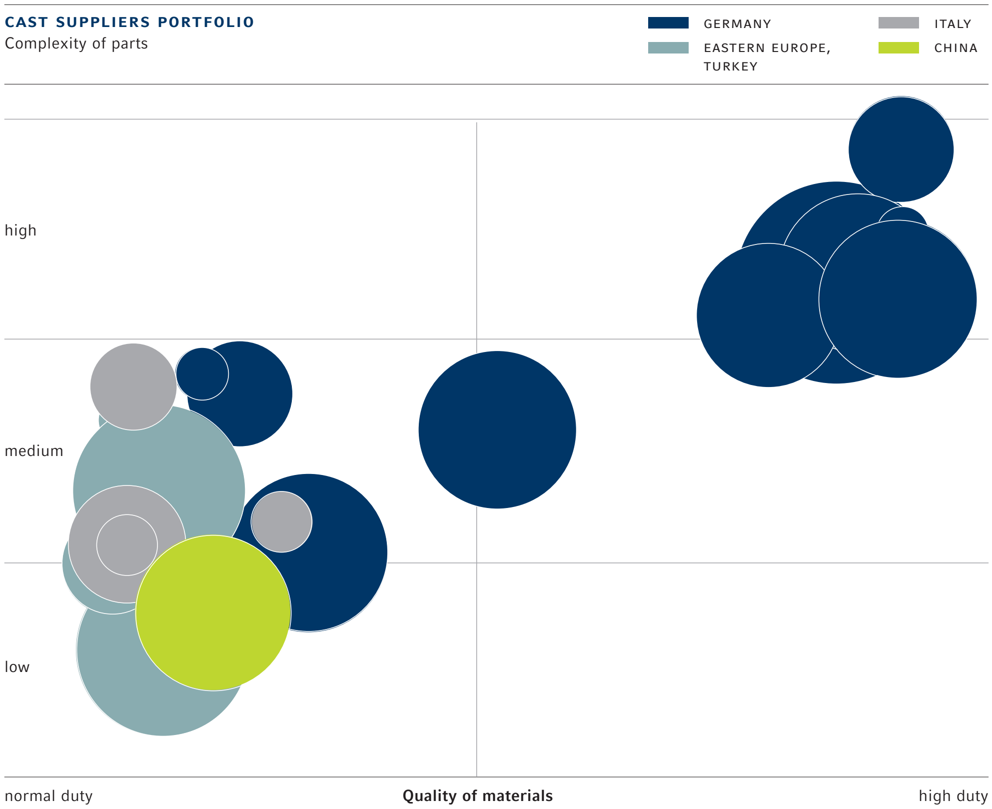
Furthermore, GILDEMEISTER strongly pushed the purchase of modules. For example, various systems for machine lubrication from components could be purchased as a package from one supply partner. This reduced our storage and process costs.

SHARE OF MATERIALS GROUPS IN PURCHASING VOLUME
in %



In the reporting period GILDEMEISTER procured cast iron components for machine tools from 46 different suppliers amounting to a total weight of 32,610 tonnes (previous year: 25,628 tonnes). As a comparison: This is equivalent to the weight of 425 jumbojets. **The strategy of integrated global sourcing** was particularly noticeable in the area of cast iron purchasing. The aim of this expansion is to build a reliable worldwide supplier network, which can guarantee us optimum costs with security of supply. We have distinctly increased the purchase of cast iron parts from China over our production plant FAMOT. Following extensive inspections of moulded minerals, this material will now be used for selected structural parts in order to benefit from the favourable price level.

CAST SUPPLIERS PORTFOLIO
Complexity of parts



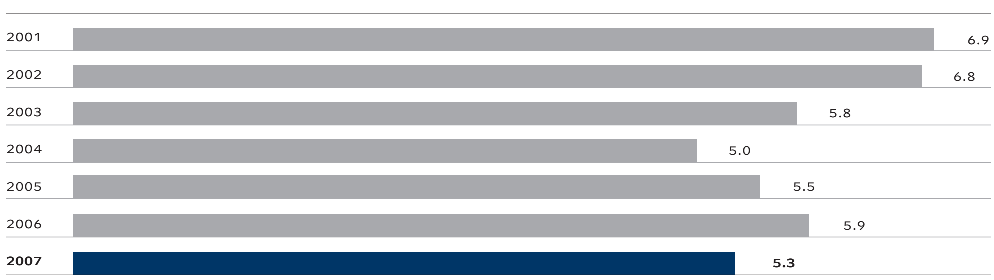
Total volume in t: 32,610
Size corresponds to volume / supplier

GILDEMEISTER responded to a changing market environment and its requirements with a realignment of central purchasing. The founding of DMG Electronics GmbH underlines the importance of control and drive technology in the group. This company coordinates activities in purchasing and in technology for software products in the areas of control environment, control and drive equipment, as well as the standardisation of electrical components. In addition, its area of responsibility has been extended to include non-production materials: for example, the area of fleet management / leasing, energy and investments will now be more effectively covered in the future. Through combining demand in the group in these areas, we are counteracting cost pressures and, in addition, are achieving process standardisation.

With our local procurement **(local content)**, we are increasingly reducing our dependence on stocks and improving our flexibility. Furthermore, we intend to increase our purchasing volume in the US dollar regions, so that we can reduce currency risks arising out of customer payments in US dollars **(natural hedge)**. The group purchases cost and process-oriented manufacturing parts from our production plant FAMOT as well as nearly every second pre-assembled basements.

In **goods storage** the rise in demand for complex technology machines led to longer procurement and processing times in materials handling and production. Moreover, due to the rising demand for raw materials and consumables the stockpiling of selected materials had to be extended in order to safeguard production flexibility. Inventories grew by 23% and at year-end amounted to € 361.0 million (previous year: € 293.0 million). This increase is due to a higher rate of turnover as well as to the necessary stockpiling of high-grade parts in connection with the large order intake for our solar tracking system. Therefore the **inventory turnover** of raw materials and consumables decreased by 10% to 5.3 (previous year: 5.9). Though the production plants were able to increase inventory turnover of raw materials and consumables by 5% to 6.4 (previous year: 6.1). When compared to the industry, and taking into account the entire stockpiling of spare parts, the average period of storage of raw materials and consumables as well as the stockpiling of solar modules of 69 days remained at a good level (previous year: 62 days).

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



Production, Technology and Logistics

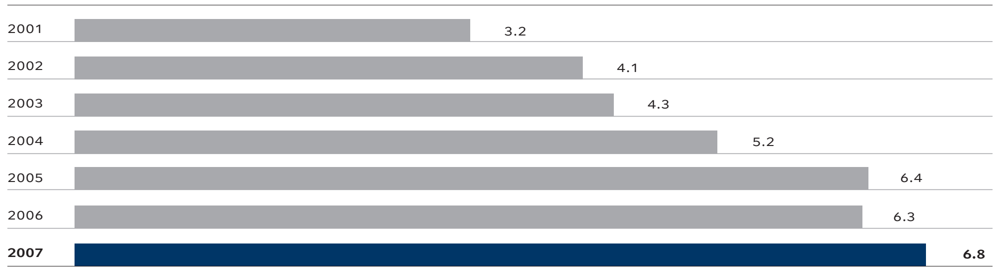
In the area of **production, technology and logistics** GILDEMEISTER once again succeeded in improving production capacity and efficiency. The investment projects shown on page 40 et seq. play an essential part in our further development in order to achieve our **production targets**. At the same time our integral value-added system, **PULLplus**, which stands for "**P**roduktions- **u**nd **L**ogistik-**L**eistung" (production and logistics performance), continually optimises and standardises production processes and operations at all the production plants. To this end, the trained PULLplus managers use an extensive range of tools, aids and guidelines from the PULLplus catalogue. Through this we have been able to intensify further our **process optimisation**. Additional improvements in production and logistics are made possible by our regular **5-s audits**: which are "**S**ortieren" (sorting), "**S**ystematisieren" (systemising), "**S**auber halten" (keeping clean), "**S**tandardisieren" (standardising) and "**S**elbstdisziplin" (self-discipline) and provide the basis for high quality, reduced wastage processes and continuous improvement. As our customers associate high-quality products with precision and orderliness, the sustainability of the 5-s audits is monitored and ensured.

5-s audits improve our production and logistic

At production and logistics meetings, **assembly processing times** are reviewed and reduced through appropriate measures. Assembly times are dependent on the type of machine and take between one and twelve weeks. The Machine Tool Builders' Association assessed the extent of the order intake and thus the average delivery time in the machine tool industry to be 7.5 months. At six months, GILDEMEISTER is clearly below this level and is thus able to meet its customer requirements faster than the competition. However, due to the high order intake, the reduction in assembly times could not completely compensate for the increase in delivery times. Maintaining our **customer capital** remains the aim of our activities, for example by increasing customer satisfaction even further and by processing orders quickly, flexibly and reliably.

Employees have highlighted further potential in reducing processing times within the operations suggestions system. The number of **suggestions for improvement** rose to 24,152 (previous year 21,117). Through attractive bonuses and a higher number of special promotions, we are encouraging our employees to use their knowledge to increase the **process capital** further. With an average 6.8 suggestions for improvement per employee, the level of 8% was higher than the previous year (6.3). The suggestions submitted led to a cumulative net benefit of € 3.7 million (previous year: € 4.5 million). Our employees' strong commitment secured once again the three top places in the industry ranking of the Deutsches Institut für Betriebswirtschft e.V. (German institute of business administration). In the current financial year we are planning to update our ideas management system. It is intended to make it even much more easier and faster for employees to submit their ideas, which experts can then assess more process-oriented and efficiently.

SUGGESTIONS FOR IMPROVEMENT AT PRODUCTION PLANTS
Number per employee



Across all plants we are continuing to work on improving our procurement and production processes. To ensure simultaneously low inventories, a high level of **security of supply** and little manual materials planning effort, GILDEMEISTER has increased the number of the parts available in the kanban principle and above all integrated A- and B-parts as well as modules.

To devise stable and simple procurement processes, orders are already automatically generated in part and are transmitted to our supply partners. To achieve a further advantage over our competitors in production technology and production management, GILDEMEISTER is taking part in the research project **"Adaptive Logistics"**, which is being sponsored by the Federal Ministry for Education and Research (BMBF). We are the only consortium member from the milling and turning industry in this project, which is testing new methods for the complex, multiple variant manufacture of high-quality industrial goods in the high wage country of Germany. Together with experts from the Fraunhofer Institute for materials planning and logistics, an optimised production and logistics concept for GILDEMEISTER Drehmaschinen GmbH has been developed and implemented. We hold regular exchanges of information with the best companies in our peer group. Benchmarks identify the best performance. Through this GILDEMEISTER obtains, on the one hand, knowledge of its own strengths and weaknesses and, on the other hand, approaches for possible potential improvements.

At every site we are continuously working on improving **working conditions** for our employees. Measures have already been carried out to improve the indoor environment, the air quality, the lighting quality and also to reduce draughts, noise pollution and the risk of falling or slipping.

In the **turning division** we offer our customers a comprehensive range of turning machines, which extends from universal turning machines to CNC multispindle automatic lathes. Since the reporting year, GILDEMEISTER Drehmaschinen GmbH – together with GRAZIANO Tortona S.r.l. – offers a technological innovation with series production of the production turning milling centres GMX 200 S / GMX 250 S: For the first time these machines open up the field of graphically supported workspace programming for turning milling centres. This allows the complex turning milling centres to be just as easily and safely programmed as a universal machine. The undisputed highlight in the turning business area was the presentation of the new alpha, beta and gamma series at the EMO in Hanover. These modular constructed machines of the CTX 5th generation not only permit more efficiency, precision and a higher cost-effectiveness, through their "New Design" construction they also demonstrate an optical innovation. The modular construction of the alpha, beta and gamma series simplifies the logistics and production processes. In addition to the production site in Bielefeld, the new CTX generation will also be constructed at GRAZIANO Tortona and FAMOT Pleszew and will go into series production in the current financial year. GILDEMEISTER Italiana is focusing on the CNC automatic lathes as well as the CNC Swiss-type automatic lathes. In the area of single spindle automatic lathes, the new MSL series offers maximum productivity for bar machining at lower acquisition costs. A uniform IT infrastructure throughout the group replaces the former ERP system and in future will map all the administrative and operational task fields along the entire value-added chain at the production sites in the turning and milling area. FAMOT Plezew S.A. extended the range of universal turning machines by dislocating the production of NEF 400 and NEF 600. With the new assembly hole the production capacities have been increased.

New CTX generation will be constructed in Bielefeld, Tortona and Pleszew

The **milling division** comprises a large portfolio of small highly-productive milling centres with the CNC universal machines as well as large, universal machining centres for 5-axis / 5-sided simultaneous machining. DECKEL MAHO has been a technological leader in this area for years. Through the installation of a production line, DECKEL MAHO Seebach has improved productivity in the assembly of universal milling machines. At the moment it is producing the DMU 50 and DMU 70 in a model mix. Due to the flexible layout design of the production line, we can also produce the DMC 635 V, 835 V and 1035 V in addition. This has enabled us to reduce inventories, to increase area capacity and to shorten processing times for the machines by more than 40%. In the newly constructed assembly hall, with a surface area of 3,440 square metres, DECKEL MAHO Pfronten is taking over production of the horizontal machining centres that up to now have been produced in Geretsried. The area in Geretsried that has now become available is being used by the newly formed company DMG Spare Parts. With series production of the DMU 40 monoBLOCK®, DECKEL MAHO

Pfronten has rounded off its range of MONOBLOCK® machines to include a lower level machine and, through modern control technology, offers an easy and cost-effective entry level model for 5-axis milling. With the CTX 310 ECO our production plant in Shanghai has for the first time offered a machine that is designed for the local market. Apart from that the focus lay on the activities for the beginning of the serial production of another ECO machine – the universal milling machine DMC 635 ECO.

In the **ultrasonic / lasertec division** SAUER GmbH produces products at its sites in Idar-Oberstein and Kempten, which are equipped with features that are in part unique throughout the world. When machining hard and sophisticated materials and materials of the future, such as ceramic, glass or zerodur, the ultrasonic technology enables the highest precision and surface quality with its vibration reducing drilling, grinding and milling. The machines, which are developed and produced at the site in Kempten, permit laser cutting of the finest contours and cavities as well as 3-dimensational laser engraving whilst maintaining maximum processing reliability. The range of lasertec machines was extended in the reporting year by the LASERTEC 130 PowerDrill, which sets innovative standards in drilling large turbine components.

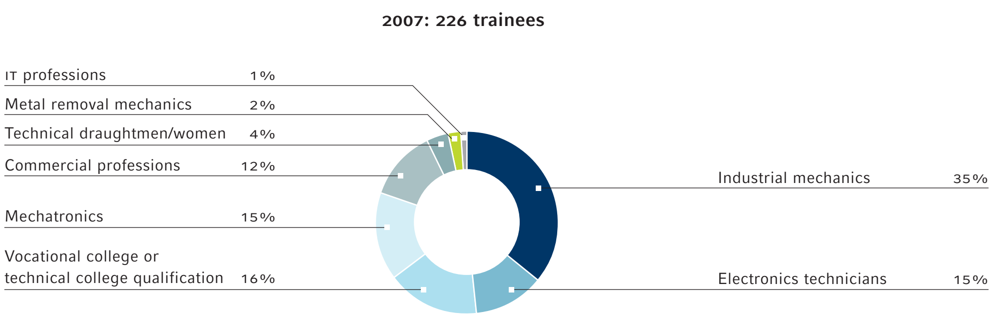
Employees

As at December 31, 2007 GILDEMEISTER had 5,998 employees (previous year: 5,558), of whom 226 were trainees. Compared to December 31, 2006, the number of employees has increased by 440; as announced, it was thus some three percentage points higher than our originally planned increase. The personnel increase took place in both the “Machine Tools” and “Services” segments. In order to meet the increased service requirements of our customers to an even greater extent, we have further expanded our service capacity in Europe, Asia and Germany. On account of the considerably higher sales revenues performance, additional employees were hired at the production sites in Pfronten, Pleszew and Shanghai. Further employee increases occurred with the integration of DMG AUTOMATION.

At year-end, 3,586 employees (60%) worked for our national companies and 2,412 employees (40%) for our international companies.

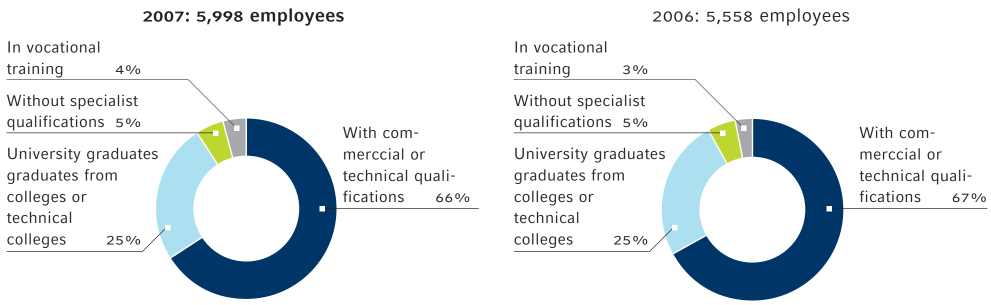
We have increased the number of trainees by 35 to 226 (previous year: 191), to enable us to recruit a large number of our skilled and executive personnel from our own ranks. Professional vocational training plays a decisive role in providing young people with an excellent and attractive opportunity to enter our world of work at our production sites. At the start of the new training year, GILDEMEISTER took on 71 trainees (previous year: 55). The vocational training quota in the "Machine Tools" segment at the domestic companies was 8.9% (previous year: 8.4%). Overall, we offer vocational training in ten different trades. In addition, we offer courses of study in association with regional colleges of advanced vocational education and universities of applied sciences. We are continuously expanding and developing these co-operations further.

TRAINING IN THE GILDEMEISTER GROUP
Allocation by fields
in %



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

QUALIFICATIONS STRUCTURE OF EMPLOYEES IN THE GILDEMEISTER GROUP
in %



As illustrated by the figures in the graph, the qualification structure has hardly changed since the previous year. In all, 95% of the workforce already has a professional qualification or is currently in training (previous year: 95%).

The number of employees taking part in further training has further increased since the previous year and, at 3,580 employees, represents 60% of the workforce (previous year: 3,250 employees or 58%). One of the most extensive training measures was the qualifying of our domestic and foreign sales and service employees for the new machine generations and the familiarisation and qualifying of newly appointed staff. Further emphasis was placed on training measures in information technology and in languages. A total of € 4.4 million was spent on further training (previous year: € 3.5 million).

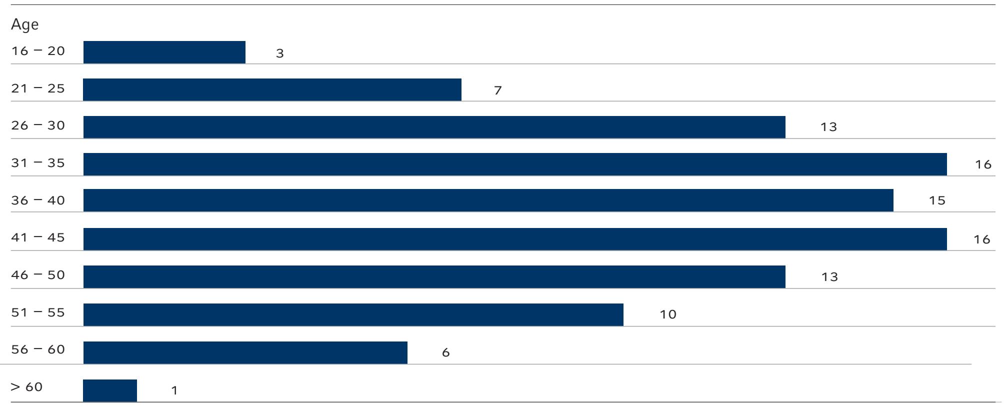
Implementation of a worldwide employee bonus plan

Employee motivation is promoted through an incentive and remuneration arrangement which rewards target achievements in individual performance through variable, performance-based salary components. In addition, in 2007 we implemented an employee bonus plan, through which all employees of the GILDEMEISTER group worldwide share equally in the company's success.

Personnel expenditure amounted to € 366.4 million (previous year: € 320.2 million). Of this, wages and salaries accounted for € 308.3 million (previous year: € 267.1 million), social insurance contributions for € 54.4 million (previous year: € 47.7 million) and the costs of retirement pensions € 3.7 million (previous year: € 5.4 million). The € 46.2 million increase was due primarily to an increases in collective pay agreements, a rise in expenses for additional job performance, commissions and bonus payments, as well as to the greater number of employees. The personnel expenditure quota decreased to 22.9% (previous year: 24,1%).

The part-time retirement plan had 150 employment agreements (previous year: 136), for which we use the block model. Participation in the part-time retirement plan has increased by 10% in comparison with the previous year. The entire period of part-time retirement is divided into active and passive phases of equal length. 73 employees were in the active phase and 77 in the passive phase. Our employees' age structure is balanced and has altered as follows: 39% of our employees are 35 years of age and younger (previous year: 38%), 83% are 50 years of age and younger (previous year: 83%).

AGE STRUCTURE OF EMPLOYEES IN THE GILDEMEISTER GROUP 2007
in %



Additional SD-KPIs have developed as follows: In the financial year 2007 there were 146 traffic and operational accidents (previous year: 161). In relation to the total number of staff, this represents a reduction to 2.4% (previous year: 2.9%). The level of sickness of an average 3.1% was the same as for the previous year (3.1%) but still below the industry average of 3.5%.

Fluctuation of 7.1% was below the previous year's level (7.9%) and was equivalent to the industry average of 7.1%.

Two employees were acknowledged for their 50 years' employment jubilee. In addition, 28 employees celebrated 40 years', 38 employees 25 years' and 113 employees 10 years' employment at the company. We would like to thank all our employees who are celebrating their jubilee for their loyalty to the company and their unceasing commitment. At this point we would also like to thank all our employees for their highly-motivated performance. We would also like to thank our works councils, whose knowledgeable and constructive work has contributed to the implementation of many decisions.

Corporate Communication

GILDEMEISTER continued to intensify its corporate communications both internally and externally during the reporting year. Based on an overall concept of market and value-oriented corporate management, our corporate communications ensure a strong international market image. The technical and content basis of this was provided by the marketing information system (MIS). This collects global information from 233,718 companies and 398,455 contacts in 16 languages, updates the information continuously and makes it available to those in marketing, sales and service. For more than two decades we have been worldwide successfully documenting, structuring and managing our customer relations in those countries in which we are active. The interactive instruments we use for this comprise trade fairs, exhibitions, printed information, advertising, our internet presence as well as investor and public relations activities. Our innovations and the rounding off of our product lines again remained in the foreground in the reporting year. Activities in corporate design, sales, pricing and innovations policy were closely linked to our marketing actions. Overall we were able to tap the available market potential even further and open up new buyer segments. Expenditure on marketing and corporate communication in the reporting year totalled € 31.2 million (previous year: € 26.2 million).

GILDEMEISTER as largest exhibitor at the EMO 2007

Trade fairs and exhibitions continue to play a key role for GILDEMEISTER as marketing instruments. In the reporting year, DMG was represented at 61 trade fairs, in-house exhibitions and special events both nationally and abroad. 528 turning, milling and ultrasonic/ laser machines were presented in operation over a total exhibition surface area of nearly 10,000 square metres; this equates to a surface area of 38 tennis courts. 58,041 recorded visitors, representing 44,396 companies, generated direct order intake of € 502.7 million. A total of 2,225 machines were ordered. The highlight was the EMO in Hanover. At this trade fair we presented 70 exhibits, of which 14 were world innovations, over an area of 4,000 square metres. In the reporting year we spent € 17.4 million (previous year: € 14.3 million) on trade fairs and exhibitions; this corresponds to 56% of total expenditure on marketing and corporate communication (previous year: 55%).

At GILDEMEISTER **advertising** primarily means the marketing of our products. In the reporting year two issues of our high-quality customer journal were published in 40 versions and 22 languages. Together with our Services News, total circulation amounted to more than one million, although the online versions were also increasingly accessed. As before, our website continues to enjoy great popularity with an increase of 22% in registered users. The total volume of brochures was 431,000 (196,500 for the turning area, 208,000 for the milling area and 26,500 for the ultrasonic / lasertec area). As a comparison: If these were piled on top of each other, they would be three times higher than the Berlin television tower. Product and event mailings were also pushed. The total worldwide reached 2.6 million items, spread across 18 direct mail campaigns with a daily average of 7,123 items. There were 22 different language versions for a total of 51 countries.

The shop floor mailing totalled 360,000 (32 versions in 19 languages), the 5-axis mailing was 343,000 addressees (31 versions in 18 languages) and the year-end mailing 150,000 (10 versions in 7 languages). An additional key focus was placed on specialist publications. 168 advertisements in 82 trade magazines informed readers in 28 countries about DMG products. In the financial year, eight press conferences took place and were attended by a total of 300 journalists. The closing reports comprised more than 520 editorial pages. GILDEMEISTER invested a total of € 12.1 million (previous year: € 10.6 million) in product marketing. This is 39% of expenditure on marketing and corporate communications (previous year: 40%).

MARKETING COSTS DISTRIBUTION AT THE GILDEMEISTER GROUP
in %

Stefanie Leingruber

Absolute visionary. Born on February 24, 1987, qualified electronic technician, employed at GILDEMEISTER since February 1, 2007. Stefanie Leingruber users her know-how to programme and commission automation solutions with 6-axis industrial robots at GILDEMEISTER.

AUTOMATED MACHINE TOOLS:

"Tomorrow's machine tools are true allrounders with their automation solutions and offer measurable added value for our customers."

100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%

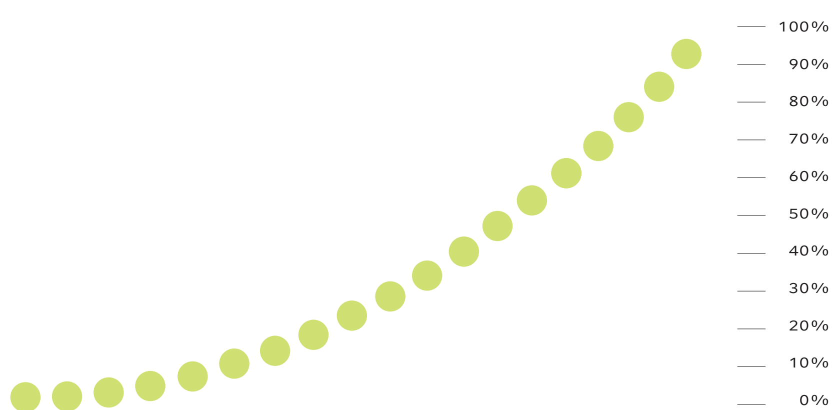
Automated processes increase productivity in production.

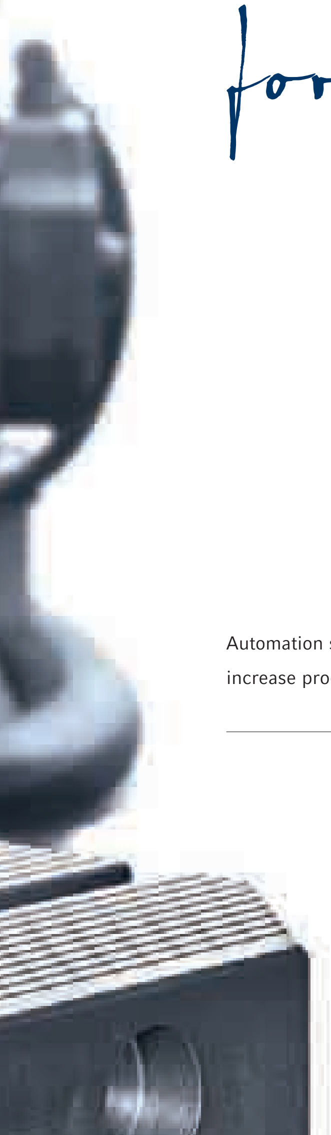
Automation solutions increase the competitiveness of our customers. With customised solutions during production we offer more flexibility and higher quality with less time involved.

TECHNOLOGIES FOR TOMORROW:

"We have already greatly extended the operating range of our machine tools through automation. This means extra productivity for our customers."

Automation solutions from GILDEMEISTER increase productivity by up to 95%.





Supplementary Report

Overall economic development was following an upward trend in the first months of this year. The economic situation of the German machine tool industry also started the year at a high level.

Economic Development 2008

Overall economic development in the first months of the current year carried on from the excellent development in the previous year. The Organisation for Economic Cooperation and Development (OECD) assumes that the cyclical momentum will slow down slightly over the whole of 2008. The main engine of economic development is China, whilst the driving forces from the USA remain cautious.

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

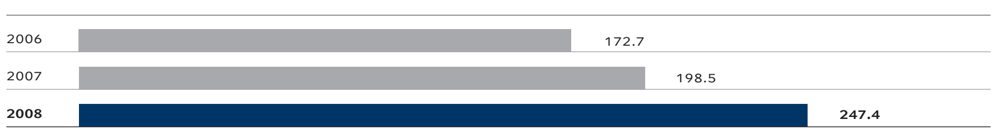
The economic trend of the **German machine tool industry** also developed positively at the start of the year; correspondingly positive were the industry's sales. The German machine tool builders' association (VDW estimates order backlog to be 8.0 months.

Source: VDW (German Machine tool builders' association)

Corporate situation at the end of the reporting year

GILDEMEISTER made a successful start to the new business year. Once again, business development in January and February developed better than in the previous year. Sales revenues of € 247.4 million (+25%) were above the figure for the comparable months of the previous year (€ 198.5 million). In particular due to the success at the open house in Pfronten order intake of € 380.6 million (+46%) exceeded that of the first two months of the previous year (€ 259.8 million), this comprises a € 63.0 million contribution by the SunCarrier. Order backlog rose as at 29 February 2008 by 74% to € 882.6 million (figure for the previous year: € 508.0 million). The results in January and February also improved compared to the previous year. At this moment in time, we consider a more detailed statement to be premature.

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



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

Traditional open house in Pfronten a special sucess

On February 19, 2008, a+f GmbH again received a major order for the supply of solar installations. The order is for a total of 240 SunCarriers to a value of € 55.4 million that will be installed on 42 hectares in Alange (Spain). GILDEMEISTER has become successfully established in the trend-setting business area of solar technology. For the most part the major orders will contribute to sales revenues and income in the current financial year.

The highlight of our **marketing activities** was the traditional open house at our plant in Pfronten at the beginning of the year. The CNC vertical turning machine CTV 160 celebrated its world premiere; it was one of 48 machines exhibited at DECKEL MAHO. In addition to the exhibits, innovative control technologies and automation solutions were presented. A total of 3,625 trade visitors informed themselves about our products and services. We were able to achieve high order intake of € 102.6 million and thus make a good start to the new financial year. At a total of five national and international trade fairs and open houses – including the important trade fair for India DIE & MOULD – GILDEMEISTER presented its range of products to a broad range of trade experts.

The GILDEMEISTER **Suppliers' Day** took place on February 21th, 2008 during the in-house exhibition in Pfronten. For the eighth time the "Supplier of the Year Award" was presented before the invited suppliers in the categories quality, supply performance, innovation and overall winner.

In the first two months we raised the **selling prices** of "machine tools" and "services" by approximately 1% to 5% depending on market conditions and each particular product.

There were no changes in the first two months of the year to the **legal corporate structure**. Neither were there any acquisitions of **shareholdings**. In January we reorganised our **organisational structure** in America. Sales and service activities are now separated into the "North America" and "Latin America" areas of responsibility.

In the first two months of the year we did not make any significant **investments**.
For the months of January and February we received a **notification of voting rights** pursuant to the Takeover Bids Directive Implementation Act (TUG) according to Section 21, para. 1, clause 1 Securities Trading Act (WpHG): JPMorgan Chase & Co., New York, USA, assigned through its subsidiaries, has exceeded the threshold of 3% of the voting rights as at February 21.

At GILDEMEISTER Aktiengesellschaft and its subsidiaries the Public Prosecutor's office carried out investigations on January 15, 2008. The investigations are based on initial suspicions of possible infringement of tax and duties legislation and criminal offences. The investigation is directed towards the chairman of the Executive Board and other persons. GILDEMEISTER is very concerned to ensure that the matter is fully explained and will support the public prosecutor's office in its investigations. An internal audit is being carried out in-house. Following a resolution of the Supervisory Board of January 29, 2008, an auditing firm and a law firm have been assigned a mandate to investigate and assess the allegations. We do not expect the investigative procedure to have any significant impact on the results of operations, net worth and financial position.

General statement: The financial year 2008 started well. Both in January and February order intake, sales revenues and the results, were higher than the previous year's figures. We have thus laid the foundations for another successful business year.

Opportunities and Risk Report

The Executive Board has defined principles and guidelines in a risk management system so as to identify risks and take appropriate countermeasures at an early stage. It has provided rules of conduct that are included in policy guidelines and are reinforced by inspection measures.

Opportunities and Risk Management System: The worldwide business activities of GILDEMEISTER demand a permanent weighing up of opportunities and risks. Taking opportunities as well as the ability to identify risks, to analyse and reduce them with appropriate strategies are important factors in our corporate dealings. Our group-wide risk management allows us to identify and classify opportunities and risks at an early stage. In principle, our risk management system accesses the group's existing organisational, reporting and management structures, and supplements these with specific elements. Our risk management comprises five elements:

1. the company-specific risk management manual,
2. a central risk management representative, who is supported by a local risk representative from each group company,
3. area-specific schedules of risks,
4. the group's general reporting structure within each area and across all areas,
5. the risk reporting system at group and at the individual company level.

The risk management system at GILDEMEISTER is structured in such a way that significant risks are identified, monitored and continuously notified. The risks in the individual company areas are identified in this way every quarter and the risk potential that is determined as a result is analysed and evaluated using quantitative indicators. If it is possible to offset a risk reliably using effective countermeasures, only the residual risk is presented following the measures introduced. The residual risk is assessed on a probability of occurrence basis and presented in the risk management report.

We pay special attention to risks that could endanger the future of each company or the group – that is, if the total of all weighted risks exceeds equity by 50% or more. The Executive Board and the Supervisory Board are informed regularly about the overall risk position of the group. The illustration of the overall risk situation of the group requires the identification of local and central risks and their effect on the group by means of the following methods:

- Local risks are individual risks that the group companies are exposed to and that can be assessed locally. Local risks are to be documented, assessed and monitored by each group company in the form of risk schedules.
- Central risks are risks that – at least in part – can only be assessed centrally. These include, for example, risks arising from the group's financing.
- Group effects usually arise from consolidation requirements. These include, for example, the impairment test of goodwill.

New opportunities with the ECO series

Opportunities arise for GILDEMEISTER through the steady development of products to further extend the innovations' leadership. With the SunCarrier of a+f GmbH GILDEMEISTER is working in a new division by which the group is participating in the growing solar market. Further potential opportunities have arisen for GILDEMEISTER since mid 2007, on the one hand through the integration solutions with robots for machine tool automation and, on the other, through supplying the fast-growing regions in eastern Europe, Asia and South America with the ECO series.

To identify further opportunities timely, the marketing information system (MIS) collects all customer data worldwide and analyses market and competition data. We coordinate our sales and service activities and interactive marketing measures with the market-specific segmentation of the MIS data in such a way that our intended market penetration and the targeted deployment of our sales force are ensured. On this basis we measure, evaluate and check all measures for effectiveness and cost-efficiency. This allows us to draw up short-term and medium-term forecasts on expected customer orders per machine type and sales region.

Corporate strategic opportunities present themselves to GILDEMEISTER through a sustained leadership in innovations and technology, as well as through market leader product quality. These give rise to opportunities to further strengthen our position in numerous markets. This is aided by the MIS data, which provides us with a variety of **operational early indicators**. They form the basis of our business policy decisions in order to take advantage of our opportunities and to avoid possible misguided developments. As the leading and integral component in the GILDEMEISTER IT system environment, the MIS determines and ensures the consistency and integrity of the customer data. Growing legal certainty and political stability in the Asian and eastern European growth markets provide more opportunities to achieve higher market shares in these regions in the future.

Economic performance opportunities arise from the active integration of our suppliers in the value-added process. The optimisation approaches related to this enable us to counteract price increases, in particular in the cast iron and steel area.

Other Opportunities: As a full service supplier, we are building upon our services even more and are expanding our advanced technologies. In addition to ultrasonic and laser technologies, we are becoming more active as a supplier in the field of renewable energy sources.

General economic risks: Major potential risks for the further development of the GILDEMEISTER group result primarily from cyclical influences in the markets that are important to the company. Changes in prices of energy and raw materials as well as delayed deliveries represent further risks. Changes in foreign exchange rates, in particular the continuing weak US dollar, may lead to a slowdown in the growth of the world economy. Furthermore, changes in legislation relating to taxes or duties may have a negative impact on business development in individual countries. From today's perspective, there are no identifiable risks arising from overall economic development that could jeopardise GILDEMEISTER as a going concern.

Sector risks: We counteract risks arising out of cyclical trends with technological superiority. We proved this again in the third quarter on the occasion of the world's largest trade fair for the industry, the EMO, above all with an attractive product range for a broad customer base. From today's perspective we do not expect any major adverse effects on our income, financial and net worth position. Nevertheless, through the rising cost of materials and the continuing competitive pressure from Asia there is a currency-based risk in implementing sales prices – this particularly affects standard machines. We are counteracting these risks by strengthening our local production.

Early warning system shows risks

Corporate strategic risks arise mainly from erroneous interpretations of future market developments and from misguided technological developments. We encounter these risks through intensive monitoring of the market and competition, regular strategy discussions with customers and suppliers, a comprehensive trade fair presence in all important markets and also through our MIS early warning system. In the area of technology we counteract risks by forming development partnerships with customers, suppliers and technical colleges.

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

Risks arising from financing and evaluation: Limiting financial and valuation risks are core operational tasks of the GILDEMEISTER Aktiengesellschaft. Due to our international activities, currency-related risks may arise, which can be controlled through hedging transactions within the framework of our currency strategy. GILDEMEISTER has specified the hedging instruments permitted 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 168 et seq. According to our evaluations currency-related risks are low. Outside finance has been secured long-term through the issue of a fixed interest-bearing corporate bond which matures in July 2011. In addition we have at our disposal a syndicated loan for a total amount of € 175.0 million with a term until June 2011. Risks arising from this area amount theoretically to about € 10 million and are manageable, we consider the probability of occurrence to be slight. For this purpose indices (covenants) were agreed based on our corporate planning. Any breach of these covenants entitles creditors to terminate their agreements. At the balance sheet date all covenants were observed. We consider the risk of any termination of agreements to be low. An improvement in the indices will reduce the credit margin agreed with the banking consortium. About two-thirds of our outside financing is secured against risks arising from changes in interest rates by agreements for long-term fixed interest rates or interest derivatives. A 1% increase in interest rates pertaining to the non-hedged portfolio on the balance sheet date would result in an increase in interest expenditure of about € 1.2 million.

Personnel risks arise mainly out of the fluctuation of employees in key positions and from personnel recruitment and development. GILDEMEISTER limits these risks through intensive further training and training programmes for junior staff, as well as performance-related pay with success related incentive plans, substitution plans and timely succession planning. Moreover, excellent career prospects are offered both nationally and abroad. On the basis of the above-mentioned measures, we consider the probability of occurrence of estimated damages in an amount of about € 7 million as slight.

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

Legal risks may arise from the operational business, particularly warranty and third party liability claims of our customers with respect to the sale of machine tools and our 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 pursues a stringent policy of limiting the time period of our warranties and liabilities. This is achieved by our general terms and conditions, which we are continuously reviewing and adapting according to requirements. In addition, depending on the situation, we set individual rules to cover the actual circumstances. In this respect GILDEMEISTER has a modern contract management system and regularly carries out employee training covering the area of effective drawing up of contracts and the minimisation of risks.

Procurement and purchasing risks may arise through supplier shortfalls, quality problems and price increases. GILDEMEISTER regards the main risks as lying in price increases of raw materials as well as from the energy sector and in the increase in capacity utilisation. We reduce these risks through the standardisation of structural parts and components, the expansion of production in components and standard machines in Poland and China, and through our international sourcing. We have calculated the purchasing and procurements risks at about € 11 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 the area of research and development budget excesses, misguided developments and increased start-up costs for new products may lead to risks. In principle, we avoid incalculable projects, so that we consider these risks to be manageable and controllable. Moreover, GILDEMEISTER uses numerous other quality and product-related indicators to monitor potential risks. These include, for example, the contribution margin per machine type and the turnover rate of raw materials and consumables, as well as of inventories. We strive to counteract plagiarism by means of our innovations-focused product strategy, through which we ensure a technological lead through our speed of development. We have calculated these risks at about € 17 million with a low probability of occurrence.

Risk situation unchanged and controllable

Overall risk: No major changes have occurred in the risk situation since the publication of the last report. A summary addition of the main individual risks is not appropriate in our opinion as a simultaneous occurrence of hypothetical risks is improbable. The overall risk for individual group companies, as assessed by the risk management system, was about 6% of total equity in the fourth quarter of 2007. The fluctuating currency exchange development of the euro to the US dollar and Yen do not permit a clear prediction at the moment of how the exchange rates are going to continue to develop. Exchange rate relations increase currency and price risks, which consequently could restrict the sale of our products and services. Overall the risks can be controlled and from today's perspective the future of the GILDEMEISTER group is not at risk. We do not expect fundamental changes in the risk situation at the current time.

SWOT Analysis

The main strengths, weaknesses, opportunities and threats to GILDEMEISTER are summarised and presented following the criteria of a SWOT Analysis as follows:

SWOT ANALYSIS OF THE GILDEMEISTER GROUP

	Strengths	Weaknesses
company-specific	_ modern product range through high innovative strength, _ customised range of services covering the entire life cycle of the machine, _ full range of products for turning and milling, _ high production flexibilit, _ large and diverse customer base, _ modular products / standard parts concept, _ worldwide own direct sales and service network, _ profitable service business (full-service supplier), _ long-term financing measures, _ comprehensive analysis of customer, market and competition data by the marketing information system (MIS)	_ high capacity costs caused by production structures, _ global presence requires complex cost structure, _ low margin products part of full-line range, _ cost-intensive corporate financing through bond, _ high staffing levels due to worldwide presence, _ high start-up costs for new products
	Opportunities	**Threats**
market-specific	_ meeting customer requirements for simple machines with high quality standards, _ increasing legal stability in the growth markets in Asia and eastern Europe, _ global sourcing by opening up new procurement markets, _ leveraging market potential, _ new area of renewable energy sources, _ currency-related purchasing opportunities, _ price differentiation on additional benefits for new developments, _ large area of application with new controls and software for comprehensive processing support	– instability of national economy in crisis regions, _ erroneous assessment of new products and markets, _ currency-related price risks, _ pricing pressure from competition, _ logistics problems, quality problems caused by global purchasing activities

Forecast Report

According to estimates of the Organisation for Economic Cooperation and Development (oecd) the world economy will weaken slightly in the current financial year. Current forecasts for the machine tool industry expect further growth in 2008. The German machine tool builders' association (vdw) expects an increase in consumption worldwide and in Germany of 10%.

Future Business Environment

The **overall economic development** in the current year will follow an upwards trend overall but will loose a little momentum. Oil prices and the exchange rates are considered particular risks. The Institute for the World Economy (IfW) predicts an increase in global gross domestic product (gdp) of 4.5% for 2008 and 4.6% for 2009. In the **usa** growth will probably be further impacted by the consequences of the real estate crisis. As a result, private consumption will be affected as much as corporate investments. Predictions for growth of the American economy are running at 1.8% in 2008 and 2.2% in the following year. In **Japan** the increase in production is also expected to be somewhat subdued as consumers and business become more cautious. Growth forecasts for the current financial year expect 1.1% and 1.7% for 2009. In **China** the very brisk economy is expected to continue in all likelihood. At most, there could be some slight loss in growth. An increase in gross domestic product is predicted of 10.7% (2008) and 9.9% (2009). In **Europe** the strong euro could slightly affect foreign trade. Economic researchers predict an increase in gross domestic product for the euro countries of 1.9% in 2008 and 2.1% in 2009. For the European Union as a whole the forecasts are for 2.2% or 2.3%.

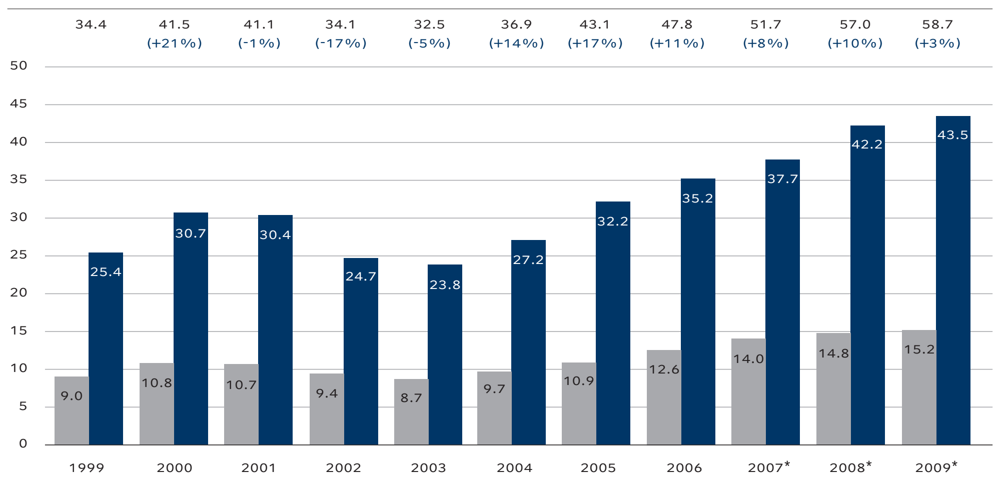
In **Germany** a continuation of the economic upturn is expected albeit at a slightly reduced level. The US real estate crisis is expected to have a negative impact as will the overall slowing down of economic development. The Institute for the World Economy (IfW) is expecting growth in gross domestic product of 1.9% (2008) and 1.6% (2009). The latest forecasts from the Institute for Economic Growth, ifo, are 1.8% (2008) and 1.5% (2009). The federal government is assuming gdp growth of 1.7% this year. More far-ranging forecasts have not yet been published. In their autumn survey 2007/2008, the German Council of Economic Experts on the Assessment of Economic Trends stated foreseeable growth of 1.9% in this year. Following the positive effects already felt in the job market in 2007, the job market situation may ease further in the coming year. With regard to public debt, it is considered as certain that it will fall below the deficit threshold again.

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** will continue to follow its positive trend in 2008. Current forecasts of the ifo Institute and of the German machine tool builders' association (VDW) expect an increase in **production capacity** and **market volume** of 10%. We are therefore expecting growth in **sales revenues in the industry** of 10%. This estimate is based on the positive outlook for the major Asian markets, such as China and India, as well as for the European markets, in particular the eastern European markets. In 2009 the VDW expects worldwide growth in consumption of 3%. At the same time the Asian-Pacific region will increasingly gain in importance as a sales market. At present no current statements on the **market potential** for machine tools are available. Neither are there any available on the development of the **industry's profitability**, or on **prices** and **wages** developments.

WORLDWIDE CONSUMPTION OF MACHINE TOOLS (1999 – 2009)
in € billion

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



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

In comparison to the global market, **economic activity** in the **German machine tool industry** will develop identically. The VDW and the ifo Institute expect growth of 10% in production and in consumption. On a medium-term basis, forecasts for the years 2008 to 2011 anticipate average growth in consumption of about 0.5% annually. Risks in this assumption exist in further price increases for raw materials and energy, in the exchange rate development and in the political environment.

Source: "The German Machine Tool Industry in 2007", VDW (German machine tool builders' association)

The **consolidation process** (mergers and acquisitions) in the machine tool industry is expected to continue in the current year. As a result of this development, an increasing number of globally active producers are present on the world markets. 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 further expand its global presence in major markets. In this year, we will open technology centres at our sites in the USA (Chicago), India (Bangalore), Korea (Seoul) and Mexico (Querétaro), amongst others. DMG SPARE PARTS GmbH will commence its business activities on April 1, 2008 in Geretsried. It will control the central spare parts management. A planned spare parts availability of 95% is intended to ensure fast, worldwide delivery and to increase productivity for our customers. In the standard machines we will round off our product portfolio in the lower category with the ECO series and thus strengthen our activities at the entry level. In the new HSC series, we will integrate the milling machines with high-speed cutting across the plants. In the future we will combine our industry-specific know-how in the center of excellence for the aerospace industry in Pfronten. We will further expand our local "24/7" service worldwide. This will enable our qualified DMG Service employees to serve our customers nationally in their own language at any time.

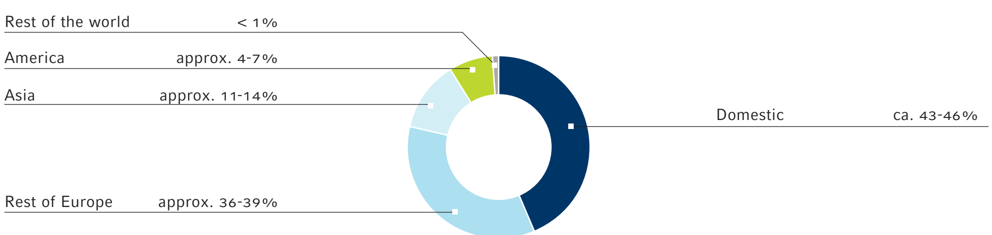
We consider the **future sales markets** to still be in Asia and eastern Europe. In the short and medium-term we will tap into these sales markets through expanding our direct sales and will further strengthen our leading competitive position.

In the first quarter of 2008 we are expecting **order intake** of more than € 550 million (previous year's quarter: € 416.1 million) – of these the SunCarrier will contribute about € 100 million. Based on the excellent business development in the first two months of the year, we are planning to achieve order intake of more than € 1.9 billion for the whole year. The regional distribution of orders will continue to shift towards Asia and eastern Europe. Our planning is based on the forecasted positive development of machine tool consumption. Factors that will influence selling prices include changes in exchange rates and the continuing strong competitive pressure from Asia.

We are expecting the worldwide trade fair highlights to provide a particularly strong boost: At the METAV in Düsseldorf from 31 March to 4 April GILDEMEISTER for the first time shows all 19 exhibits in the new design. At the DIE & MOULD in Shanghai from May 12 to 16, nine exhibits will be presented. The principal machine tool trade fair in the USA is the IMTS in Chicago, where GILDEMEISTER will demonstrate 28 exhibits from September 8 to 13. From 9 – 13 September GILDEMEISTER presents its product range at the AMB in Stuttgart. The JIMTOF takes place in Tokyo from October 30 to November 4. At this most important trade fair for machine tools in Japan, GILDEMEISTER will display ten exhibits. Over the year we will present our range of products at a total of 60 national and international trade fairs and in-house exhibitions.

For the first quarter we are planning **sales revenues** of more than € 350 million (previous year's quarter: € 320.3 million). Taking into account the high order backlog, we intend to once again increase sales revenues to more than € 1.8 billion. The distribution of sales revenues depicted in the following graphic is based on current order intake and expectations in the individual regions.

PROVISIONS SALES REVENUES DISTRIBUTION 2007
OF THE GILDEMEISTER GROUP BY REGION
in %



In the first quarter the **order backlog** will be higher than that of the previous year (€ 542.6 million).

In the first quarter we expect a further improvement in **EBT** (previous year: € 8.7 million). On the basis of the planned increase in sales revenues, we expect a further double-digit percentage increase in EBT and in the **annual profit** in the financial year. It is intended to increase gross profits further and reduce the personnel quota. We aim to improve the financial results in line with plan. If the business continues to develop in line with plans, we will propose a further increase in the **dividend** to the 2009 Annual General Meeting of Shareholders. In the medium-term we are aiming to reduce the tax load ratio to below 38%. The **free cash flow** is expected to amount to about € 50 million in the financial year 2008; this already takes into account the purchase of high-quality modules to expand our business activities in the field of solar technology.

Our **financing structure** is also to be optimised further this year. We will continue to pursue our medium-term target of increasing the equity ratio to about 40%. We intend to redeem the bond prematurely on July 19, 2008 and to replace this with financing with more favourable interest. We expect a reduction in the credit margins for the current financing as we will further improve the key performance indicators (covenants) in the financial year 2008. Moreover, we intend to reduce the working capital further and improve the gearing again. A secure financing structure allows us to have the necessary **liquidity** available for the planned growth as well as giving us sufficient scope within the agreed credit facilities.

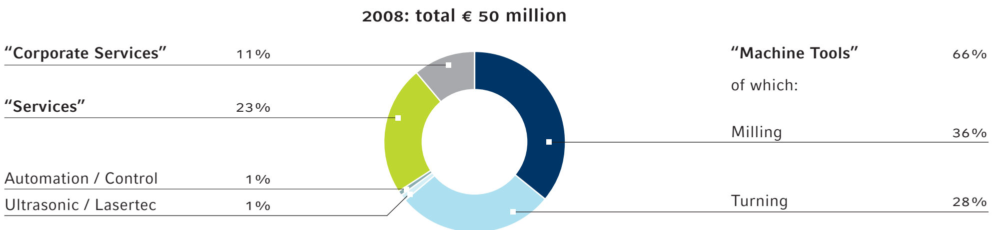
We will intensify our **value reporting** in 2008. With the planned increase in the results, we are expecting to further improve ROCE and to rise it mid-term to over 18%. This will allow us to achieve a relative value added that will exceed the cost of capital by more than 7%.

We will continue to expand our **opportunities and risk management**. In the future particular risks may arise for GILDEMEISTER from cyclical influences and external factors. Opportunities arise through the continuing positive development of overseas markets, through further stabilisation of material and energy prices through global sourcing, through automation solutions with industrial robots, as well as through a growing demand for our innovative solutions in the field of solar technology. We are creating an additional corporate-specific strength through extending our compliance management structure.

In the financial year 2008 we are planning **investments** of about € 50 million in the group companies. This includes about € 7 million for capitalised development costs. The scope of investments will be above the planned depreciation level. In the "Machine Tools" segment we will invest about € 33.1 million in fixed assets and intangible assets. The main focus will be placed on the provision of models, equipment and production facilities for new machine types. Furthermore, we plan to expand production capacity at GRAZIANO in Tortona, Italy, and to extend the office area at DECKEL MAHO in Pfronten for the commercial administration. To safeguard production with production parts, we will selectively complement production lines. In the "Services" segment, we are planning investments of about € 11.5 million. The main focus lies on the construction of a technology centre in India as well as on the worldwide supply of spare parts from the Geretsried site. In addition, we plan to supply our sales and service companies continuously with tools and measuring devices. Another key focus will be the reorganisaton of current workshop areas in Bielefeld. Here we will construct a technology centre with an enlarged showroom and modern training and conference rooms. In addition, the extended assembly area should result in capacities for the new vertical turning machine of the CTV series and further optimise our logistics processes. Several group companies at the Bielefeld site will benefit from this investment. We envisage investments of about € 5.3 million in the "Corporate Services" segment. No other investments in financial assets are planned. We plan to maintain investment at the level of the current financial year in financial year 2009. A focal point will be the new development of machine types with the necessary models and equipment for the EMO in Milan from 5 – 10 October 2009.

The **investment structure** remains well-balanced: The production plants and the sales and services companies will all be taken into account in the investments. When investing GILDEMEISTER pays attention to a timely and reasonable balance in relation to business development over the course of the year. 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 %



In the area of **research and development** we will continue to pursue our strategic targets and focal points in the financial year 2008. To ensure the long-term competitive capability of our products, we will continuously extend and upgrade the product lines in all business divisions within the scope of our innovation-oriented strategy. The planned volume for the current financial year amounts to about € 57 million. Our activities continue to be directed towards innovative technologies, which will enable us to continue setting future trends. In the past ten years, we have continuously invested in innovations at a high level of about € 40 to € 55 million each year in order to safeguard our technological lead. We aim to employ about 500 developers in the current financial year. Through our research and development work we aim to further improve the efficiency of our products and technological integration, for example, through a combination of milling and laser eroding processes. In the area of automation, we intend to extend our range to include complete solutions in order to offer our customers the greatest possible benefits. To increase our machine dynamics, we develop and optimise our intelligent and flexible software products – amongst others by improving usability or through more-in-depth simulation. At the same time, in the field of system integration, we continue to work closely together with our suppliers and research institutes, such as in the area of fundamental research, applied research and experimental development. The related expenses and the number of employees working in research and development are based on the strategic goals mentioned above. Therefore, we continually develop the expertise of our employees in this area through training measures in order to ensure the pre-conditions for further extending our technological superiority.

In the area of **procurement** we will further intensify our integrated concept, which comprises the three pillars of **coSupply®** of supplier management, material group management and international sourcing. We facilitate further development for our suppliers by setting clearly defined targets, methods and procedures. We are concentrating worldwide on our most efficient suppliers and will further increase their share in purchasing volume. The benchmarks, by which we measure our suppliers, are high innovative strength, product quality and delivery performance. Together with our supply partners we identify and achieve continuous potential cost reductions both in the products as well as in the procurement process. Through our international sourcing, we promote procurement from globally operating suppliers, who can utilise local advantages with regard to quality, costs and efficiency. For example, through this GILDEMEISTER will further increase local content of the machines at the location in Shanghai.

We make increasing use of regional location advantages

Our material groups management follows a strategy of value added optimisation and combines group-wide activities. For example, we increase the mechanical features of the machine bed for machine types that are newly starting up through the increased use of high-quality spheroidal cast iron. A focal point in this respect is the procurement of medium and high complexity cast parts and of high duty materials. Achieving the high technological and quality requirements of cast iron procurement in the countries of central and Eastern Europe will remain a challenge in 2008, for us and our supply partners. The numerous activities of our material group management makes it possible for us to reduce **procurement costs** long-term through pooling our purchases. In close co-operation with selected suppliers we will work on reducing stocks, increasing the group liquidity and further optimising the procurement processes.

Stable and reliable **supply** for our production is safeguarded through framework agreements that are coordinated throughout the group, especially for the “A” component range of aggregates, modules and subassemblies. In the current financial year we expect price increases of about 2% in relation to the group’s entire purchasing volume. The cause of this is the expected high level of **raw materials** such as iron or steel plates and the resulting price increases. In the area of standardising modules and components, the proven co-operation between central development co-ordination and purchasing will be continued and intensified. Standardisation measures, for example for fluid boxes, make it possible to reduce the number of suppliers and versions. Early supplier involvement enables us to recognise potential for standardisation and integration promptly during the product development process and to implement this together with our supply partners. In this way we use the innovation strength of our supplier partners and can avoid follow-up costs in development.

Our activities in the area of **production, technology and logistics** will be determined to a large extent in the current year by an extension of capacity and construction measures at the Bielefeld and Tortona sites. Following the successful introduction of the assembly line in our DECKEL MACHO Seebach production plant, we will also use the advantages of production line assembly for the production of beta machines at GILDEMEISTER Drehmaschinen GmbH in Bielefeld. At GRAZIANO Tortona S.r.l. we will expand our production capacity through the construction of a new assembly hall in order to successfully meet the challenge of the planned increase in sales revenues. Further potential for increasing production efficiency and flexibility is to be realised through the decoupling of the pre-assembly as well as the extension of the two-shift operation. The basis for the continuous increase in efficiency in production is formed, as before, by our PULLplus value added system.

We make consistent use of **new procedures** and in this way can reduce inventories and throughput time in the process chain. One example of this is the supplier cockpit, which enables timely electronic exchange of data with suppliers and thus contributes to a reduction in inventory and optimises processes. The focus of the PULLplus activities is an increase in net benefit. To achieve this target, we plan to extend and implement the current ideas management tool at the start of the second quarter. This will enable the improvement suggestions that are submitted to be processed faster and process-oriented by the expert valuers.

Value added system PULLplus increases efficiency

In order to further develop the technical procedures in the entire order processing, we will intensify the worldwide introduction and expansion of our modular workflow management system Front Office. On the basis of the existing IT system, for example, the group standard ERP system BaaN, the operators will be supported process-oriented in carrying out the tasks. This allows us to concentrate better on our core expertise and to achieve a further increase in **production flexibility** and in **capacity utilisation** at the production plants.

We will complement the **"Machine Tools" segment** with 17 new developments and thereby prove our innovation strength once more.

In the **Turning division**, GILDEMEISTER Drehmaschinen GmbH will round off its range of vertical turning machines to include a lower level category with the introduction of the CTV 160 linear. Following the presentation of the alpha, beta and gamma machines at the EMO 2007, the 5^{th} generation CTX machines of the CTX series will go into series production.

In the **Milling division** DECKEL MAHO Pfronten is extending the scope of application of the DMC and the DMU series. DECKEL MAHO Seebach has added two new machines to its range of travelling column milling machines.

With the introduction of the **ECO series** we are focusing primarily on the fast growing regions of eastern Asia, America or eastern Europe. High numbers of machines and efficient production structures in the Shanghai and FAMOT plants open up additional economies of scale.

The **ultrasonic / lasertec division** is rounded off by innovations in the area of high-speed cutting (HSC) as well as in the transfer of ultrasonic technology to other types of machines. The expansion and enhancement of our range of options will also allow us to keep pace with market development and changing customer requirements in the future.

The **automation and control division** we intend to expand our range of complete solutions to offer our customers the greatest possible benefits.

To increase the machine dynamic we are developing intelligent and flexible software products – amongst others by an improved operability and a comprehensive deepened simulation. In the **"Services" segment** we will intensify our efforts to increase the DMG service products. Through including innovative software solutions, tool management to increase productivity, individual upgrade packages and original spare parts, we are reinforcing our product solutions and making them more efficient, precise and flexible. By concentrating our spare parts activities in DMG Spare Parts at the Geretsried location, we are increasing the availability of spare parts for our customers in the service area. In this way we achieve simultaneous synergy effects in the spare parts business and thereby increase the product-associated service covering all aspects of machine tools. We will continually promote our supplementary range of training and user-oriented services.

In the financial year 2008, the group's **legal corporate structure** will likely change with the founding of more sales and service companies. It is intended that DMG Middle East, Dubai, will work the markets in the United Arab Emirates, Jordan, Qatar, Yemen and Bahrain, amongst others. We are expecting a positive contribution to sales revenues and earnings development from our new subsidiary companies.

We plan a further increase in employee numbers

We will continue to compete strongly for good **employees** in the future. In the financial year 2008 we expect an increase in employee numbers of up to 8% including trainees. The increasing globalisation will continue the trend that will result primarily in an increase in employee numbers at our international subsidiaries. Vocational and further training activities will continue to be one of our top priorities. In the future we also aim to recruit a large number of our skilled and executive personnel from our own ranks. In addition, the "exchange of best practices" amongst the trainees and other group company employees will continue to be encouraged. This gives both young and experienced employees the opportunity to work in other countries throughout the world. Employee motivation will be supported in the financial year 2008 through a bonus model linked to the success of the company.

General statement on the future business development 2008 and 2009

In the **financial year 2008** GILDEMEISTER is assuming further positive development in the business and results. Existing and newly-initiated programmes to optimise performance will play an extensive role in this. GILDEMEISTER is strategically well positioned to grow income further. We expect stable demand, both nationally and internationally, for our machine tools, services and solar technology. On the basis of forecasts for the markets relevant for us, in the current financial year we are planning to achieve order intake of more than € 1.9 billion. Taking into account the high order backlog, we intend to increase sales revenues once again to more than € 1.8 billion. The sales profitability – based on EBT – shall rise by 6%. It is also intended to continue to develop the company's profitability positively: On the basis of the planned increase in sales revenues, we again expect a double-digit percentage increase in EBT and the annual profit. If the business continues to develop in line with plans, we will propose a further increase in the dividend to the 2009 Annual General Meeting of Shareholders.

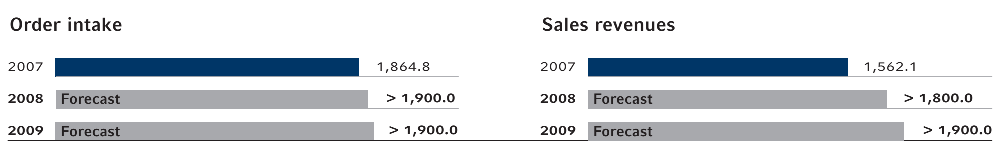
We also expect GILDEMEISTER to continue to develop positively in the **financial year 2009**. We intend to increase order intake and sales revenues to more than € 1.9 billion. It is also intended that EBT and the annual profit increase long-term. The continued improvement in the quality of the results lies at the core of our business activities.

Our **"Strategy 2011"** is consistently directed towards profitable growth; it is to be organic and driven by our own innovative strength. Acquisitions are checked as to whether they add increased value to GILDEMEISTER; they may serve to complement the product range or to intensify consumption in the relevant global markets.

Innovation remains our growth engine

Trend-setting concepts in machine technology, services and software products define GILDEMEISTER as a technology group. Only when we also succeed in the future to meet the growing demands of our customers in all business divisions, will we continue to be successful. We will consistently follow our strategy of technological and innovation leadership. We will present our high-performance products to our customers and interested buyers worldwide at all the relevant industry trade fairs. We intend to lead our customers into a successful future with innovative technologies.

FUTURE DEVELOPMENT OF ORDER INTAKE AND SALES REVENUES AT THE GILDEMEISTER GROUP
in € million



Disclaimer: With respect to forward-looking statements we would like to point out that the actual events may differ materially from the expectations of future developments if one of the uncertainties mentioned or any other uncertainty occurs or if the assumptions on which these statements are based prove to be incorrect.

Rudolf Hahn

Comprehensive expertise. Born on August 14, 1959, graduate in electrotechnology from the Technische Universität Munich, an employee at GILDEMEISTER for 22 years. Rudolf Hahn is now CEO of DMG Electronics GmbH. Previously he held executive positions in the programming and development of controls.

DIGITAL MACHINE TOOLS:

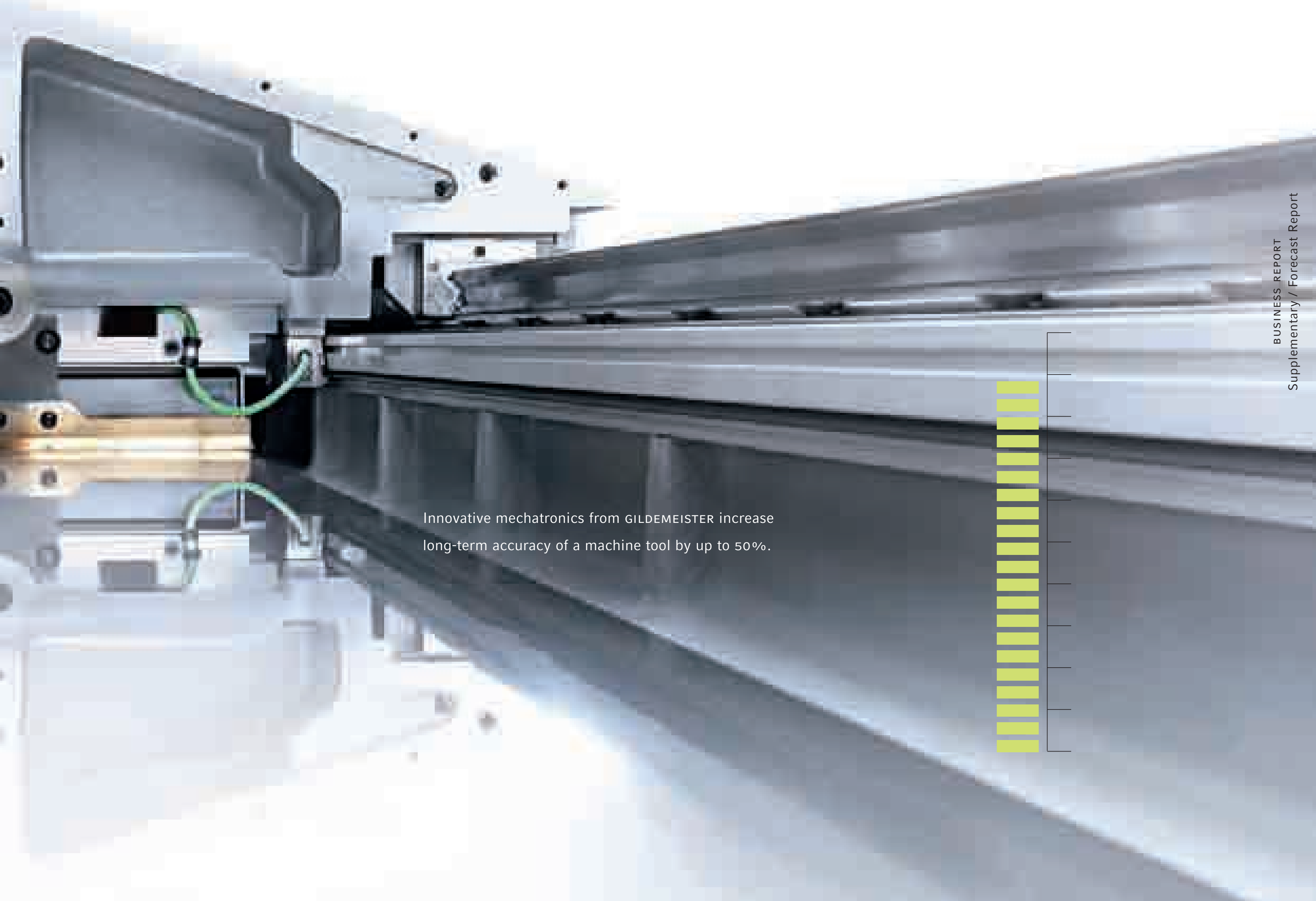
"Tomorrow's machine concepts set completely new standards in production with networked electronics and mechanics."

Intelligent machine concepts can increase long-term accuracy of machine tools.

Mechatronic solutions from GILDEMEISTER are the future today. For our customers this means: more accuracy, speed and functionality as well as more flexibility, production reliability and user friendliness.

TECHNOLOGIES FOR TOMORROW:

"We have already increased long-term stability and functionality for our customers through revolutionary mechatronics."



Innovative mechatronics from GILDEMEISTER increase long-term accuracy of a machine tool by up to 50%.

Consolidated Income Statement for the period 1 January to 31 December 2007 of GILDEMEISTER Aktiengesellschaft

	Notes	2007 € K	2006 € K
Sales revenues	6	1,562,037	1,328,971
Changes in finished goods and work in progress		30,399	-5,131
Capitalised payments	7	7,165	6,276
Total work done		**1,599,601**	**1,330,116**
Other operating income	8	30,862	23,430
		1,630,463	1,353,546
Cost of materials	9		
Cost of raw materials, consumables and goods for resale		689,013	580,239
Cost of purchased services		144,935	117,914
		833,948	698,153
Personnel costs	10		
Wages and salaries		308,335	267,146
Social security contributions, pensions and other benefits		58,076	53,055
		366,411	320,201
Depreciation	11	32,311	32,600
Other operating expenses	12	271,886	220,121
Operating result		125,907	82,471
Financial income	13		
Interest receivables		1,860	1,406
Other income		376	226
		2,236	1,632
Financial expenses	14		
Interest payable		29,578	31,514
Interest expense from pension provisions		1,540	1,490
Revaluation expense of bond		11,774	0
Other financial expenses		1,802	3,681
		44,694	36,685
Financial result		-42,458	-35,053
Profit of ordinary activities		83,449	47,418
Income taxes	15	33,312	20,318
Annual profit		50,137	27,100
Profit share attributed to minority interests	16	50	-143
Profit share of shareholders of GILDEMEISTER Aktiengesellschaft		50,087	27,243
Earnings per share pursuant to IAS 33 in €	17		
Undiluted		1.16	0.63
Diluted		1.16	0.63

Consolidated Balance Sheet as at 31 December 2007 of GILDEMEISTER Aktiengesellschaft

ASSETS	NOTES	31 DEC. 2007 € K	31 DEC. 2006 € K
Long-term assets			
Goodwill	18	75,759	70,551
Other intangible assets	18	24,298	26,836
Tangible assets	19	184,848	167,850
Financial assets	20	357	183
Trade debtors	21	258	840
Other long-term assets	21	15,522	18,545
Deferred taxes	26	27,364	31,396
		328,406	**316,201**
Short-term assets			
Inventories	22	361,044	292,964
Trade debtors	23	292,249	252,530
Other short-term assets	23	72,874	49,927
Cash and cash equivalents	24	95,552	42,181
Long-term assets held for disposal	25	0	1,054
		821,719	**638,656**
		1,150,125	**954,857**

EQUITY AND LIABILITIES	NOTES	31 DEC. 2007 € K	31 DEC. 2006 € K
Equity			
Subscribed capital	27	112,587	112,587
Capital provisions		68,319	68,319
Revenue provisions		148,958	108,070
Total equity of shareholders of GILDEMEISTER Aktiengesellschaft		329,864	288,976
Minority interests' share of equity		-351	-402
Total equity		**329,513**	**288,574**
Long-term liabilities			
Long-term financial liabilities	30	42,341	226,649
Pension provisions	28	27,771	27,971
Other long-term provisions	29	31,314	23,558
Trade creditors	31	850	654
Other long-term liabilities	31	9,996	8,912
Deferred taxes	26	2,950	9,655
		115,222	**297,399**
Short-term liabilities			
Short-term financial liabilities	30	218,075	32,189
Tax provisions	29	23,018	16,113
Other short-term provisions	29	131,938	98,564
Payments received on account		112,078	54,983
Trade creditors	32	142,427	130,221
Other short-term liabilities	32	77,854	36,814
		705,390	**368,884**
		1,150,125	**954,857**

Consolidated Cash Flow of GILDEMEISTER Aktiengesellschaft

CASH FLOW FROM OPERATING ACTIVITIES	2007 € K	2006 € K	CHANGES AGAINST PREVIOUS YEAR € K
Earnings before taxes (EBT)	83,449	47,418	36,031
Depreciation of assets	32,311	32,600	-289
Financial result	42,458	35,053	7,405
Change in long-term provisions	7,736	243	7,493
Other expense / income not affecting payments	243	-210	453
Change in short-term provisions	32,703	34,605	-1,902
Income from the disposal of fixed assets	-91	-507	416
Income tax refunds	292	278	14
Income taxes paid	-27,839	-18,836	-9,003
Interest received	1,668	1,346	342
Interest paid	-28,066	-29,341	1,275
Changes in asset and liabilities items			
Inventories	-66,519	-5,991	-60,528
Trade debtors	-37,800	32,084	-69,884
Other assets not from investments or financing activity	-12,922	2,354	-15,276
Trade creditors	11,722	-13,743	25,465
Other liabilities not from investment or financing activity	88,854	-9,220	98,074
	128,219	**108,133**	**20,086**
CASH FLOW FROM INVESTMENT ACTIVITY			
Amounts received from the disposal of tangible assets and intangible assets	2,270	1,592	678
Amounts paid out for investments in tangible assets	-36,097	-27,156	-8,941
Amounts paid out for investments in intangible assets	-9,628	-7,736	-1,892
Amounts paid out for investments in financial assets	-3,205	-1,787	-1,418
	-46,660	**-35,087**	**-11,573**
CASH FLOW FROM FINANCING ACTIVITY			
Dividends paid	-8,661	-4,330	-4,331
Amounts paid out for repayments of (financing) credits	-19,064	-48,141	29,077
	-27,725	**-52,471**	**-24,746**
Changes affecting payments	53,834	20,575	33,259
Consolidation and exchange rate related changes not affecting payments	-463	-314	-149
Cash and cash equivalents as at January 1	42,181	21,920	20,261
Cash and cash equivalents as at December 31	**95,552**	**42,181**	**53,371**

See explanatory notes included to the Consolidated Financial Statements

Development of Group Equity
GILDEMEISTER Aktiengesellschaft for the period
1 January 2007 to 31 December 2007

	Subscribed capital € K	Capital provisions € K	Revenue provisions € K	Revenue provisions: Difference from currency translation € K	Revenue provisions: Market valuation of financial derivates € K	Shareholders equity of Gildemeister Aktiengesellschaft € K	Minority interest share of equity € K	Total € K
As at 01 Jan. 2006	112,587	68,319	87,387	-420	-1,953	265,920	-138	265,782
Change in market valuation of derivative financial instrument					2,520	2,520		2,520
Consolidation transactions / other changes							-121	-121
Changes in currency				-2,377		-2,377		-2,377
Net income recognised directly in equity				**-2,377**	**2,520**	**143**	**-121**	**22**
Annual profit			27,243			27,243	-143	27,100
Total recognised income and expense			**27,243**	**-2,377**	**2,520**	**27,386**	**-264**	**27,122**
Dividend			-4,330			-4,330		-4,330
As at 31 Dec. 2006	**112,587**	**68,319**	**110,300**	**-2,797**	**567**	**288,976**	**-402**	**288,574**

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

See explanatory notes in the Consolidated Financial Statements page 152 et seq.

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

AQUISITION AND PRODUCTION COSTS

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

DEPRECIATION

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

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

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

Fixed Asset Movement Schedule
as at 31 December 2006 of GILDEMEISTER Aktiengesellschaft
(Part of the notes)

AQUISITION AND PRODUCTION COSTS

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

DEPRECIATION

	AS AT 01 JAN. 2006 € K	OTHER CHANGES € K
Intangible assets		
Goodwill	0	0
Assets arising from development	21,077	-32
Industrial property and similar rights	40,792	8
Payments on account	607	0
	62,476	**-24**
Tangible assets		
Land and buildings	55,156	-372
Technical equipment and machinery	47,569	-1,351
Other equipment, factory and office equipment	71,356	-666
Payments on account and construction in progress	471	45
	174,552	**-2,344**
Financial assets		
Investment	21	0
Securities	0	0
	21	**0**
Total fixed assets	**237,049**	**-2,368**

AS AT 01 JAN. 2006 € K	OTHER CHANGES € K	ADDITIONS € K	DISPOSALS € K	BOOK TRANSFERS € K	AS AT 31 DEC. 2006 €
67,929	983	1,639	0	0	70,551
49,020	-366	5,984	1,280	95	53,453
45,471	58	1,876	54	229	47,580
984	-21	239	99	-238	865
163,404	**654**	**9,738**	**1,433**	**86**	**172,449**
176,144	-342	2,848	2,269	364	176,745
62,042	-1,510	2,229	4,082	205	58,884
94,948	-511	11,865	5,845	282	100,739
2,609	6	10,512	221	-937	11,969
335,743	**-2,357**	**27,454**	**12,417**	**-86**	**348,337**
209	-7	0	0	0	202
46	0	0	44	0	2
255	**-7**	**0**	**44**	**0**	**204**
499,402	**-1,710**	**37,192**	**13,894**	**0**	**520,990**

ADDITIONS € K	DISPOSALS € K	BOOK TRANSFERS € K	AS AT 31 DEC. 2006 € K	NET BOOK VALUE AS AT 31 DEC. 2006 € K	AS AT 31 DEC. 2005 € K
0	0	0	0	70,551	67,929
11,027	879	0	31,193	22,260	27,943
2,568	106	0	43,262	4,318	4,679
0	0	0	607	258	377
13,595	**985**	**0**	**75,062**	**97,387**	**100,928**
5,393	1,104	0	59,073	117,672	120,988
4,147	3,963	-84	46,318	12,566	14,473
9,465	5,192	84	75,047	25,692	23,592
0	467	0	49	11,920	2,138
19,005	**10,726**	**0**	**180,487**	**167,850**	**161,191**
0	0	0	21	181	188
0	0	0	0	2	46
0	**0**	**0**	**21**	**183**	**234**
32,600	**11,711**	**0**	**255,570**	**265,420**	**262,353**

Segmental Reporting in the Consolidated Financial Statements as at 31 December 2007 for GILDEMEISTER Aktiengesellschaft
(Part of the notes)

SEGMENTATION BY BUSINESS SEGMENTS	"MACHINE TOOLS"		CHANGES AGAINST PREVIOUS YEAR		"SERVICES"	
	2007	2006			2007	2006
	€ K	€ K	€ K	%	€ K	€ K
Sales revenues with third parties	1,082,680	922,422	160,258	17.4	479,058	406,281
EBITDA	99,942	70,463	29,479	41.8	89,978	61,529
EBIT	75,445	46,048	29,397	63.8	84,173	55,965
Financial result	-9,956	-11,258	1,302	-11.6	-8,334	-12,381
Profit / loss on ordinary activities	65,489	34,790	30,699	88.2	75,839	43,584
Segment assets	756,640	685,540	71,100	10.4	618,590	504,290
Segment liabilities	476,836	435,551	41,285	9.5	460,734	386,537
Investments	38,295	25,377	12,918	50.9	10,679	7,652
Depreciation	24,497	24,415	82	0.3	5,805	5,564
Employees	3,609	3,357	252	7.5	2,307	2,126

SEGMENTATION BY GEOGRAPHICAL REGIONS	GERMANY		CHANGES AGAINST PREVIOUS YEAR		REST OF EUROPE		CHANGES AGAINST PREVIOUS YEAR		NORTH AMERICA		CHANGES AGAINST PREVIOUS YEAR	
	2007	2006			2007	2006			2007	2006		
	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	%
Sales revenues with group companies	360,112	326,180	33,932	10.4	156,305	114,481	41,824	36.5	7,401	2,509	4,892	195.0
Sales revenues with third parties	885,944	740,764	145,180	19.6	503,369	425,840	77,529	18.2	71,106	76,742	-5,636	-7.3
Segment assets	972,719	796,861	175,858	22.1	471,067	402,858	68,209	16.9	36,130	49,187	-13,057	-26.5
Investments	37,935	25,140	12,795	50.9	10,743	10,441	302	2.9	856	170	686	403.5

Changes against previous year € K	Changes against previous year %	"Corporate Services" 2007 € K	"Corporate Services" 2006 € K	Changes against previous year € K	Changes against previous year %	Transition 2007 € K	Transition 2006 € K	Group 2007 € K	Group 2006 € K	Changes against previous year € K	Changes against previous year %
72,777	17.9	299	268	31	11.6	0	0	1,562,037	1,328,971	233,066	17.5
28,449	46.2	-31,123	-16,523	-14,600	88.4	-579	-398	158,212	115,071	43,147	37.5
28,208	50.4	-33,132	-19,144	-13,988	73.1	-579	-398	125,901	82,471	43,430	52.7
4,047	-32.7	-24,167	-11,361	-12,806	112.7	-1	-53	-42,458	-35,053	-7,405	21.1
32,255	74.0	-57,299	-30,505	26,794	87.8	-580	-451	83,449	47,418	36,031	76.0
114,300	22.7	782,496	681,891	100,605	14.8	-1,007,644	-915,864	1,150,125	954,857	195,268	20.4
74,197	19.2	431,790	343,680	88,110	25.6	-570,242	-518,982	799,118	646,786	152,332	23.6
3,027	39.6	4,094	4,163	-69	-1.7	0	0	53,068	37,192	15,876	42.7
241	4.3	2,009	2,621	-612	-23.3	0	0	32,311	32,600	-289	-0.9
181	8.5	82	75	7	9.3	0	0	5,998	5,558	440	7.9

Asia 2007 € K	Asia 2006 € K	Changes against previous year € K	Changes against previous year %	Other 2007 € K	Other 2006 € K	Changes against previous year € K	Changes against previous year %	Transition 2007 € K	Transition 2006 € K	Group 2007 € K	Group 2006 € K	Changes against previous year € K	Changes against previous year %
22,700	11,370	11,330	99.6	883	1,062	-179	-16.9	-547,401	-455,602	0	0	0	0.0
92,669	77,188	15,481	20.1	8,949	8,437	512	6.1	0	0	1,562,037	1,328,971	233,066	17.5
108,885	99,185	9,700	9.8	8,694	7,840	854	10.9	-447,370	-401,074	1,150,125	954,857	195,268	20.4
3,173	1,382	1,791	129.6	361	59	302	511.9	0	0	53,068	37,192	15,876	42.7

Notes to the Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft

1 Application of Regulations

The Consolidated Annual Financial Statements for GILDEMEISTER Aktiengesellschaft as at December 31, 2007 were prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union and their interpretation by the International Accounting Standards Board (IASB), London, Great Britain, applicable on the reporting date. The Notes to the Consolidated Financial Statements include further explanations pursuant to Section 315a of the German Commercial Code (HGB).

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

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

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

GILDEMEISTER Aktiengesellschaft with its registered place of business in Bielefeld, Gildemeisterstrasse 60, is the parent company of the GILDEMEISTER group and is a listed company under German law. The Consolidated Financial Statements and the Group Management Report of GILDEMEISTER Aktiengesellschaft for the year ending December 31, 2007, will be available through the electronic Federal Gazette (Bundesanzeiger) and the Commercial Register, and are also available from our website www.gildemeister.com.

The Executive Board of GILDEMEISTER Aktiengesellschaft released the Consolidated Financial Statements and the Group Management Report on March 5, 2008 for submission to the Supervisory Board. The Supervisory Board is responsible for inspecting the Consolidated Financial Statements and for stating its approval of the Consolidated Financial Statements.

2 Consolidated Group

NUMBER OF FULLY CONSOLIDATED COMPANIES

	31 Dec. 2007	31 Dec. 2006
National	27	24
International	43	40
Total	**70**	64

At the reporting date the GILDEMEISTER group comprised 72 companies (previous year: 65) including GILDEMEISTER Aktiengesellschaft, 70 of which (previous year: 64) were included in the Consolidated Financial Statements as part of the full consolidation process. GILDEMEISTER Aktiengesellschaft has the direct or indirect majority of voting rights in, or has a dominant influence over, the fully consolidated companies. This includes three lease object companies ("Special Purpose Entities"). Due to the inclusion of the following companies for the first time, the consolidated group has changed since the financial year 2007:

- DMG Automation GmbH, Hüfingen,
- DMG Electronics GmbH, Pfronten,
- DMG Spare Parts GmbH, Geretsried,
- DMG Hungary Kft, Budapest,
- DMG Scandinavia Norge AS, Langhus,
- DMG Romania Sales & Services S.R.L., Bucharest.

With effective as of July 1, 2007, GILDEMEISTER Beteiligungen AG acquired 100% of the shares in WKZ Werkzeugmaschinen GmbH, Hüfingen. The acquisition costs relating to this amounted to € 6,971 K. As a result, a company specialising in integration solutions using robots now belongs to the group. No undisclosed reserves or encumbrances were identified in the company's assets and liabilities, the fair value of which can be determined with sufficient reliability. Based on the purchase price allocation, € 761 K was assigned to identifiable intangible assets, which were also recognised as assets and are subject to amortisation. An amount of € 5,239 K was recognised as the value of the business and goodwill. The following individual assets and debts were acquired and reported at book value: € 5 K intangible assets, € 1,066 K fixed assets, € 439 K inventories, € 2,169 K trade receivables, € 77 K other assets, € 1,065 K cash and cash equivalents, € 616 K provisions and € 3,234 K liabilities. Net assets amount to € 971 K. The acquisition of intangible and fixed assets is shown in the fixed asset schedule in the column "other changes". Since September 2007 the company has been operating under the name DMG Automation GmbH.

With effective as of September 6, 2007, GILDEMEISTER Beteiligungen AG established DMG Electronics GmbH, Pfronten, with registered capital of € 500 K. GILDEMEISTER Beteiligungen AG holds 100% of the shares. The share capital is fully paid up. Amongst others, DMG Electronics GmbH is to combine software development throughout the group. On September 13, 2007, Spare Parts GmbH, with registered office in Geretsried, was founded and is also held as to 100% by GILDEMEISTER Beteiligungen AG. This company will commence its operative business, which involves optimising group-wide spare parts logistics as well as reducing delivery times and stocks of spare parts, on April 1, 2008. The share capital of € 25 K is fully paid up.

To expand and strengthen our sales and service activities in Scandinavia and, primarily, in eastern Europe, the following companies were founded:

On March 2, 2007, DMG Europe Holding GmbH founded DMG Hungary Kft, with registered office in Budapest, Hungary. The share capital amounts to HUF 125,000 K (€ 505 K) and is fully paid up.

In June 2007, DMG Scandinavia Norge AS, with registered office in Langhus, Norway, commenced business operations. It was founded on April 3, 2007 as a 100% subsidiary of DMG Europe Holding GmbH. The share capital of NOK 400 K (€ 50 K) is fully paid up.

On August 9, 2007 DMG Benelux B.V. founded DMG Romania Sales & Services S.R.L., Bucharest, DMG Benelux B.V. holds 100% of the shares and the share capital of RON 18 K (€ 5 K) was paid up as to € 0.6 K.

DMG Benelux B.V. founded DMG South East Europe E.P.E., Thessaloniki on August 3, 2007. It holds 99% of the share capital of € 249 K, 1% of the share capital is held by DMG Europe Holding GmbH. The share capital has not yet been paid up.

All new group companies, excluding DMG South East Europe E.P.E., Thessaloniki, were fully consolidated as of the date of their formation or of their acquisition. DMG South East Europe E.P.E., will be fully consolidated from the financial year 2008.

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

There were no disposals or close-downs of plants or operating units in the financial year just ended. The impact of the unconsolidated companies on the group's net worth, financial and profit situation is minor. No pro rata consolidation or inclusion under the equity method was required in the financial year 2007 nor in the previous year.

An overview of all affiliated companies is included on page 179 et seq.

3 CONSOLIDATION PRINCIPLES

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

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

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

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

4 ACCOUNTING AND VALUATION PRINCIPLES

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

Changes in accounting and valuation methods due to new standards

In the financial year 2007, the following new and revised standards, as well as IASB / IFRIC interpretations, had to be applied mandatorily for the first time. They had no major impact on the Consolidated Financial Statements of GILDEMEISTER, except IAS 1 and IFRS 7.

IAS 1	Amendments to IAS 1 Presentation of Financial Statements – disclosure of capital
IAS 17	Leases: Adjustments under IFRS 7
IAS 33	Earnings per share: Adjustments under IFRS 7
IFRS 7	Financial instruments: Disclosure
IFRIC 7	Applying the restatement approach under IAS 29: financial reporting in hyperinflationary economies
IFRIC 8	Scope of application of IAS 2
IFRIC 9	Reassessment of embedded derivatives
IFRIC 10	Approach to interim financial reporting and impairment

The first time application of IFRS 7 and IAS 1 led to additional information in the Notes.

New accounting principles

The following standards and interpretations, which have been issued and adopted by the European Union by 31 December 2007 but have not yet entered into force, have not been observed in these financial statements:

IFRS 8	Segmental reporting

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

IAS 23	Amendment to IAS 23: Borrowing costs
IFRS 1	Amendment to IAS 1: Presentation of Financial Statements – a revised presentation
IFRIC 12	Service concession arrangements

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

IFRS 8 Segment Reporting

IFRS 8 changes segment reporting from the so-called “risk and reward approach” of IAS 14 to the “management approach” regarding segment information. The information required in this respect is the information that is regularly available to the so-called “chief operating decision maker” for making management decisions. At the same time the evaluation of segment performance has been changed from the “financial accounting approach” of IAS 14 to the “management approach”. IFRS 8 must be applied mandatorily to all financial years that commence on or after January 1, 2009. Earlier application is permissible. The first application of IFRS 8 by GILDEMEISTER Aktiengesellschaft will lead to a change in information provided in the segment reporting.

Use of estimates and scope of discretion

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

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

Book value of the bond – re-evaluation of payment flows

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

In the financial year 2007 GILDEMEISTER changed its assessment with respect to future cash flows and resolved to redeem the bond at the earliest possible redemption date, July 19, 2008. The redemption price amounts to 104.875%. In this event the new cash flows differ from the originally planned cash flows. In this case, pursuant to IAS 39 AG 8, the book value of the bond must be measured by determining the cash value of estimated future cash flows using the original effective interest rate. The adjustment is drawn up as an expense in the period results. The new valuation of the amortised costs is to take place at the time when the company changes its assessment of future cash flows. An expense of € 11,774 K results from the re-assessment of the expected cash flows in 2007, which is shown in the financial result.

Impairment of goodwill

The group reviews goodwill at least once a year for impairment. This requires as assessment of the value in use of the cash generating unit to which the goodwill is allocated. To assess the value in use, the company management must assess the foreseeable future cash flow of the cash generating unit and, moreover, select an appropriate discount rate in order to determine the cash value of this cash flow. As at December 31, 2007, the book value of goodwill amounted to € 75,759 K (previous year: € 70,551 K). Further information is given on page 144 et seq.

Pension provisions

Expenses from benefit-oriented pension plans are determined on the basis of actuarial calculations. The actuarial calculations take place on the basis of assumptions with respect to discount rates, expected returns on plan assets, future wage and salary increases, the mortality rate and future pension increases. Corresponding to the long-term focus of these plans, such assessments are subject to significant uncertainties. On December 31, 2007 provisions for pension obligations amounted to € 27,771 K (previous year: € 27,971 K). Further information is given on page 155 et seq.

Intangible assets arising from development

Intangible assets arising from development are capitalised according to the accounting and valuation method presented on page 130 et seq. To determine the amounts to be capitalised, the company management must make assumptions as to the amount of expected future cash flow from intangible assets, the interest rates to be applied and the period of accrual of expected future cash flow that the intangible assets generate. On December 31, 2007, intangible assets arising from development had a book value according to the best possible assessment of € 20,643 K (previous year: € 22,260 K).

Assumptions and estimates are additionally required for value adjustments for doubtful debts as well as for contingent liabilities and other provisions; moreover, they are required for determining the fair market value of long-lasting fixed assets and intangible assets as well as for the assessment of deferred taxes on tax loss credits (see page 151 et seq.).

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

In individual cases the actual values may differ from the assumptions and estimates made, requiring a significant adjustment in the book value of the assets or liabilities concerned. Pursuant to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”, changes will be taken into account at the time of their discovery and recognised in the Income Statement.

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

Intangible and tangible assets

USEFUL ECONOMIC LIFE OF ASSETS

Software and other intangible assets	1 to 5 years
Intangible assets arising from development	2 to 10 years
Office and factory buildings	10 to 67 years
Technical equipment and machines	2 to 30 years
Factory and office equipment	1 to 20 years

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

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

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

The production costs of internally generated assets include those that can be directly ascribed to the manufacturing process and necessary parts of product-related overheads. This includes production-related depreciation, prorated administration costs and prorated costs from the social contribution area.

Borrowing costs are not assessed as part of the acquisition or manufacturing costs. Costs of repair are immediately charged to expenses.

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

Impairment

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

Pursuant to IAS 36 "Impairment of Assets", goodwill has to be tested for impairment at least once a year. GILDEMEISTER Aktiengesellschaft carried out an impairment test on September 30, 2007. In the impairment test the book value of a cash-generating unit is compared with the recoverable amount. The recoverable amount of the cash-generating unit is the higher of the asset's fair value less costs to sell and its value in use.

In the GILDEMEISTER group the "Machine Tools" and "Services" segments were defined as cash-generating units. The "Machine Tools" segment was allocated goodwill to the value of € 44,311 K (previous year: € 39,072 K) and the "Services" segment goodwill to the value of € 31,448 K (previous year: € 31,479 K). The recoverable amount equals the value in use and was calculated as the present value of future cash flows. The future cash flows were derived from the planning of the GILDEMEISTER group. The calculation of cash values for estimated future cash flow is based on fundamental assumptions, primarily as to future sales prices or volume and costs. Planning is based on a detailed planning period extending up to the financial year 2010. A growth rate of 1% was assumed for the period following the detailed planning period, which is in line with general expectations of future business development.

The cash flows defined were discounted at a post-tax weighted cost of capital rate of 6.55%. This represents a pre-tax percentage of 9.19%.

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

Financial assets

The financial assets show investments in companies, over which GILDEMEISTER does not exercise any significant influence. These are classified as “available for sale“ and are reported at their amortised cost. It is assumed for these companies that the book value corresponds to the fair market value. A reliable calculation of the fair market value would only be possible within the scope of specific purchase negotiations.

Inventories

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

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

Receivables and other assets

Receivables and other assets were shown in the balance sheet at their amortised acquisition cost. Long-term non-interest bearing or low-interest bearing receivables have been discounted. Impairments in the form of individual value adjustments make adequate allowance for the expected risk of default. Specific cases of default lead to the derecognition of the respective receivables. Within the scope of individual value adjustments, receivables, for which there is a potential devaluation requirement, will be tested for impairment and if necessary, value adjusted. The calculation of value adjustments for doubtful receivables is based to a large extent on estimates and assessments of individual receivables, which, in addition to credit worthiness and late payment of the respective customer, also take into account the current cyclical trend and previous cases of deficit. In determining expected future cash flows, in addition to cash flows provided for contractually, previous cases of deficit will be taken into account. Impairment losses on trade receivables are recognised in some cases using allowance accounts. The decision to account for deficit risks using an allowance account or by directly reducing the receivable will depend on the reliability of the risk assessment. Reclassification among the individual categories of financial assets was not carried out either in the financial year 2007 nor in the previous year. Within the scope of the asset-backed securities programme (ABS) selected trade receivables were sold on a revolving basis to a special purpose entity, which is not required to be consolidated. Trade receivables sold under these arrangements are excluded from accounts receivable at the time of sale insofar as all risks and rewards have been substantially transferred to the acquirer and the transmission of the cash flows related to those receivables is assured. ABS transactions were first carried out in the financial year 2007.

Cash and cash equivalents

Cash equivalents include short-term, highly liquid financial assets which can be converted into cash amounts and are only subject to minor value fluctuation risks. Cash and cash equivalents are assessed at face value.

Deferred tax

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

Long-term assets held for sale

Individual, former long-term assets that are expected to be sold within the next twelve months are capitalised at the lower amount of the depreciated book value at the date of the re-classification or of the recoverable net sales value.

Provisions and liabilities

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

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

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

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

Financial instruments

A financial instrument is an agreement that at the same time constitutes a financial asset for one company and a financial liability or equity instrument for another company. Financial assets include in particular cash and cash equivalents, trade receivables and other original loans and receivables as well as derivative and non-derivative financial assets held for trading.

Financial liabilities generally substantiate claims for repayment in cash or another financial asset. This includes, in particular, bonds, trade payables, liabilities to banks, finance lease payables and derivative financial liabilities.

Financial assets are measured at fair value on initial recognition. The fair values recognised in the balance sheet generally correspond to the market prices of the financial assets. If these are not available, they are calculated using standard valuation models on the basis of current market parameters.

Financial liabilities are measured at fair value on initial recognition. For all financial assets not subsequently measured at fair value, the transaction costs directly attributable to the acquisition are taken into account.

Derivative financial instruments

The hedging of risk items from currency and interest rate fluctuations is carried out in principle through the use of derivative financial instruments such as forward exchange dealings, options and interest rate swaps. The hedging covers financial risks from underlying transactions and, in the case of currency risks, also risks from pending supply and service transactions.

Pursuant to IAS 39 "Financial Instruments: Recognition and Measurement", all derivative financial instruments are recognised at fair value at their initial measurement. Fair value is also relevant for subsequent measurements. Fair value of traded derivative financial instruments corresponds to market value. This value may be positive or negative. If no market values are available, the fair value must be calculated using an accepted economic method. The fair value of derivatives corresponds to the cash value of estimated future cash flows. The forward exchange rate on the balance sheet date is used to determine the fair value of forward exchange contracts. Value changes of financial instruments that are not classified as hedging instruments within hedge accounting are immediately recognised in the Income Statement. Insofar as a hedging instrument fulfils the pre-conditions for hedge accounting, depending on the respective type of the hedging connection, it is valued as follows:

Fair Value Hedge

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

Cash flow hedge

Changes in fair value of hedging instruments that have been concluded to hedge cash flow fluctuations are recognised directly in equity for the effective portion of the hedging instrument, taking into account deferred tax effects. The ineffective portion of the change in fair value is recognised in the Income Statement. Amounts reported in equity are booked to the income statement as soon as the hedged underlying transaction affects profit and loss.

Cash flow hedges are used to hedge future cash flows from expected incoming payments on the basis of present order intake. The incoming payments are expected within the next twelve months. Derivative financial instruments are neither held nor issued for speculative or trading purposes. However, derivatives are measured as for trading purposes if the pre-conditions for a cash flow hedge are not fulfilled.

Public grants

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

Borrowing costs

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

Sales revenues

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

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

5 FOREIGN CURRENCY TRANSLATION

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

CURRENCIES

		Exchange rate on reporting date = 1 €		Average exchange rate = 1 €	
	ISO-Code	31 Dec. 2007	31 Dec. 2006	2007	2006
British pound	GBP	0.73460	0.67140	0.68606	0.68227
Swiss franc	CHF	1.65570	1.60800	1.64320	1.57514
Polish zloty	PLN	3.59280	3.84130	3.78789	3.90443
Czech crowns	CZK	26.57500	27.43500	27.67038	28.29000
US dollar	USD	1.47160	1.31810	1.37430	1.25695
Canadian dollar	CAD	1.44400	1.52940	1.47004	1.42210
Mexican pesos	MXN	16.07000	14.32000	15.00769	13.69462
Brazilian real	BRL	2.62050	2.81380	2.67217	2.74638
Japanese yen	JPY	165.0000	156.65000	161.62846	146.16538
Singapore dollar	SGD	2.11510	2.02130	2.06477	1.99498
Malaysian ringgit	MYR	4.86520	4.64180	4.71312	4.60724
Indian rupee	INR	57.95000	58.32000	56.80615	56.91769
Chinese Renminbi	CNY	10.74000	10.29150	10.43079	10.01160
Taiwan dollar	TWD	47.70300	42.90100	45.03785	40.89238
Korean Won	KRW	1,377.00000	1,226.00000	1,274.69231	1,199.69231
Australian dollar	AUD	1.67750	1.66810	1.77508	1.66378

Source: Deutsche Bank AG, Frankfurt / Main

Notes to individual items in the Income Statement

6 SALES REVENUES

Sales revenues broken down by distribution are as follows:

	2007 € K	2006 € K
Germany	730,360	612,758
EU (excluding Germany)	489,630	395,359
USA	72,441	77,920
Asia	158,512	149,641
Other countries	111,094	93,293
	1,562,037	**1,328,971**

A breakdown and explanations to the sales revenues from the sale of goods and the provision of services are given in the “Segment Reporting” chapter of the Group Management Report on page 42 et seq.

Sales revenues from “bill and hold” sales were recognised at € 55,769 K (previous year: € 51,998 K).

7 CAPITALISED PAYMENTS

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

8 OTHER OPERATING INCOME

INCOME UNRELATED TO ACCOUNTING PERIOD	2007 € K	2006 € K
Retransfer of provisions	6,082	2,735
Retransfer of value adjustments	1,067	1,671
Profit on asset disposals	331	749
Receipt of payment for written off delinquent accounts	312	27
Other income unrelated to accounting period	1,552	2,034
	9,344	7,216
OTHER OPERATING INCOME		
Changes in exchange rates	11,783	7,912
Refund of expenses and on-debiting	4,167	3,856
Compensation for damages	645	977
Letting and leasing	815	694
Bonuses and allowances	392	349
Other	3,716	2,426
	21,518	16,214
Total	**30,862**	**23,430**

Other income unrelated to accounting period contains refunds for rental and lease payments made in the previous years of € 335 K (previous year: € 1,048 K).

The changes in exchange rates are to be seen in relation to exchange rate and currency losses in other operating expenses, against which they are offset.

Income from the refund of expenses and on-debiting mainly include income from the on-debiting of advertising charges of € 2,178 K (previous year: € 988 K) and refunds of charges from the Unemployment Office for part-time retirement agreements of € 322 K (previous year: € 619 K).

Other income includes € 1,174 K of accrued earnings from sale-and-lease back transactions that are classified as financial lease arrangements where GILDEMEISTER is the lessee and € 336 K (previous year: € 0 K) income from subletting arrangements where GILDEMEISTER is the lessor.

9 COST OF MATERIALS

Payments received pertain primarily to expenses for external products.

10 PERSONNEL COSTS

In the financial year 2007 pension plan expenses, including employer's contributions to the statutory pension insurance, in the group amounted to € 21,368 K (previous year: € 21,241 K).

In the financial year 2007, direct remuneration of the members of the Executive Board amounted to € 5,407 K (previous year: € 3,974 K). Of this amount, € 1,297 K were attributed to fixed remuneration (previous year: € 1,236 K), € 4,000 K to the STI (previous year: € 2,643 K), and € 110 K as payment in kind (previous year: € 95 K). In addition, an amount of € 274 K (previous year: € 323 K) was spent on pension commitments. For an adjustment of the defined contribution pension plan a one-time payment of € 392 K was expensed as well as one-time past-service-costs of € 197 K for an adjustment of the pension commitment. Former members of the Executive Board and their surviving dependants received € 587 K (previous year: € 591 K). Pension provisions for former members of the Executive Board and their surviving dependants amounted to € 7,007 K (previous year: € 7,612 K).

The remuneration structure for the Executive Board and the Supervisory Board is explained in the Management Report on page 62 et seq. An individual and detailed presentation of the Executive Board remuneration in the financial year is set out in the Corporate Governance Report page 64 et seq.

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

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

	AVERAGE NUMBER OF PERSONS EMPLOYEED		AT THE BALANCE SHEET DATE	
	2007	2006	31 DEC. 2007	31 DEC. 2006
Wage earners	1,736	1,630	1,775	1,657
Salary earners	3,852	3,572	3,997	3,710
Trainees	185	160	226	191
	5,773	**5,362**	**5,998**	**5,558**

11 DEPRECIATION

A distribution of depreciation on intangible assets, tangible assets and financial assets is illustrated in the asset movement schedule on page 118 et seq.

12 OTHER OPERATING EXPENSES

EXPENSES UNRELATED TO ACCOUNTING PERIOD	2007 € K	2006 € K
Losses from the disposal of fixed assets	240	242
Other taxes	71	0
Other expenses unrelated to accounting period	3,045	2,577
	3,356	**2,819**
OTHER OPERATING EXPENSES		
Marketing, trade fairs and other advertising expenses	31,221	26,160
Rental and leases	26,558	25,076
Travelling and entertainment expenses	27,068	23,105
Freight out, packaging	28,102	24,822
Other external services	33,734	22,900
Sales commissions	23,657	20,407
Cost of preparation of accounts, legal and consultancy fees	9,775	10,158
Stationery, post and telecommunication expenses	10,361	9,258
Exchange rate and currency losses	14,357	10,030
Transfer to provisions	14,648	8,512
Other personnel costs	7,781	6,602
Monetary transactions and capital procurement	2,738	3,328
Impairments on receivables	10,979	5,416
Insurance	4,858	3,672
Other taxes	2,305	1,524
Investor and Public Relations	2,870	1,885
Licences and trademarks	1,672	958
Other	15,846	13,489
	268,530	217,302
Total	**271,886**	**220,121**

Expenses for marketing, trade fairs and other advertising costs are due to the sales budget and in connection with the EMO in September 2007 and have risen compared to the previous year.

The increase in outward freight and packaging compared with the previous year is due to the rise in sales and the higher transport costs involved. In addition, in comparison with the previous year, increased transport costs have arisen primarily due to a rise in the number of machine transports to the customer – by means of ocean freight to the port of discharge. Overall, costs for outward freight and packaging did not rise proportionately to sales revenues due to the bundling of transport services and increasing standardisation.

Other external services includes expenses for temporary and freelance workers of € 16,882 K (previous year: € 10,659 K), which have primarily increased due to sales.

Increases in sales commission expenses are primarily due to sales revenues. The transfer to provisions results primarily from expenses for warranty commitments and retrofittings.

In the financial year 2007, € 582 K (previous year: € 462 K) were transferred to provisions for Supervisory Board members' remuneration. Further details on the remuneration of the Supervisory Board are given in the Group Management Report. An individual and detailed presentation of the Executive Board remuneration in the financial year is set out in the Corporate Governance Report page 64 et seq.

13 FINANCIAL INCOME

Interest receivable and similar income of the whole group amounted to € 2,236 K (previous year: € 1,632 K).

14 FINANCIAL EXPENSES

Financial expenses of € 29,578 K (previous year: € 31,514 K) primarily relates to interest payable for group financial liabilities.

Financial expenses include an interest component of € 1,540 K (previous year: € 1,490 K) of allocations to pension provisions.

The scheduled amortisation of transaction costs arising out of the bond issue and the syndicated loan facility are recognised in other financial expenses in an amount of € 1,712 K (previous year: € 3,595 K).

The revaluation of the bond results in a one-time expense of € 11,744 K (previous year: € 0 K). The planned premature redemption of the bond in the financial year 2008 led to depreciation of the transaction costs arising from the issue of € 3,826 K and prepayment costs of € 7,948 K.

15 INCOME TAXES

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

	2007 € K	2006 € K
Current taxes	35,543	24,783
Deferred taxes	-2,231	-4,465
	33,312	**20,318**

At the domestic companies current taxes include corporate income and trade tax, and at the international companies comparable earnings-linked taxes that were determined on the basis of the appropriation of profits. The computation was made on the basis of the tax regulations applicable to the individual companies. In the accounting period 2007, an amount of € 324 K (previous year: € 671 K) resulted from tax income for prior years. An amount of € 1,925 K (previous year: € 2,349 K) is included for tax expenses for prior years.

Deferred tax income unrelated to the accounting period of € 3,583 K (previous year: € 4,720 K) is set off against deferred tax expenditure unrelated to the accounting period of € 2,183 K (previous year: € 918 K).

Tax income of € 1,606 K (previous year: € 561 K) was applied from losses carried forward for which no taxes have accrued so far.

Current income tax expenditure was reduced by € 2,071 K (previous year: € 3,195 K) due to the use of tax loss credits not yet recognised from previous accounting periods. Another tax reduction in deferred tax expenditure occurred due to tax loss not yet recognised from prior periods in the amount of € 1,606 K (previous year: € 561 K) as well as deferred tax assets from temporary differences not yet recognised of € 1,513 K (previous year: € 1,525 K).

Write downs of previous years’ deferred taxes arise from write downs of loss carry forwards of € 296 K (previous year: € 847 K) and value adjustments for temporary differences of € 1,887 K (previous year: € 72 K). Current taxes in relation to the discontinuance of business divisions did not occur in the reporting year. Due to the continued application of the accounting methods no additional tax expenditure or income arose. There were no material errors in the past so that no consequences arose in this respect.

Deferred taxes are calculated on the basis of income tax rates that at the time of realisation apply or are expected in the individual countries in accordance with the legal status at the time. Taking into account trade earnings tax and the solidarity surcharge, this results in a tax rate applicable to the valuation of deferred taxes of 28.8% (previous year: 37.8%) for domestic companies. International tax rates are between 15% and 41%.

In the financial years 2007 and 2006 the corporation tax charge comprised corporation tax rate of 25% plus the solidarity surcharge of 5.5%. This results in an effective corporation tax rate of 26.4%. Including the trade earnings tax, which amounted to 11.4% taking into account corporation tax, the total tax rate amounted to 37.8%. As a consequence of the corporate tax reform in 2008 in Germany, the total tax rate will decrease to 28.8%. The primary effect will arise from the reduction in the corporation tax rate from 25% to 15%. The reduction in the tax rate will be taken into account when determining the deferred tax assets and liabilities of the German companies.

Deferred tax assets and liabilities were recognised directly in equity and at the balance sheet date amounted to € 235 K (previous year: € 2,155 K). In the financial year 2007, the recognised income tax expenditure of € 33,312 K (previous year: € 20,318 K) has increased by € 1,768 K (previous year: € 2,394 K) when compared with the expected income tax expenditure of € 31,544 (previous year: € 17,924 K), which would arise in theory if the national tax rate of 38% (previous year: 38%) applicable for the financial year 2007 had been applied at group level. The difference between current and expected income tax expenditure is due to the following:

	2007 € K	2006 € K
Results of ordinary activities before taxes	83,449	47,418
GILDEMEISTER Aktiengesellschaft tax rate in percent	37.8	37.8
Theoretical tax income/expenditure	31,544	17,924
Tax consequences of the following influences		
Adjustment due to differing tax rate	-5,019	-1,655
Effects from changes in tax rate	2,489	-37
Tax reduction due to revenues exempt from taxation	-1,412	-1,381
Deferred taxable losses	-3,381	358
Temporary differences	374	-1,453
Tax increase due to non-deductible expenses	6,881	5,271
Tax income or expenditure for prior years	1,601	1,679
Other adjustments	235	-388
Taxes on revenues	**33,312**	**20,318**

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

16 PROFIT SHARE ATTRIBUTED TO MINORITY INTERESTS

An annual profit of € 50 K (previous year: annual loss of € 143 K) is attributed to minority interests.

17 EARNINGS PER SHARE

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

		2007	2006
Group result excluding profit share of other shareholders	€ K	50,087	27,243
Average weighted number of shares		43,302,503	43,302,503
Earnings per share	€	1.16	0.63

Earnings result exclusively from continued business. There were no diluted earnings per share in the financial year 2007 or in the previous year.

Notes to individual balance sheet items

18 INTANGIBLE ASSETS

The goodwill shown relates as to € 73,451 K (previous year: € 68,211 K) to the asset-side difference from the consolidation of investments and as to € 2,308 K (previous year: € 2,340 K) to goodwill from the individual financial statements. The addition in the asset-side difference from the consolidation of investments results primarily from the purchase of 100% of DMG Automation GmbH. No undisclosed reserves or encumbrances were identified in the company's assets and liabilities, the fair value of which can be determined with sufficient reliability.

Intangible assets arising from development relate to new machine tool projects in the domestic and international product companies, to service products of DMG Vertriebs und Service GmbH and to specific software solutions. Intangible assets arising out of development at the end of the accounting period amounted to € 20,643 K (previous year: € 22,260 K). Research and development costs are immediately shown as an expense and amounted to € 35.1 million in the financial year 2007 (previous year: € 33.9 million).

The amount stated for industrial property rights and similar rights includes acquired patents, design patents and trademarks as well as data processing software. Changes and a breakdown of items in the group's intangible assets are illustrated in the consolidated fixed asset movement schedule. Investments are explained in further detail in the Group Management Report on page 40 et seq.

19 TANGIBLE ASSETS

Changes and a break down of items in the group's tangible assets are illustrated in the consolidated fixed-asset movement schedule. Investments are explained in further detail in the Group Management Report on page 40 et seq.

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

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

Land and buildings are mortgaged for the security of long-term bank loans.

Tangible assets include leased assets to the value of € 2,913 K (previous year: € 3,190 K) that must be charged to the respective group company as beneficial owner due to the structuring of the underlying leases ("finance lease").

The book values of capitalised lease items are divided as follows:

	31 DEC. 2007 € K	31 DEC. 2006 € K
Land and buildings	1,184	1,214
Technical equipment and machinery	275	399
Other fixed assets, factory and office equipment	1,454	1,577
	2,913	**3,190**

20 FINANCIAL ASSETS

Changes in the group's financial assets are illustrated in the consolidated fixed-asset movement schedule. The investments shown relate in an amount of € 270 K to shares in VR Leasing Frontania GmbH & Co. KG, which were newly acquired in the financial year, in an amount of € 80 K to shares in Pro-Micron GmbH & Co. KG Modular System and in an amount of € 4 K to Air+Park Allgäu GmbH & Co. KG. GILDEMEISTER does not exercise any significant influence on the companies.

Impairments of financial assets of € 96 K (previous year: € 0 K) occurred in the reporting year.

An overview of the affiliated companies and information on principal places of business, equity capital, capital shares and results for the financial year 2007 are set out in a separate summary on page 179 et seq.

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

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

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

- DECKEL MAHO Pfronten GmbH,
- GILDEMEISTER Drehmaschinen GmbH (with effect from 1 Jan. 2007),
- DECKEL MAHO Seebach GmbH (with effect from 1 Jan. 2007),
- DMG Spare Parts GmbH (with effect from 13 Sep. 2007)
- DMG Electronics GmbH (with effect from 6 Sep. 2007)
- DMG Automation GmbH (with effect from 1 Jan. 2008).

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

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

- DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- DMG Berlin Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER,
- DMG Service Fräsen Pfronten GmbH,
- DMG Service Fräsen Seebach GmbH,
- DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER,
- DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER,
- a+f GmbH.

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

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

21 LONG-TERM RECEIVABES AND OTHER ASSETS

	31 DEC. 2007 € K	31 DEC. 2006 € K
Trade debtors	258	840
Other long-term financial assets	15,522	18,545
	15,780	**19,385**

Trade debtors have to be attributed to the financial assets. Other long-term financial assets include the following items:

	31 DEC. 2007 € K	31 DEC. 2006 € K
Creditors with debit balance	119	150
Receivables from employees and former employees	16	6
Loans to third parties	131	128
Receivables from asset disposal	0	388
Security deposits and other security payments	545	386
Discounted customers' bills	13,750	16,092
	14,561	**17,150**

Other long-term assets include the following items:

	31 DEC. 2007 € K	31 DEC. 2006 € K
Tax refund claims	601	362
Receivables from compensation claims	129	0
Other assets	231	1,033
	961	**1,395**

The tax refund claims of € 503 K result from receivables for value added tax (previous year: € 303 K).

22 INVENTORIES

Inventories are made up as follows:

	31 DEC. 2007 € K	31 DEC. 2006 € K
Raw materials and consumables	129,538	99,138
Work in progress	131,642	96,458
Finished goods and goods for resale	92,806	94,826
Payments on account	7,058	2,542
	361,044	**292,964**

Inventories increased by € 68,080 K when compared to the previous year. This is primarily due to the increase in the inventory of raw materials and consumables, and of work in progress.

Of inventories recorded on December 31, 2007 € 61,852 K (previous year: € 66,161 K) were recognised at their net realisable value. In the financial year depreciation of inventories in an amount of € 18,659 K (previous year: € 8,199 K) were recognised as expense in the Income Statement. Reinstatements of original values were not recognised.

23 SHORT-TERM RECEIVABLES AND OTHER ASSETS

	31 DEC. 2007 € K	31 DEC. 2006 € K
Trade debtors	292,249	252,530
Other short-term assets	72,874	49,927
	365,123	**302,457**

GILDEMEISTER sells revolving trade debtors through asset-backed securities transactions to special purpose entities. The ABS programme has a scope of € 100 million. ABS transactions reduce the group's receivables portfolio. In total, trade debtors of € 63,825 K (previous year: € 0 K) have been disposed of through ABS transactions. Securities granted to third parties in the form of receivables and cash deposits are shown under other short-term financial assets. Trade receivables of € 32,858 K (previous year: € 83,802 K) have been disposed of under factoring.

	BOOK VALUE	OF WHICH NEITHER IMPAIRED NOR PAST DUE AT THE CLOSING DATE	OF WHICH NOT IMPAIRED AT THE CLOSING DATE AND PAST DUE IN THE FOLLOWING TIME PERIODS			
			UP TO 3 MONTHS	BETWEEN 3 AND 6 MONTHS	BETWEEN 6 AND 12 MONTHS	MORE THAN 1 YEAR
	€ K	€ K	€ K	€ K	€ K	€ K
Trade debtors	**31 Dec. 2007**					
	292,507	207,432	39,765	7,346	1,607	2,817
Trade debtors	**31 Dec. 2006**					
	253,370	120,796	47,986	7,927	2,261	1,684

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

Value adjustments of trade receivables have developed as follows:

	2007 € K	2006 € K
Value adjustments as at January 1	8,327	6,579
Allocations (expenses for value adjustments)	8,895	3,989
Consumption	-2,079	-570
Dissolution	-1,067	-1,671
Value adjustments as at December 31	**14,076**	**8,327**

The following table shows the expenses for the complete write-off of trade debtors as well as income from recoveries of trade debtors.

	2007 € K	2006 € K
Expenses for full write-off of receivables	2,084	1,427
Income from recoveries on trade debtors written off	312	27

Expenses relating to value adjustments and write-offs of trade debtors are reported under other operating expenses. Income from recoveries on trade debtors written off are reported under other operating income. Value adjustments or write-offs of other financial assets were not carried out in the financial year 2007 or in the previous year.

Other short-term financial assets include the following items:

	31 DEC. 2007 € K	31 DEC. 2006 € K
Creditors with debit balance	4,970	4,288
ABS settlement account	24,549	0
Factoring settlement account	984	10,866
Receivables from employees and former employees	356	171
Security deposits and other security payments	1,446	2,254
Market value of derivative financial instruments	2,570	1,854
Loans to third parties	296	156
Receivables from asset disposal	145	2,202
Discounted customers' bills	14,414	5,484
Other short-term financial assets	8,195	6,141
	57,925	**33,416**

Trade debtors of € 12,466 K were sold in connection with ABS transactions for which payment has not yet been received from the special purpose entity. Receivables of € 10,397 K and cash deposits of € 1,686 K were used as security for moral hazard and guarantee risks from ABS transactions.

Moreover, no financial assets were provided as security in the financial year 2007 or in the previous year.

The overdue periods of other assets are shown as follows:

	BOOK VALUE	OF WHICH NOT IMPAIRED NOR OVERDUE ON THE REPORTING DATE	OF WHICH NOT IMPAIRED AT THE CLOSING DATE AND PAST DUE IN THE FOLLOWING TIME PERIODS			
			UP TO 3 MONTHS	BETWEEN 3 AND 6 MONTHS	BETWEEN 6 AND 12 MONTHS	MORE THAN 1 YEAR
	€ K	€ K	€ K	€ K	€ K	€ K
Other financial assets	**31 Dec. 2007**					
	72,486	69,883	2,428	72	89	14
Other financial assets	**31 Dec. 2006**					
	50,566	47,762	1,659	761	383	1

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

Other short-term assets include the following items:

	31 DEC. 2007 € K	31 DEC. 2006 € K
Tax refund claims	10,753	12,770
Receivables from compensation claims	347	372
Other assets	3,849	3,369
	14,949	**16,511**

Tax refund claims include primarily receivables from value added tax.

The remaining other assets include refund claims of € 891 K (previous year: € 847 K) with respect to additional compensation paid from part-time retirement agreements against the Federal Labour Office (Bundesanstalt für Arbeit).

24 CASH AND CASH EQUIVALENTS

At the balance sheet date bank credit balances amounted to € 95,552 K (previous year: € 42,181 K). The movement of cash and cash equivalents constituting the financial resources pursuant to IAS 7 "Cash Flow Statements" is illustrated in the Cash Flow Statement on page 116.

25 LONG-TERM ASSETS HELD FOR DISPOSAL

The statement of these assets in the previous year in the amount of € 1,054 K pertained to the intended sale of land and buildings under a sale-and-lease-back transaction. The land and buildings were disposed of in August 2007. The statement of these assets was made in segmental reporting in the "Machine Tools" segment in the previous year.

26 DEFERRED TAXES

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

		31 DEC. 2007		31 DEC. 2006
	ASSETS	LIABILITIES	ASSETS	LIABILITIES
	€ K	€ K	€ K	€ K
Fixed assets	2,486	10,591	2,828	14,807
Current assets	4,648	2,301	2,031	3,870
Provisions	6,483	874	3,991	88
Liabilities	6,121	1,426	7,842	3,792
Tax loss carried forward	11,174	-	17,120	-
Consolidation	10,948	2,254	12,359	1,873
	41,860	17,446	46,171	24,430
Balancing out	-14,496	-14,496	-14,775	-14,775
Total	**27,364**	**2,950**	**31,396**	**9,655**

A determining factor for the valuation of the recoverability of deferred tax assets is the evaluation of the probability of the reversal of the valuation differences and the usefulness of tax loss carried forward, which have led to the deferred tax assets. This is dependent upon future taxable profits arising during the periods in which tax valuation differences reverse and tax loss carry forwards can be utilised. Based on our past experience and the expected taxable income situation, it is assumed that the corresponding advantages from the deferred tax assets can be realised. As at December 31, 2007 tax loss carry forwards amount to € 11,174 K (previous year: € 17,120 K). GILDEMEISTER assumes that on the basis of future business activities there will be sufficient positive taxable income to realise the tax asset claims.

The tax losses carried forward amount to € 42,944 K (previous year: € 73,115 K), of which € 5,287 K (previous year: € 18,977 K) were not recognised. Deductible temporary differences of € 1,887 K (previous year: € 72 K) are not included.

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

Taking into account trade earnings tax and the solidarity surcharge, this results in a tax rate of 28.8% (previous year: 37.8%) for domestic companies. International tax rates are between 15% and 41%.

27 EQUITY

The movement of individual components in group equity for the financial years 2007 and 2006 is illustrated in the Development of Group Equity on page 117 et seq.

Subscribed capital

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

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital by up to € 56,000,000 in nominal terms during the period until May 15, 2010 by issuing new owner shares for contributions in cash and/or in kind (authorised capital). This authority can be exercised on one occasion or, in partial amounts, on more occasions.

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

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

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

a) capital increases through non-cash capital contribution so as to acquire, in applicable cases, companies, sections of the company or participating interests in companies for the transfer of shares,
b) to the extent required for dilution protection purposes, in order to grant the holders of warrants or the creditors of convertible bonds issued by the company or its associated companies as part of an authorisation of the Board by the general meeting of shareholders, a subscription right to new shares to the extent they would be entitled to following the exercising of the option or conversion right or the fulfilment of conversion obligations,
c) to exclude any residual amounts from the subscription right, and

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

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

Capital provisions

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

Revenue provisions

Statutory provisions

Statutory reserves remain unchanged at € 680,530 K.

Other revenue provisions

Revenue provisions include prior-period profits generated by the companies included in the Consolidated Financial Statements as far as they were not distributed. Revenue provisions also include the offset of liabilities-side differences from the consolidation of investments of those subsidiaries that were consolidated before January 1, 1995, and the adjustments directly in equity in accordance with the first application of IFRS rules. Finally, they show the differences arising from foreign currency translation not reported in profit or loss in the financial statements of international subsidiaries and the post-tax effects from the valuation of financial instruments in equity. Deferred taxes recognised directly in equity amount to € 28 K (previous year: € 345 K).

A detailed overview on the composition of, or changes in, other revenue provisions in the financial year 2007 and in the previous year is included in the Development of Group Equity.

Proposed appropriation of profits

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

The financial year 2007 of GILDEMEISTER Aktiengesellschaft closes with a profit for the year of € 21,466,615.61. It will be proposed to the Annual General Meeting of Shareholders on May 16, 2008 that following the transfer of € 10,730,000.00 to other revenue provisions, and taking into account the profit carry forward of the previous year of € 7,925,431.04, the remaining profit of € 18,662,046.65 be appropriated as follows:

- to distribute € 15,155,876.05 to the shareholders by payment of a dividend of € 0.35 per share.
- to carry the remaining profit of € 3,506,170.60 forward to new account.

A dividend of € 0.20 per share was distributed for the financial year 2006.

Minority interest in equity

Minority interest in equity includes minority interests in the consolidated equity of the companies included and, in the financial year 2007, amounts to € -351 K (previous year: € 402 K).

Capital management disclosure

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

The medium-term goal is to achieve gearing of less than 50% and an equity ratio of about 40%.

	31 DEC. 2007	31 DEC. 2006
Cash and cash equivalents	95,552 € K	42,181 € K
Financial liabilities	260,554 € K	258,916 € K
Net financial liabilities	165,002 € K	216,735 € K
Total equity of shareholders in GILDEMEISTER AG	329,864 € K	288,976 € K
Total equity	329,513 € K	288,574 € K
Equity ratio	28.7 %	30.2 %
Gearing	50.0 %	75.0 %

The total equity has increased absolutely by € 40,939 K. The equity ratio has fallen to 28.7% (previous year: 30.2%). The decline results essentially from the rise in funds tied down on the assets-side of the balance sheet. Due to the decline in net indebtedness and an increase at the same time in equity to 50.0% (previous year: 75.0%), it was possible to improve gearing.

28 PENSION PROVISIONS

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

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

In the case of contribution-oriented pension plans (“defined contribution plans”) the respective company does not assume any further obligations which go beyond the payment of contributions into an earmarked reserve fund. In the financial year 2007, the related expenses amounted to € 20,669 K (previous year: € 19,239 K). The company’s contributions to the statutory pension insurance amounting to € 17,700 K (previous year: € 15.803 K) are included.

In the case of benefit-oriented pension plans, it is the company's obligation to pay the promised benefits to active and former employees ("defined benefit plans"), whereby a distinction is made between pension plans that are financed through reserves and those that are financed through a fund.

In the GILDEMEISTER group, pension commitments are financed through transfer to provisions.

The amount of the pension obligation (present value of future pension commitments or "defined benefit obligation") was calculated on the basis of actuarial methods by estimating the relevant factors impacting the pension commitment. Along with the assumptions on life expectancy, the following premises for the parameters to be applied to the actuarial calculations in the reports were defined:

	GERMANY		OTHER COUNTRIES	
	2007	2006	2007	2006
	%	%	%	%
Interest rate	5.40	4.35	3.50	3.00 – 3.50
Salary trend	0.00	0	1.00 – 3.00	1.00 – 5.00
Pension trend	1.75	1.75	0.00	1.00

The pension development includes expected future increases in salary that are assessed annually and are subject to, amongst other things, inflation and the duration of employment at the company. Since the pension commitments that were entered into at the national subsidiaries are not subject to future increases in salary, salary development was not taken into account when determining the relating company pension provisions.

Due to increases or reductions in the present value of defined-benefit obligations, actuarial gains or losses may arise, which may result, amongst others, from changes in the calculation parameters or changes in the risk development assessment relating to the pension commitments. The pension provisions net value can be derived from the following:

		31 DEC. 2007 € K	31 DEC. 2006 € K
	Cash value of unfunded pension commitments	32,275	36,157
+	Cash value of funded pension commitments	5,541	5,192
–	Current value of the pension plan assets	-4,999	-4,704
=	Cash value of the pension commitments (after deduction of the plan assets)	32,817	36,645
–	Balance of actuarial profits/losses not yet recognised in the balance sheet	-5,046	-8,674
=	Net value of amounts shown in the balance sheet on the reporting date	27,771	27,971
	of which pension provisions	27,771	27,971

The pension plan assets are fully composed of other assets. An expected interest rate of 4.0% (previous year: 2.5%) was used in the evaluation of the pension plan assets.

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

		31 DEC. 2007 € K	31 DEC. 2006 € K
	Fair value of the assets at the start of the year	4,704	5,008
+/-	Exchange rate changes	-135	0
+	Expected revenues from the plan assets	190	123
+/-	Actuarial profits (-) and losses (+)	-122	-273
+	Employer contributions	176	217
+	Pension plan participant contributions	137	161
–	Benefits paid	49	-532
=	Fair value of the assets at the end of the year	4,999	4,704

Of the company pension provisions amounting to € 27,771 K (previous year: € 27,971 K), € 26,851 K (previous year: € 26,915 K) are attributed to domestic group companies, representing about 97% (previous year: about 96%) of the total.

The changes in the cash value compared to the previous year are due to an adjustment of the underlying interest rate from 4.35% to 5.40% and to the change in the number of pensioners included in the calculations.

In the financial year 2007, total expenditure amounted to € 2,239 K (previous year: € 3,492 K), which breaks down into the following components:

		2007 € K	2006 € K
	Current expenditure of service	350	1,511
+	Interest expenditure	1,540	1,490
–	Expected revenues from the plan assets	-190	-123
+/-	Actuarial profits (-) and losses (+)	539	614
=	Total expenditure of payment-oriented pension plans	2,239	3,492

		2007 € K	2006 € K
	Balance sheet value as at January 1	27,971	27,479
+	Personnel costs	2,239	3,492
–	Pension payments made	-2,439	-3,000
=	Balance sheet value as at December 31	27,771	27,971

In the past five years, the funding status, comprising the cash value of all pension commitments and the present value of the plan assets, has developed as follows:

	2007 € K	2006 € K	2005 € K	2004 € K	2003 € K
Cash value of all pension commitments	37,816	41,349	43,514	34,902	33,701
Current value of the pension plan assets of all funds	-4,999	-4,704	-5,008	-1,176	-1,239
Funding status	32,817	36,645	38,506	33,726	32,462

Payments to beneficiaries from unfunded pension plans next year are expected to amount to about € 2,385 K (previous year: € 2,348), while payments to funded pension plans in the financial year 2008 are estimated to amount to about € 114 K (previous year: € 137 K).

29 OTHER PROVISIONS

The following lists the major contents of provisions:

	31 DEC. 2007 TOTAL € K	OF WHICH SHORT-TERM € K	31 DEC. 2006 TOTAL € K	OF WHICH SHORT-TERM € K
Tax provisions	23,018	23,018	16,113	16,113
Obligations arising from personnel	72,107	47,796	60,950	41,714
Risks arising from warranties and retrofitting	43,498	37,280	32,821	28,878
Obligations arising from sales	30,436	29,767	17,687	17,308
Legal and consultancy fees and costs of preparation of accounts	3,758	3,758	3,196	3,196
Other	13,453	13,337	7,468	7,468
	163,252	131,938	122,122	98,564
Total	**186,270**	**154,956**	**138,235**	**114,677**

The tax provisions include current income taxes amounting to € 18,542 K (previous year: € 9,843 K) and other company taxes that were set up for the financial year just ended and for the previous years.

Provisions for personnel costs in the group include € 13,141 K for part-time retirement (previous year: € 11,239 K) and € 5,062 K for anniversary bonuses (previous year: € 4,958 K). The provisions for anniversary bonuses and part-time retirement will be discounted and carried as liability at their present value. Obligations arising from part-time retirement are secured against potential insolvency through a mutual trust relationship. To secure the pension plan, cash assets are transferred into a trust property. The members of this trust property are domestic group companies.

The assets are defined as “plan assets” in accordance with IAS 19.7 and balanced against the related provision. Any proceeds arising from the pension plan assets are balanced against the related expenses. On December 31, 2007 liquid assets of € 3,749 K (previous year: € 2,961 K) were transferred to the trust property.

Risks arising from warranties and retrofitting relate to present obligations to third parties, the use of which is probable and the anticipated amount of which can be reliably estimated. Due to previous experience, valuations of provisions were carried out on the basis of the conditions on the balance sheet date.

The other obligations primarily include provisions for installations to be carried out, invoiced sales and other various services.

The movement in the other provisions is illustrated in the Analysis of Provisions:

	01 JAN. 2007 € K	TRANSFERS € K	USED € K	RETRANSFERS € K	OTHER CHANGES € K	31 DEC. 2007 € K
Tax provisions	16,113	20,391	12,649	1,085	248	23,018
Obligations arising from personnel	60,950	43,320	30,358	1,821	16	72,107
Risks arising from warranties and retrofitting	32,821	29,858	17,469	1,867	155	43,498
Obligations arising from sales	17,687	28,771	14,463	1,406	-153	30,436
Legal and consultancy fees and costs of preparation of accounts	3,196	3,246	2,539	173	28	3,758
Other	7,468	12,212	5,257	815	-155	13,453
	122,122	117,407	70,086	6,082	-109	163,252
Total	**138,235**	**137,798**	**82,735**	**7,167**	**139**	**186,270**

The other changes include foreign currency adjustments and book transfers.

30 FINANCIAL LIABILITIES

Details of short-term and long-term financial liabilities are listed in the following table:

	31 DEC. 2007 € K	OF WHICH DUE WITHIN 1 YEAR € K	OF WHICH DUE WITHIN 1 TO 5 YEARS € K	OF WHICH DUE AFTER 5 YEARS € K
Bond	182,189	182,189	0	0
Bank loans and overdrafts 1)	50,063	21,472	16,592	11,999
Discounted customers' bills	28,164	14,414	13,750	0
	260,416	218,075	30,342	11,999

1) of which secured by mortgages: € 25,105 K

	31 DEC. 2007 € K	OF WHICH DUE WITHIN 1 YEAR € K	OF WHICH DUE WITHIN 1 TO 5 YEARS € K	OF WHICH DUE AFTER 5 YEARS € K
Bond	169,375	0	169,375	0
Bank loans and overdrafts 1)	67,887	26,705	28,358	12,824
Discounted customers' bills	21,576	5,484	16,092	0
	258,838	32,189	213,825	12,824

1) of which secured by mortgages: € 32,563 K

In July 2004, GILDEMEISTER Aktiengesellschaft issued a long-term, secondary corporate bond. The bond with a nominal volume of € 175.0 million and a coupon of 9.75% p.a. matures in July 2011. Pursuant to IAS 39 "Financial Instruments: Recognition and Measurement" all allocable transaction costs of originally € 7,819 K were deducted from the liabilities of the bond and will be allocated over maturity of the bond. A scheduled amount of € 1,040 K (previous year: € 940 K) was allocated to the financial year 2007. In the financial year 2007 GILDEMEISTER changed its assessment with respect to future payment flows and resolved to redeem the bond at the earliest possible redemption date, July 19, 2008. The redemption price amounts to 104.875%. In this event the new cash flows differ from the originally planned cash flows. In this case, pursuant to IAS 39 AG 8, the book value of the bond must be recalculated by determining the cash value of estimated future cash flows using the original effective interest rate. The adjustment is drawn up as an expense in the period results. The new valuation of the amortised costs is to take place at the time when the company changes its assessment of future cash flows. An expense of € 11,774 K results from the re-assessment of the expected cash flows in 2007, which is recognised in the financial result. The newly assessed book value of the bond amounts to € 182,189 K.

The value of the bond shown in the Consolidated Financial Statements falls below the fair market value at € 5,008 K (previous year: € 26,450 K). The fair market value is determined by the price of the bond at the balance sheet date.

The group companies DECKEL MAHO Pfronten GmbH, DECKEL MAHO Seebach GmbH, GILDEMEISTER Drehmaschinen GmbH, GILDEMEISTER Beteiligungen AG, DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, FAMOT Pleszew S.A. and GILDEMEISTER Italiana S.p.A. are guarantors in relation to the bond agreement. In addition, the shares of the above companies to the nominal value of € 124,712 K (previous year: € 124,712 K) are secondarily pledged in favour of the bond holders.

Set out below are the major liabilities to financial institutions:

	31 Dec. 2007				31 Dec. 2006			
	Currency	Book value € K	Remaining period in years	Effective interest rate %	Currency	Book value € K	Remaining period in years	Effective interest rate %
Loan	EUR	28,703	up to 10	3.2-6.8	EUR	37,055	up to 11	0.89-6.8
Loan	JPY	1,025	up to 5	0.95-3.0	JPY	1,300	up to 6	0.95-2.75
Loan	CZK	483	up to 4	3.66	CZK	584	up to 5	3.66
Overdrafts	various	19,852	up to 5	4.0-12.5	various	28,948	up to 5	1.90-8.25
		50,063				**67,887**		

Open credit lines amount to € 121.6 million (previous year: € 189.6 million). These comprise open cash lines of € 95.1 million (previous year: € 148.6 million) and additional open lines of credit (guaranteed bills outstanding, bills of exchange, factoring) of € 26.5 million (previous year: € 41.0 million). The reduction in bank loans and overdrafts of € 17,827 K compared to the previous year is due to the scheduled repayment of long-term loans as well as to making less use of overdrafts.

As of December 31, 2007, the international share in bank loans and overdrafts amounts to approximately 54% (previous year: about 34%).

The short and medium term resource requirements of GILDEMEISTER Aktiengesellschaft and, as part of the intragroup cash management system, of the majority of national subsidiaries are covered through a syndicated loan agreement. The syndicated loan concluded on June 30, 2006 has a term until June 30, 2011 and a volume of € 175.0 million. The lending volume contains two tranches, which differ in terms of amounts, usability, maturity, drawing terms and the agreed interest rates. In favour of the lending banks, the shares of DECKEL MAHO Pfronten GmbH, DECKEL MAHO Seebach GmbH, GILDEMEISTER Drehmaschinen GmbH, DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, GILDEMEISTER Beteiligungen AG, FAMOT Pleszew S.A. and GILDEMEISTER Italiana S.p.A. at a nominal value of € 124,712 K (previous year: € 124,712 K), were pledged in first place to the national banking consortium. The above group companies are also guarantors for the loan agreement.

As further security for loans, fixed and current assets were assigned to the lending banks by SAUER GmbH in an amount of € 2,254 K.

For liabilities to financial institutions of € 50,063 K (previous year: € 67,887 K), no significant differences between book and market value arise due to the short-term conditions.

31 TRADE CREDITORS AND OTHER LONG-TERM LIABILITIES

Long-term financial liabilities are shown as follows:

	31 DEC. 2007 € K	31 DEC. 2006 € K
Trade creditors	850	654
Other long-term liabilities	9,996	8,912
	10,846	**9,566**

Trade creditors have to be attributed to the financial liabilities. Other long-term financial liabilities include the following items:

	31 DEC. 2007 € K	31 DEC. 2006 € K
Liabilities from finance leases	4,885	3,642
Debtors with credit balance	106	184
Other long-term financial liabilities	1,607	189
	6,598	**4,015**

Liabilities arising from finance leases amounted to € 4,885 K (previous year: € 3,642 K) and show the discounted value of future payments from finance leases. These are liabilities arising from finance leases for buildings.

In other financial liabilities, the fair market value of long-term liabilities corresponds to the balance sheet values. Payables that, in legal terms, arise after the balance sheet date, only have a minor impact on the company's financial situation.

	31 DEC. 2007 € K	31 DEC. 2006 € K
Deferred income on the liabilities side	3,397	3,416
Other long-term liabilities	1	1,481
	3,398	**4,897**

Deferred income items on the liabilities side include investment grants from the funds of the joint aid programme "Improvement of the Regional Economic Structure" and investment subsidies pursuant to the investment subsidy act of a total of € 3,397 K (previous year: € 3,416 K) pursuant to IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance".

In the financial year 2007, investment subsidies of € 262 K (previous year: € 0 K) were paid. This item will be derecognised in accordance with the depreciation procedure for tax-privileged capital assets and recognised in the Income Statement.

32 TRADE CREDITORS AND OTHER SHORT-TERM LIABILITIES

Short-term financial liabilities are shown as follows:

	31 DEC. 2007 € K	31 DEC. 2006 € K
Trade payables	142,427	130,221
Liabilities from finance leases	3,039	2,217
Liabilities from ABS transactions	21,503	0
Liabilities from accrued interest paid on the corporate bond	7,631	7,631
Fair market value of derivative financial instruments	1,597	16
Debtors with credit balance	4,085	3,097
Other short-term financial liabilities	4,898	2,681
	185,180	**145,863**

Liabilities arising from ABS transactions result from payments received from third parties for receivables sold, which payments have not yet been forwarded to the special purpose entity.

Liabilities arising from short-term finance leases amounted to € 3,039 K (previous year: € 2,217 K) and show the discounted value of future payments from finance leases. These are mainly liabilities arising from finance leases for buildings.

Short-term liabilities arising from finance leases are recognised without future interest payable. All future payments arising from finance leases total € 8,706 K (previous year: € 6,609 K).

Current liabilities from accrued interest paid are due to the accrual-based recognition of interest paid on the bond of € 7,631 K for the period July 19, 2007 to December 31, 2007, which will be paid in January 2008.

Other financial liabilities includes liabilities from bills of € 138 K (previous year: € 78 K), which arise from the acceptance of drafts and the issue of promissory notes.

The minimum lease payments of the respective lease agreements are as follows:

TOTAL FUTURE MINIMUM LEASE PAYMENTS	31 DEC. 2007 € K	31 DEC. 2006 € K
Due within one year	3,418	2,533
Due within one and five years	5,207	4,075
Due in more than five years	81	1
	8,706	**6,609**
INTEREST COMPONENT INCLUDED IN FUTURE MINIMUM LEASE PAYMENTS		
Due within one year	379	316
Due within one and five years	400	438
Due in more than five years	3	0
	782	**754**
NET PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS		
Due within one year	3,039	2,217
Due within one and five years	4,807	3,637
Due in more than five years	78	1
	7,924	**5,855**

The minimum lease payments from subleases for which GILDEMEISTER is the lessor, in 2008 amount to € 276 K (previous year: € 0 K) and for 2009 to 2012 to € 897 K (previous year: € 0 K). The agreements refer to the leasing of machine tools.

Other short-term liabilities include the following items:

	31 DEC. 2007 € K	31 DEC. 2006 € K
Tax liabilities	20,757	12,864
Liabilities relating to social insurance	3,046	2,263
Payroll account liabilities	3,062	2,930
Deferred income	6,802	2,640
Other liabilities	1,434	475
	35,101	**21,172**

Tax liabilities refer to liabilities arising from value added tax amounting to € 12,346 K (previous year: € 6,061 K) as well as liabilities arising from wage and church tax of € 6,551 K (previous year: € 4,989 K).

Deferred income on the liabilities side of € 972 K (previous year: € 791 K) relates to deferred future interest earnings from a specific financing programme of the Italian state (Sabatini funding). It also includes further deferred income from sale-and-lease-back transactions that resulted in finance lease arrangements and for which GILDEMEISTER is the lessee.

33 CONTINGENCIES AND OTHER FINANCIAL OBLIGATIONS

No reserves were set up for the following contingent liabilities, which are assessed at their nominal values, since the risk of usage is deemed as not very probable:

CONTINGENCIES	31 DEC. 2007 € K	31 DEC. 2006 € K
Guarantees	5,109	748
Warranties	2,809	1,896
Other contingencies	599	3,274
	8,517	**5,918**

The increase in guarantees compared to the previous year is mainly due to an increase in advance payment bonds for international group companies.

Other contingencies consist primarily of risks arising from taxes and import duties of international subsidiaries, which do not fulfil the conditions for setting up a provision.

Other financial obligations consist mainly of lease agreements and long-term tenancy agreements. In operating lease agreements, the beneficial owner of the leased items is the lessor, which means risks and rewards are borne by the lessor.

The total minimum lease payments from permanent tenancy and lease agreements (finance lease arrangements and operating lease arrangements) are as set out below by due dates. The agreements have terms from 2 to 17 years and some include options to extend or purchase options.

TOTAL FACE VALUE OF FUTURE MINIMUM LEASE PAYMENTS	31 DEC. 2007 € K	31 DEC. 2006 € K
Due within one year	25,059	23,144
Due within one and five years	32,499	30,194
Due in more than five years	7,844	5,039
	65,402	**58,377**

Of which operating lease arrangements account for:

TOTAL FACE VALUE OF FUTURE MINIMUM LEASE PAYMENTS	31 DEC. 2007 € K	31 DEC. 2006 € K
Due within one year	21,641	20,611
Due within one and five years	27,292	26,119
Due in more than five years	7,763	5,038
	56,696	**51,768**

Operating lease arrangements of € 5.9 million result from a general lease agreement for software with GILDEMEISTER Beteiligungen AG. These agreements have a minimum term of three years.

Further operating lease agreements include an operating lease to the value of € 4.6 million entered into in relation to the funding of buildings at DMG Europe Holding GmbH in Klaus, Austria, and of € 4.5 million at DECKEL MAHO Pfronten GmbH. The operating lease agreements for the buildings include a purchase option upon expiration of the basic lease term. Further operating lease agreements exist at FAMOT Pleszew S.A., Poland, for machines to a value of € 1.5 million as well as at other group companies for machines, fleet vehicles and other equipment, and factory and office equipment. Some of the agreements include purchase options upon expiration of the basic lease term.

The operating lease agreements have minimum terms of between 2 and 15 years.

There are no permanent subtenancy agreements that have to be included in the total of future minimum lease payments. There are no contingent rental payments that are recognised in the Income Statement.

34 DERIVATIVE FINANCIAL INSTRUMENTS

On the balance sheet date, forward exchange contracts were held in the GILDEMEISTER group in USD, CAD, SGD, AUD and JPY as well as curreny options in USD. The face and fair market values of derivative financial instruments existing at the balance sheet date are set out below:

	31 DEC. 2007 NOMINAL AMOUNT € K	FAIR MARKET VALUES ASSET € K	DEBT € K	TOTAL € K	31 DEC. 2006 NOMINAL AMOUNT € K	FAIR MARKET VALUE € K
Foreign exchange contracts						
of which cash flow hedges	42,992	588	985	-397	31,804	906
of which USD	37,890	408	906	-498	26,152	713
of which CAD	1,637	0	78	-778	3,672	206
of which JPY	2,685	160	0	160	1,153	6
of which other currencies	780	20	1	19	827	-7
Curreny options as cash flow hedges	9,691	334	0	334	0	0
Foreign exchange contracts for trade purposes	58,549	1,648	612	1,036	53,877	932
of which USD	42,957	1,371	535	836	45,727	639
of which CAD	1,879	4	19	-15	3,250	232
of which JPY	4,883	93	0	93	1,000	44
of which other currencies	8,830	180	58	122	4,900	61
	111,233	**2,570**	**1,597**	**973**	**85,681**	**1,838**

The nominal amounts correspond to the total of all purchase and sales amounts of derivative financial transactions. The fair market values shown correspond with the price at which third parties would assume the rights or obligations arising from the financial instruments on the balance sheet date. The fair market values are the current values of the derivative financial instruments excluding any adverse trends in value from underlying transactions. The fair market value of currency options is separated into an intrinsic value and a time value, whereby only the intrinsic value of the options is drawn on for hedging purposes. The values are calculated on the basis of an option price model.

The fair market values are recognised in the balance sheet under other short-term financial assets or other short-term financial liabilities.

On the balance sheet date GILDEMEISTER also had forward exchange contracts for trading purposes, which although they do not fulfil the strict requirements of hedge accounting pursuant to IAS 39, they make an effective contribution to the securing of financial risks pursuant to the principles of risk management. For the hedging of currency risks recognised as monetary assets and liabilities, GILDEMEISTER does not use hedge accounting pursuant to IAS 39, as the realised profits and losses from the underlying transactions from the currency translation pursuant to IAS 21 are recognised in the Income Statement at the same time as the realised profits and losses from the derivatives applied as hedging instruments. In the event that third parties do not fulfil their obligations arising from forward exchange contracts, as at the balance sheet date GILDEMEISTER had a deficit risk amounting to € 2,570 K (previous year: € 1,854 K).

Forward exchange contracts with a nominal volume of € 4,000 K (previous year: € 0 K) have a remaining term of more than one year. All other forward exchange contracts existing as of the balance sheet date mature in less than one year.

In the financial year 2007, effects of € 216 K (previous year: € 912 K) arising from the market valuation of financial instruments allocated to cash flow hedges were recognised directly in equity on an accrual basis. In contrast € 872 K (previous year: € 1,953 K) were taken from equity and included in the results for the period. Neither in the financial year nor in the previous year ineffective hedges were recognised.

35 RISKS FROM FINANCIAL INSTRUMENTS

Risks from financial instruments

Currency and interest rate fluctuations can lead to considerable profit and cash flow risks for GILDEMEISTER. For this reason, GILDEMEISTER centralises these risks as far as possible and manages them with a view to the future and by using derivative financial instruments. The controlling of risks is based on regulations that are valid throughout the group and in which the targets, principles, responsibilities and competencies are defined.

Currency risks

In its global business activities GILDEMEISTER is exposed to two types of currency risks. Transaction risks arise through changes in value of future foreign currency payments due to exchange rate fluctuations in individual accounts.

In the GILDEMEISTER group both purchases and sales are made in foreign currencies. For the hedging of currency risks arising from transactions within the GILDEMEISTER group forward exchange contracts are used primarily. The conclusion and processing of derivative financial instruments is based on binding internal regulations defining scope, responsibilities, reporting and accounting.

The translation risks describes the risk of a change in the balance sheet and income statement items of a subsidiary due to exchange rate differences in the translation of local individual accounts to the group currency. Any changes in the balance sheet items of these companies caused by currency fluctuations in translation will be recorded in equity. Risks arising from the translation of sales revenues and results in foreign currency from subsidiaries are not hedged.

GILDEMEISTER determines foreign currency sensitivity through aggregating all foreign currency items that are not represented in the functional currency of the respective company and sets these against hedging. The fair market value of the basic items and hedges included are evaluated once at the actual exchange rates and once with the sensitivity rates. The difference between the two values represents the effects on equity and results.

If the euro had been revalued (devalued) by 10% against the US dollar as at December 31, 2007, the reserves for derivatives in equity and the present fair value of the forward exchange contracts would have been € 5,417 K higher (less) (December 31, 2006: € 3,337 K higher (lower)). If the euro had been revalued (devalued) by 10% against all currencies as at December 31, 2007, the results and the present fair value of forward exchange contracts would have been € 2,948 K lower (higher) (December 31, 2006: € 2,254 K higher (lower)). The hypothetical effect on results arises specifically from the currency sensitivity EUR / USD: € 2,112 K; EUR / CAD: € 0.7 K; EUR / JPY: € 0.1 K.

The following tables show the transaction-related net currency risk for the most significant currencies as at December 31, 2007 and 2006:

	31 DEC. 2007			31 DEC. 2006		
	USD	JPY	CAD	USD	JPY	CAD
	€ K	€ K	€ K	€ K	€ K	€ K
Currency risk from balance sheet items	62,044	17,738	4,220	15,368	9,345	2,114
Currency risk from pending transactions	9,963	7,789	2,683	12,975	1,389	1,911
Transaction-related currency items	72,007	25,527	6,903	28,343	10,734	4,025
Financially hedged item through derivatives	-52,388	-7,275	-3,601	-13,071	-2,149	-465
Open foreign currency item	19,619	18,252	3,302	15,272	8,585	3,560
Change in foreign currency item through a 10% revaluation of the euro	-1,962	-1,825	-330	-1,527	-859	-356

Interest rate risks

Interest rate risks include any potential positive or negative impact of interest rate changes on the results, equity or cash flow during the current or future reporting periods. At GILDEMEISTER interest rate risks are essentially in connection with financial liabilities.

Interest hedging instruments in the form of swaps are used generally to eliminate the effect of future changes in the interest rate on the cost of financing credits that are subject to a floating rate. At the balance sheet date no interest rate swaps were held.

Fixed interest rates have been predominantly agreed for financial liabilities carrying interest. Changes in the interest rate would only have an effect if these financial instruments were recognised on the balance sheet at fair value. As this is not the case, financial instruments with a fixed interest rate are not subject to any risks arising out of interest rate changes within the meaning of IFRS 7.

The interest risk of financial instruments with variable interest rates is measured with the aid of cash flow sensitivity. Based on the financial instruments with a variable interest rate, existing interest hedges have been deducted. A 1% increase in interest rates pertaining to the non-hedged portfolio on the balance sheet date would result in an increase in interest expenditure of about € 1.2 million (previous year: € 0.4 million).

Liquidity risks

Liquidity risks, that is, the risk that GILDEMEISTER cannot meet its financial obligations, are limited by creating the necessary financial flexibility as well as by effective cash management. As at December 31, 2007 GILDEMEISTER had cash and cash equivalents of € 95.5 million as well as open cash lines of € 95.1 million and additional open lines of credit (guaranteed bills outstanding, bills of exchange, ABS and factoring) of € 26.5 million.

The following table shows that contractually agreed (non-discounted) interest payments and repayments of original financial liabilities as well as of the derivative financial instruments with positive and negative fair values:

	Book value 31 Dec. 2007 € K	Cash flows 2008 Interest € K	Cash flows 2008 Repayment € K	Cash flows 2009 – 2011 Interest € K	Cash flows 2009 – 2011 Repayment € K	Cash flows 2012 et seq. Interest € K	Cash flows 2012 et seq. Repayment € K
Bond	182,189	17,063	182,189	0	0	0	0
Liabilities to banks	50,063	1,507	19,082	2,854	16,297	549	14,684
Liabilities arising from leases	7,924	379	3,039	400	4,397	3	488
Liabilities from ABS transactions	21,503	0	21,503	0	0	0	0
Discounted customers' bills	28,164	48	24,050	0	3,900	0	214
Liabilities from derivatives	1,597	0	1,597	0	0	0	0
Other financial liabilities	161,604	100	160,073	56	1,175	0	356
	453,044	**19,097**	**411,533**	**3,310**	**25,769**	**552**	**15,742**

	Book value 31 Dec. 2006 € K	Cash flows 2007 Interest € K	Cash flows 2007 Repayment € K	Cash flows 2008 – 2010 Interest € K	Cash flows 2008 – 2010 Repayment € K	Cash flows 2011 et seq. Interest € K	Cash flows 2011 et seq. Repayment € K
Bond	169,375	17,063	0	51,189	0	9,432	169,375
Liabilities to banks	67,887	1,745	26,704	2,147	21,269	557	19,914
Liabilities arising from leases	5,855	316	2,217	438	2,727	0	911
Liabilities from ABS transactions	0	0	0	0	0	0	0
Discounted customers' bills	21,576	27	5,484	0	12,069	0	4,023
Liabilities from derivatives	16	0	16	0	0	0	0
Other financial liabilities	146,615	179	144,108	110	1,431	9	1,076
	411,324	**19,330**	**178,529**	**53,884**	**37,496**	**9,998**	**195,299**

This includes all instruments that were held as at December 31, 2007 and for which payments have been contractually agreed. Forecast figures for future new liabilities have not been included. Amounts in foreign currencies were translated at the balance sheet date exchange rate. The variable interest payments for the financial instruments were determined on the basis of the last fixed interest rate before December 31, 2007 or December 31, 2006, respectively. Financial liabilities that can be repaid at any time are always allocated to the earliest possible date.

Credit risks

A credit risk is the unexpected loss of payment funds or income. This occurs if the customer is not able to meet his obligations within the due time. A receivables management with regulations applicable worldwide ensures the continuous monitoring of risks and minimises losses of receivables. Within the scope of cash deposits, financial contracts are only concluded with banks having first-rate creditworthiness. Furthermore, no special credit risk contractions exist for GILDEMEISTER neither with respect to customers nor for individual countries. With respect to derivative financial instruments the GILDEMEISTER group is exposed to a credit risk that arises from the non-performance of contractual agreements by the other party. This credit risk is minimised by only entering into transactions with parties of first-class financial standing. The book value of the financial assets represents the maximum credit risk. The following table shows the maximum credit risk of € 460,904 K as at the balance sheet date (previous year: € 342,223 K).

	31 DEC. 2007 € K	31 DEC. 2006 € K
Financial assets held for sale	357	183
Loans and receivables	362,425	298,005
Cash and cash equivalents	95,552	42,181
Derivative financial assets		
Derivatives without a hedging relationship	1,801	932
Derivatives with a hedging relationship	769	922
	460,904	**342,223**

There were no securities received or other credit enhancements neither in the financial year nor in the previous year.

The valuations rates of the financial instruments according to valuation categories are shown as follows:

		Valuation in accordance with IAS 39					
	Book value 31 Dec. 2007	Amortised cost	Cost	Fair value recognised in equity	Fair value through profit or loss	**Valuation in accordance with IAS 17**	**Fair value 31 Dec. 2007**
	€ k	€ k	€ k	€ k	€ k	€ k	€ k
Assets							
Financial assets	357	357					357
Cash and cash equivalents	95,552	95,552				-	95,552
Trade receivables	292,507	292,507				-	292,507
Other receivables	69,916	69,916				-	69,916
Derivative financial assets							
Derivatives without a hedging relationship	1,801				1,801	-	1,801
Derivatives with a hedging relationship	769			769		-	769
Liabilities							
Bond	182,189	182,189				-	187,197
Liabilities to banks	50,063	50,063				-	50,063
Discounted customers' bills	28,164	28,164				-	28,164
Trade liabilities	143,277	143,277				-	143,277
Liabilities from ABS transactions	21,503	21,503				-	21,503
Liabilities from finance leases	7,924	7,924				7,924	7,924
Other liabilities	18,327	18,327				-	18,327
Derivative financial liabilities							
Derivatives without a hedging relationship	612				612	-	612
Derivatives with a hedging relationship	985			985		-	985
Of which aggregated by valuation category in accordance with IAS 39:							
Loans and receivables	457,975	457,975					457,975
Assets in the category							
Available for sale	357	357					357
Held for trading	1,801				1,801		1,801
Liabilities in the category							
Measured at amortised cost	451,447	451,447					456,455
Held for trading	612				612		612

	Book value 31 Dec. 2006	Valuation in accordance with IAS 39: Amortised cost	Cost	Fair value: recognised in equity statement	Fair value: through profit or loss	Valuation in accordance with IAS 17	Fair value 31 Dec. 2006
	€ K	€ K	€ K	€ K	€ K	€ K	€ K
	183	183				-	183
	42,181	42,181				-	42,181
	253,370	253,370				-	253,370
	48,712	48,712				-	48,712
	932				932	-	932
	922			922		-	922
	169,375	169,375				-	195,825
	67,887	67,887				-	67,887
	21,576	21,576				-	21,576
	130,875	130,875				-	130,875
	0	0				-	0
	5,859	5,859				5,859	5,859
	13,782	13,782				-	13,782
	1				1	-	1
	15			15		-	15
	344,263	344,263					344,263
	183						183
	932				932		932
	409,354	409,354					435,804
	1				1		1

Cash and cash equivalents, trade receivables and other receivables have predominantly short remaining terms. Therefore their book value corresponds approximately to the fair value at the balance sheet date.

Trade liabilities and other liabilities essentially have short remaining terms; the values recognised on the balance sheet correspond approximately to their fair present value.

The net results of the financial instruments according to valuation category are shown as follows:

	FROM INTEREST	SUBSEQUENT MEASURING			DISPOSAL	2007	2006
	€ K				€ K	€ K	€ K
		AT FAIR VALUE € K	FOREIGN CURRENCY TRANSLATION € K	VALUE ADJUST-MENT € K			
Loans and receivables	3	-166	1,691	-9,600	95	-7,977	-2,381
Assets in the category							
available for sale	0	0	0	0	0	0	0
held for trading	0	-440	0	0	0	-440	-1,899
Liabilities in the category							
measured at amortised cost	-27,463	-13,486	-3,673	0	0	-44,622	-34,633
held for trading	0	-1,065	0	0	0	-1,065	-1
Total	**-27,460**	**-15,157**	**-1,982**	**-9,600**	**95**	**-54,104**	**-38,914**

Interest from financial instruments is recognised in interest results.

Value adjustments on trade receivables are recognised in other operating expenses. Interest results from financial liabilities in the valuation category “liabilities at amortised cost” result essentially from interest expenses for the bond and for liabilities to banks.

Notes to the Cash Flow Statement

36 CASH FLOW STATEMENT

The Cash Flow Statement pursuant to IAS 7 "Cash Flow Statements" records the payment flow in a financial year and represents the inflow and outflow of the company's liquid funds. The payment flow is distinguished between cash flow from operating activities and cash flow from investment and financing activity.

The financing resources set out in the Cash Flow Statement include all liquid funds stated in the balance sheet, i.e. cash in hand, Bundesbank balance and bank balances to the extent that these are available within three months.

The cash flow from operating activities was calculated by the indirect method through adjusting the earnings before tax by changes in inventories, trade receivables and payables, non-cash items and all other items showing cash flows in the investment or financing areas. The cash flows from investment and financing activities were each calculated in terms of actual sums paid. Effects from foreign currency translation and changes in the consolidated group are adjusted accordingly.

Investment operations for finance leases of € 763 K (previous year: € 945 K) have not resulted in a change in cash flow.

Amounts paid out for investments in financial assets in the financial year 2007 result from the acquisition of 100% of the shares in DMG Automation GmbH, Hüfingen. The acquisition price amounted to € 6,971 K of which € 4,000 K was paid in 2007. The acquisition also included the acquisition of cash funds of € 1,065 K resulting in a net cash outflow of € 2,935 K. Payment of € 971 K was made in February 2008. Detailed information on the assets and liabilities taken over is given on page 125 et seq. An amount of € 270 K includes payment for the acquisition of an interest in VR Leasing Frontania GmbH & Co. KG.

Notes to Segmental Reporting

37 EXPLANATORY NOTES TO THE SEGMENTS

In segmental reporting pursuant to IAS 14 "Segment Reporting", the business activities of the GILDEMEISTER group are distinguished between business segments requiring primary segment reporting and geographical areas requiring secondary segment reporting. A presentation in table format as part of the Notes can be found on page 122 et seq.

The business activities of the GILDEMEISTER group consist of the “Machine Tools”, “Services” and “Corporate Services” segments. This segmentation follows the group's management and control. Each group company is allocated to the segment pertaining to its respective economic activities. The **“Machine Tools”** segment covers the group's new machines business and consists of the “turning”, “milling” and “ultrasonic / lasertec” technologies. This includes the lathes and turning centres of

- GILDEMEISTER Drehmaschinen GmbH, Bielefeld,
- GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italien,
- GRAZIANO Tortona S.r.l., Tortona, Italien,
- FAMOT Pleszew S.A., Pleszew, Polen,
- DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China,

the milling machines and machining centres of

- DECKEL MAHO Pfronten GmbH, Pfronten,
- DECKEL MAHO Seebach GmbH, Seebach,
- DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China,

the ultrasonic and laser machines of

- SAUER GmbH, Idar-Oberstein / Kempten

and the products from the area of automation / controls of

- DMG Automation GmbH, Hüfingen,
- DMG Electronics GmbH, Pfronten.

All of our machines are classified as cutting machine tools, and all business segments are concurrent with each other.

The **“Services”** segment, which covers all areas, is directly related to the machine tools and, with its products and technical services, represents an independent segment. It substantially includes DMG Vertriebs und Service GmbH, DECKEL MAHO GILDEMEISTER, Bielefeld, and its subsidiaries.

DMG Service Solutions offers worldwide customised service solutions and service products over the entire lifespan of the DMG machine tools. The service solutions include various services, which, through our highly-qualified service staff and our worldwide sales and service network, ensure direct customer contact and rapid availability. Along with introduction and consulting services, this includes the traditional maintenance and service activities, the installations and initial training, the vocational and further training provided by DMG Trainingsakademie GmbH, the retrofitting of machines and the used machines business. DMG service products – such as DMG Spare Parts, DMG Power Tools, adjustment devices and tool management from MICROSET, as well as systems from a+f GmbH and components from SACO – offer users an opportunity to increase the productivity of their DMG machines tools significantly. With its SunCarrier Systems, a+f GmbH contributed € 7,358 K to the segment sales revenues.

Another area is key accounting, the management of our major customers, which has been centralised to include all areas and products in order to meet the increasing globalisation of international companies.

The **"Corporate Services"** segment essentially includes the GILDEMEISTER Aktiengesellschaft with its group-wide holding functions 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 as well as the standardised group IT integrated in GILDEMEISTER Beteiligungen AG.

38 EXPLANATORY NOTES TO SEGMENTAL INFORMATION

The definition of terms used in individual segmental information is in line with the management principle for the value-oriented corporate management of the GILDEMEISTER group. Segmental information is in principle based on the same accounting and valuation methods as form the basis for the Consolidated Financial Statements.

Segmental assets include all assets tied up in the business including shares, goodwill and prepaid expenses; it does not include income tax claims.

As part of the exercise of the accounting policy choice pursuant to IFRS 3 "Business Combinations", existing goodwill was allocated to the segments as follows. Goodwill to the "Machine Tools" segment of € 44,311 K (previous year: € 39,072 K), to the "Services" segment of € 31,448 K (previous year: € 31,479 K) and of € 0 K to the "Corporate Services" segment (previous year. € 0 K).

No impairment of goodwill was recorded in the financial year.

Segmental debts consist of the outside capital and financial liabilities including provisions and deferred income; they do not include income tax liabilities.

Investments include the additions to tangible fixed assets and intangible assets.

Depreciation pertains to segmental fixed assets.

In the financial year non-cash expenses were incurred in the "Corporate Services" segment due to the accrual of costs of transaction with respect to financial instruments in an amount of € 13,486 K (previous year: € 3,261 K). Of these, € 1,712 K relate to the scheduled amortisation of transaction costs. The change from the previous year results primarily from a one-time expense of € 11,774 K. Further information is given on page 141 et seq. No major non-cash expenses were incurred in the two other segments.

The "Transition" column represents the elimination of intercompany receivables and liabilities, income and expenses and results between the segments.

The secondary segmentation is based on the corporate seats of the group companies and is divided into the geographical areas: Germany, rest of Europe, North America, Asia and rest of the world, which includes Mexico and Brazil.

In the presentation of secondary segmentation, data was determined on the basis of regional subgroups.

Other explanatory notes

39 AUDITOR'S FEES AND SERVICES

In the financial year 2007, the fees for the auditor of the Consolidated Financial Statements, KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, as well as for its affiliated companies within the meaning of Section 271 paragraph 2 HGB (German Commercial Code) amounted to € 969 K (previous year: € 834 K). This includes the fees for the group audit and the audit of the statutory financial statements of GILDEMEISTER Aktiengesellschaft and its domestic subsidiaries. An amount of € 193 K (previous year: € 223 K) was also charged in expenditure for other services as well as other verification and valuation services of € 3 K (previous year: € 3 K).

40 EVENTS OCCURING AFTER THE BALANCE SHEET DATE

Material events occurring after the balance sheet date are set out in the Supplementary Report to the Group Management Report. No other material events occurred before the date of submission to the Supervisory Board on March 5, 2008.

41 INFORMATION ON RELATIONS WITH AFFILIATED COMPANIES AND PERSONS

Related persons and companies within the meaning of IAS 24 "Related Party Disclosures" are, in principle, members of the Executive Board and of the Supervisory Board, close members of their families and subsidiaries that are not fully consolidated. Related persons were not party to any major transaction or any transaction of unusual nature or structure with companies of the GILDEMEISTER group. Sales between the GILDEMEISTER group and non-consolidated companies are of secondary importance.

42 CORPORATE-GOVERNANCE

The declaration of compliance in accordance with Section 161 of the German Companies Act (AktG) was made on December 31, 2007 and has been made permanently accessible to shareholders on our website at www.gildemeister.com.

Affiliated companies

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES, PROCUREMENT / COMPONENTS	NATIONAL CURRENCY	EQUITY [1)]	€ K	PARTICIPATION QUOTA IN %
GILDEMEISTER Beteiligungen AG, Bielefeld 2)			229,841	100.0
DECKEL MAHO Pfronten GmbH, Pfronten 4/6/7)			48,422	100.0
SAUER GmbH, Stipshausen / Idar-Oberstein 4/8/9)			6,942	100.0
DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co,, Ltd,, Shanghai, China 6)	T CNY	96,217	8,959	100.0
FAMOT Pleszew S.A., Pleszew, Poland 6)	T PLN	38,757	10,787	100.0
GILDEMEISTER Drehmaschinen GmbH, Bielefeld 4/6/7)			16,650	100.0
GILDEMEISTER Partecipazioni S.r.l., Tortona, Italy 6)			108,967	100.0
GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italy 3)			70,727	100.0
GRAZIANO Tortona S.r.l., Tortona, Italy 3)			10,207	100.0
SACO S.p.A., Castelleone, Italy 3)			7,772	100.0
DMG Italia S.r.l., Brembate di Sopra, Italy 3)			3,376	100.0
DECKEL MAHO Seebach GmbH, Seebach 4/6/7)			8,363	100.0
DMG Automation GmbH, Hüfingen 4/6)			1,486	100.0
DMG Electronics GmbH, Pfronten 4/6/7)			500	100.0
DMG Spare Parts GmbH, Geretsried 4/6/7)			25	100.0
DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld 2/4/5)			108,253	100.0
DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg 4/5/10/11)			44,955	100.0
DMG München Vertriebs und Service GmbH für Werkzeugmaschinen DECKEL MAHO GILDEMEISTER, Munich 4/5/12/13)			1,072	100.0
DMG Hilden Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Hilden 4/5/12/13)			1,096	100.0
DMG Bielefeld Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld 4/5/12/13)			1,131	100.0
DMG Berlin Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Berlin 4/5/11/12)			414	100.0
DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bad Homburg 4/5/12/13)			413	100.0
GILDEMEISTER Italiana Deutschland GmbH, Leonberg 4/5/12/13)			333	100.0
DMG Europe Holding GmbH, Klaus, Austria 10)			63,969	100.0
DMG Asia Pacific Pte. Ltd., Singapore 14)	T SGD	7,854	3,713	100.0
DMG Australia Pty. Ltd., Clayton Victoria, Australia 15)	T AUD	4,201	2,504	100.0
DMG (Thailand) Co. Ltd., Bangkok, Thailand 15)	T THB	16,337	373	100.0
DMG Austria GmbH, Klaus, Austria 14)			3,127	100.0
DMG Benelux B.V., Veenendaal, The Netherlands 14)			30,370	100.0
DECKEL MAHO GILDEMEISTER Brasil Ltda., São Paulo, Brazil 16)	T BRL	1,194	456	100.0
DECKEL MAHO GILDEMEISTER Iberica S.L., Berriz, Spain 16)			751	100.0

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES, PROCUREMENT / COMPONENTS (CONTINUATION)

	NATIONAL CURRENCY	EQUITY [1]	€ K	PARTICIPATION QUOTA IN %
DMG America Inc., Itasca, USA [16]	T USD	21,708	14,751	100.0
DMG Charlotte LLC, Charlotte, USA [17]	T USD	24	17	100.0
DMG Chicago Inc., Itasca, USA [17]	T USD	2,541	1,726	100.0
DMG Houston Inc., Houston, USA [17]	T USD	1,382	939	100.0
DMG Los Angeles Inc., Los Angeles, USA [17]	T USD	1,696	1,152	100.0
DMG Asia Pte. Ltd., Singapore [16]			7,402	100.0
DMG Benelux BVBA - SPRL., Zaventem, Belgium [16]			2,131	100.0
DMG France S.a.r.l., Les Ulis, France[16]			4,654	100.0
DMG Czech s.r.o., Brno, Czech Republic [16]	T CZK	116,133	4,370	100.0
DMG Polska Sp.z o.o., Pleszew, Poland [16]	T PLN	15,419	4,292	100.0
DMG (Schweiz) AG DECKEL MAHO GILDEMEISTER, Dübendorf, Switzerland [16]	T CHF	12,427	7,505	100.0
DMG Romania Sales & Services S.r.l., Bukarest, Rumania [16]	T RON	18	5	100.0
DMG South East Europe E.P.E., Thessaloniki, Greece [24]			249	100.0
DMG (U.K.) Ltd., Luton, Great Britain [16]	T GBP	2,915	3,968	100.0
DMG Russland o.o.o., Moskau, Russia[14]	T RUB	37,453	1,040	100.0
DMG Istanbul Makine Tikaret ve Servis Limited Sirketi, Istanbul, Turkey [14]	T TRL	2,569	1,499	100.0
DMG Malaysia SDN BHD, Puchong/Kuala Lumpur, Malaysia [14]	T MYR	4,740	974	100.0
DMG Nippon K.K., Yokohama, Japan [14]	T JPY	210,243	1,274	100.0
DMG Scandinavia Sverige AB, Sollentuna, Sweden [14]	T SEK	11,274	1,195	100.0
DMG Hungary Kereskedekmi és Szeviz Korlatolt Felelösségü Tarasag, Budapest, Hungary [14]	T HUF	148,114	587	100.0
DMG Scandinavia Norge AS, Langhus, Norway [14]	T NOK	2,305	289	100.0
DMG Canada Inc., Toronto, Canada [10]	T CAD	1,325	918	100.0
DECKEL MAHO GILDEMEISTER México S.A. de C.V., Monterrey, Mexico [10]	T MXN	3,852	240	100.0
DMG Technology Trading (Shanghai) Co. Ltd., Shanghai, China [10]	T CNY	39,924	3,717	100.0
DMG DECKEL MAHO GILDEMEISTER (India) Pvt. Ltd., Bangalore, India [10]	T INR	193,767	3,344	100.0
DMG Machinery Taiwan Ltd., Taichung, Taiwan [10]	T TWD	74,627	1,564	100.0
DMG Korea Ltd., Seoul, Korea [10]	T KRW	1,687,874	1,226	100.0
DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [4/5/10/11]			1,500	100.0
DMG Service Fräsen Pfronten GmbH, Pfronten [4/5/10/11]			1,559	100.0
DMG Service Fräsen Seebach GmbH, Seebach [4/5/10/11]			1,171	100.0
DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER, Geretsried [4/5/10/11]			17,517	100.0
DMG Gebrauchtmaschinen Czech s.r.o., Zlin, Czech Republic [18]	T CZK	20,153	758	100.0
DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [4/5/10/11]			270	100.0
DMG MICROSET GmbH, Bielefeld [4/5/10]			1,405	100.0
a + f GmbH, Würzburg [4/5/10/11]			3,112	100.0

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES, PROCUREMENT / COMPONENTS (CONTINUATION)	NATIONAL CURRENCY	EQUITY [1]	€ K	PARTICIPATION QUOTA IN %
OTHER				
MITIS Grundstücks-Vermietungs Gesellschaft mbH & Co. Objekt Bielefeld KG, Dusseldorf [19]			0	98.0
BIL Leasing GmbH & Co 736 KG, Munich [20]			0	
BIL Leasing GmbH & Co 748 KG, Munich [21]			0	
Chemnitzer Grundbesitz Limited, Birmingham, Great Britain [22]	T GBP	74	101	94.9
Zarzad Blokow Mieszkalnych Spolka z o.o., Pleszew, Poland [23]	T PLN	203	58	100.0

1) The figures correspond with the financial statements prepared in accordance with local regulations; they do not show the respective companies' contribution to the Consolidated Financial Statements. Foreign currencies with respect to equity were translated at the market price on reporting date.
2) Management and profit and loss transfer agreement with GILDEMEISTER Aktiengesellschaft
3) Participating interest of GILDEMEISTER Partecipazioni S.r.l.
4) The domestic subsidiary has complied with the conditions required by Section 264 paragraph 3 HGB (German Commercial Code) regarding the application of the exemption regulations and therefore waives the disclosure of its annual financial statements and relating documents.
5) The domestic subsidiary has complied with the conditions required by Section 264 paragraph 3 HGB (German Commercial Code) regarding the application of the exemption regulations and therefore waives the preparation of a management report.
6) Participating interest of GILDEMEISTER Beteiligungen AG
7) Management and profit and loss transfer agreement with GILDEMEISTER Beteiligungen AG
8) Participating interest of DECKEL MAHO Pfronten GmbH
9) Management and profit and loss transfer agreement with DECKEL MAHO Pfronten GmbH
10) Participating interest of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER.
11) Management and profit and loss transfer agreement with DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
12) Participating interest of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER.
13) Management and profit and loss transfer agreement with DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
14) Participating interest of DMG Europe Holding GmbH
15) Participating interest of DMG Asia Pacific Pte. Ltd.
16) Participating interest of DMG Benelux B.V.
17) Participating interest of DMG America Inc.
18) Participating interest of DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER
19) Percentage in voting shares 49.0%, Special Purpose Entity of GILDEMEISTER Aktiengesellschaft
20) Special Purpose Entity of DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bad Homburg, excluding capital share
21) Special Purpose Entity of DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg, excluding capital share
22) Participating interest of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Berlin
23) Participating interest of FAMOT Pleszew S.A., Pleszew, Poland; non-consolidated
24) Participating interest of DMG Benelux B.V.; non-consolidated

Corporate Directory

Supervisory Board

• Supervisory Board mandate pursuant to Section 100 AktG (German Companies Act)
* Member of comparable domestic and foreign control bodies of business enterprises

Hans Henning Offen,
Großhansdorf, born 1940, Chairman,
Independent Industry Consultant,
• Lindner Hotels AG, Dusseldorf, member of the Supervisory Board
* Schwarz Beteiligungs GmbH, Neckarsulm, member of the Advisory Board
* Familienstiftung Schwarz, Neckarsulm, member of the Supervisory Board
* Kaufland Stiftung & Co. KG, Neckarsulm, member of the Supervisory Board
* Lidl Stiftung & Co. KG, Neckarsulm, member of the Supervisory Board
* Heckler & Koch GmbH, Oberndorf am Neckar, Chairman of the Advisory Council
* Alpha-Stiftung, Dresden, board of trustees
* LD-Stiftung, Dresden, board of trustees
* Bürgerstiftung, Stormarn, Bad Oldesloe, member of the Executive Board since May 22, 2007

Gerhard Dirr,
Vils / Austria, born 1964, Deputy Chairman
Head of Facility Management at
DECKEL MAHO Pfronten GmbH, Pfronten

Wulf Bantelmann,
Bielefeld, born 1947,
Chairman of the Works Council at GILDEMEISTER
Drehmaschinen GmbH, Bielefeld

Günther Berger,
Munich, born 1948,
Independent Industry Consultant,
• Rathgeber AG, Munich, member of the Supervisory Board

Harry Domnik,
Bielefeld, born 1953,
1st secretary of the IG Metall-headquarters, Bielefeld,
* ThyssenKrupp Umformtechnik GmbH, Ludwigsfelde, member of the Supervisory Board

Dr.-Ing. Jürgen Harnisch,
Mühlheim an der Ruhr, born 1942,
Independent Industry Consultant,
• Fahrzeug-Werke LUEG AG, Bochum, member of the Supervisory Board
* DSI Holding GmbH, Munich, member of the Supervisory Board
* TCG Holdings GmbH, Kirchdorf an der Krems, Austria, Chairman of the Supervisory Board
* Presswerk Krefeld GmbH & Co. KG, member of the Supervisory Board
* Kongsberg Automotive Holding ASA, Kongsberg, Norway, member of the Supervisory Board

Dr. jur. Klaus Kessler,
Stuttgart, born 1942,
Lawyer, Partner in Schelling & Partner
Lawyers and notaries, Stuttgart
Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW), Dusseldorf,
member of the Executive Committee
* Baden-Württembergische Wertpapier Börse, Stuttgart, Deputy Chairman of the Stock Exchange Council

Prof. Dr.-Ing. Walter Kunerth,
Zeitlarn, born 1940,
Independent Industry Consultant,
• Götz AG, Regensburg, Chairman of the Supervisory Board
• Paragon AG, Delbrück, Chairman of the Supervisory Board
* Autoliv Inc., Stockholm, Schweden, member of the Board of Directors

Prof. Dr.-Ing. Uwe Loos,
Stuttgart, born 1946,
Independent Industry Consultant,
• Dorma Holding GmbH + Co. KGaA, Ennepetal, member of the Supervisory Board
• EDAG Engineering + Design AG, Fulda, member of the Advisory Council
* Trumpf GmbH + Co. KG, Ditzingen, member of the Supervisory Board, member of the Administrative Board
* Claas KGaA mbH, Harsewinkel, member of the Shareholders' Committee
* Bharat Forge LTD, Pune, Indien, Non Executive Independent Director
* CDP Bharat Forge GmbH, Ennepetal, member of the Advisory Council
* HP Pelzer Group, Witten, member of the Supervisory Board
* Rodenstock GmbH, Munich, member of the Supervisory Board, member of the Advisory Council

Günther-Johann Schachner,
Peiting, born 1952,
member of the Executive Board of
IG Metall Frankfurt until 10. Nov. 2007,
1st secretary of the IG Metall headquarters,
Weilheim

Rainer Stritzke,
Seebach, born 1957,
Design engineer at
DECKEL MAHO Seebach GmbH

Norbert Zweng,
Eisenberg, born 1957,
Head of Logistics at DECKEL MAHO
Pfronten GmbH,
Head of Group Facility Management
until 31. Dec. 2007
Senior Executives' representative

Executive Board

Dipl.-Kfm. Dr. Rüdiger Kapitza,
Bielefeld,
Chairman

Dipl.-Ing. Günter Bachmann,
Wutha-Farnroda

Dipl.-Kfm. Dr. Thorsten Schmidt,
Bielefeld

Dipl.-Kfm. Michael Welt,
Pfronten

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable accounting and reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Bielefeld, 11 March, 2008
GILDEMEISTER Aktiengesellschaft
The Executive Board

Rüdiger Kapitza
Dipl.-Kfm. Dr. Rüdiger Kapitza

Dipl.-Ing. Günter Bachmann

Dipl.-Kfm. Dr. Thorsten Schmidt

Michael Welt
Dipl.-Kfm. Michael Welt

Audit Report

We have audited the consolidated financial statements prepared by GILDEMEISTER Aktiengesellschaft, Bielefeld, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from January 1, 2007 to December 31, 2007. The contents of the "declaration of compliance", pursuant to Section 161 of the German Stock Companies Act (AktG) in the group management report, is not the object of our audit. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a, paragraph 1, HGB (German Commercial Code), are the responsibility of the legal representatives of the company. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB (German Commercial Code) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit is such a way that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of the audit process. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a, paragraph 1, HGB (German Commercial code), and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Berlin, March 11, 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rehnen	Dübeler
Auditor	Auditor

GILDEMEISTER GROUP		IFRS							CHANGES AGAINST PREVIOUS YEAR IN %
		2001	2002	2003	2004	2005	2006	2007	
Sales revenues	€ K	**1,145,390**	**1,032,814**	**977,763**	**1,051,500**	**1,125,897**	**1,328,971**	**1,562,037**	**18**
Domestic	€ K	567,900	491,719	475,688	502,892	501,946	612,758	730,372	19
International	€ K	577,490	541,095	502,075	548,608	623,953	716,213	831,665	16
% International		50%	52%	51%	52%	55%	54%	53%	-1
Total work done	€ K	**1,198,623**	**1,046,599**	**995,709**	**1,053,143**	**1,146,233**	**1,330,116**	**1,599,601**	**20**
Cost of materials	€ K	646,981	569,922	525,345	553,715	608,541	698,153	833,948	19
Personnel costs	€ K	274,152	270,156	270,577	282,524	295,926	320,201	366,411	14
Depreciation	€ K	34,952	37,757	36,430	29,339	31,369	32,600	32,311	-1
Financial result	€ K	-23,387	-24,672	-24,414	-29,833	-33,467	-35,053	-42,458	21
Profit / loss on ordinary activities	€ K	**54,737**	**-7,496**	**10,261**	**12,021**	**25,365**	**47,418**	**83,449**	**76**
Annual profit / loss	€ K	**25,785**	**-18,710**	**-3,579**	**5,577**	**13,530**	**27,100**	**50,137**	**85**
Adjusted results									
EBITDA	€ K	**113,076**	**54,933**	**71,105**	**71,193**	**90,201**	**115,071**	**158,218**	**37**
EBIT	€ K	**78,124**	**17,176**	**34,675**	**41,854**	**58,832**	**82,471**	**125,907**	**53**
EBT	€ K	**54,737**	**-7,496**	**10,261**	**12,021**	**25,365**	**47,418**	**83,449**	**76**
Result before shares to other shareholders of the GILDEMEISTER AG	€ K	**24,672**	**-19,057**	**-3,732**	**5,534**	**13,719**	**27,243**	**50,087**	**84**
Fixed assets	€ K	**247,634**	**276,281**	**270,569**	**262,500**	**262,353**	**265,420**	**285,262**	**7**
Intangible assets	€ K	85,099	101,356	99,795	98,912	100,928	97,387	100,057	
Tangible assets	€ K	162,225	170,550	174,482	163,348	161,191	167,850	184,848	
Financial assets	€ K	310	443	224	239	234	183	357	
Current assets incl. deferred tax and deferred income	€ K	**629,792**	**622,082**	**604,343**	**708,148**	**699,063**	**689,437**	**864,863**	**25**
Inventories	€ K	249,771	250,768	264,365	276,565	288,777	292,964	361,044	
Receivables incl. deferred tax assets + prepaid expenses	€ K	364,743	353,625	328,553	371,285	388,366	354,292	408,267	
Liquid funds	€ K	15,278	17,689	11,425	60,297	21,920	42,181	95,552	
Equity 1)	€ K	**231,177**	**193,824**	**187,593**	**250,540**	**265,782**	**288,574**	**329,513**	**14**
Subscribed capital	€ K	75,087	75,087	75,087	112,587	112,587	112,587	112,587	
Capital provisions	€ K	48,734	48,734	48,734	68,319	68,319	68,319	68,319	
Revenue provisions	€ K	83,055	70,003	63,772	68,597	85,014	108,070	148,958	
Accumulated profit / loss	€ K	24,301	0	0	0	0	0	0	
Minority interest in equity	€ K	**10,773**	**1,193**	**1,198**	**1,037**	**-138**	**-402**	**-351**	**-13**
Outside capital	€ K	**635,476**	**703,346**	**686,121**	**720,108**	**695,634**	**666,283**	**820,963**	**23**
Provisions	€ K	139,302	148,386	133,958	123,456	125,407	166,206	214,041	
Payables incl. deferred tax liabilities + deferred income	€ K	496,174	554,960	552,163	596,652	570,227	500,077	606,571	
Balance sheet total	€ K	**877,426**	**898,363**	**874,912**	**970,647**	**961,416**	**954,857**	**1,150,125**	**20**
Employees (annual average)		4,918	4,912	4,849	4,932	5,090	5,362	5,588	4
Employees (31. Dec.)		5,030	4,821	4,823	4,984	5,083	5,367	5,772	8
Trainees		204	224	205	190	189	191	226	18
Total employees		**5,234**	**5,045**	**5,028**	**5,174**	**5,272**	**5,558**	**5,998**	**8**

GILDEMEISTER GROUP		IFRS							CHANGES AGAINST PREVIOUS YEAR IN %
		2001	2002	2003	2004	2005	2006	2007	
Efficiency ratios									
Profit on sales (EBIT) = EBIT / Sales revenues	%	6.8	1.7	3.5	4.0	5.2	6.2	8.1	30
Profit on sales (EBT) = EBT / Sales revenues	%	4.8	-0.7	1.0	1.1	2.3	3.6	5.3	50
Profit on sales (annual profit / loss) = annual profit / loss / sales revenues	%	2.3	-1.8	-0.4	0.5	1.2	2.0	3.2	57
Equity return [1] = annual profit/loss / equity (as of 01 Jan.) [3]	%	11.4	-8.1	-1.8	3.0	5.4	10.2	17.4	70
Return on total assets = interest on outside capital / average total capital	%	9.7	2.2	4.1	4.8	6.3	8.7	12.2	39
ROI – Return on Investment = EBT / average total capital	%	6.6	-0.8	1.2	1.3	2.6	4.9	7.9	61
Sales per employee = sales revenue / average number of employees (exc. trainees)	€ K	232.9	210.3	201.4	213.2	221.2	247.8	279.5	13
EBIT per employee = EBIT / average number of employees (exc. trainees)	€ K	15.9	3.5	7.2	8.5	11.6	15.4	22.5	46
ROCE – Return on capital employed [1] = EBIT / Capital Employed	%	12.0	2.6	5.2	6.1	8.4	12.3	17.8	45
Value added	€ million	352.6	287.5	305.4	324.5	354.9	403.1	492.9	22
Value added per employee	€ K	71.7	58.5	63.0	65.8	69.7	75.2	88.2	17
Balance sheet ratios									
Capitalisation ratio of fixed assets = fixed assets / total assets	%	28.2	30.8	30.9	27.0	27.3	27.8	24.8	-11
Working intensity of current assets = current assets / total assets	%	68.6	65.1	65.2	69.9	69.3	68.5	72.4	6
Equity ratio = equity / total capital	%	26.3	21.6	21.4	25.8	27.6	30.2	28.7	-5
Ratio of outside capital to total capital = outside capital / total capital	%	73.7	78.4	78.6	74.2	72.4	69.8	71.3	2
Assets and liabilities structure = fixed assets / current assets	%	41.2	47.2	47.5	38.7	39.4	40.6	34.3	-16
Capital structure = equity / outside capital	%	35.8	27.5	27.3	34.8	38.2	43.3	40.2	-7

>> continued

GILDEMEISTER GROUP		2001	2002	2003	IFRS 2004	2005	2006	2007	CHANGES AGAINST PREVIOUS YEAR IN %
Ratios pertaining to financial position									
Cash ratio = liquid funds (from balance sheet) / short-term liabilities (up to 1 year)	%	3.5	3.6	2.2	19.0	6.3	12.4	15.3	22
Ratio of financial current assets to short-term liabilities = (liquid funds + short-term receivables) / short-term liabilities (up to 1 year)	%	80.7	67.1	59.1	117.1	107.5	106.0	75.5	-29
Current ratio = (liquid funds + short-term receivables + inventories) / short-term liabilities (up to 1 year)	%	130.2	111.4	106.1	195.6	180.5	175.9	115.4	-35
Net indebtedness = amounts owed to banks + bills payable – liquid funds – current investments	€ million	278.0	319.5	342.1	314.0	305.1	216.7	165.0	-24
Gearing [1)] = net indebtedness / equity before shares held by other shareholders	%	120.3	164.8	182.4	125.9	114.7	75.0	50.0	-33
Working Capital = current assets – short-term borrowed capital	€ million	283.2	176.0	136.7	340.5	305.0	284.8	127.4	-55
Net Working Capital = inventories + payments on account – customer prepayments + trade debtors – trade creditors	€ million	402.1	386.5	377.7	390.2	399.5	360.5	398.2	10
Capital Employed = equity + provisions + net indebtedness	€ million	648.5	661.7	663.7	688.0	696.3	671.5	708.6	6
Structural analysis ratios									
Turnover rate of raw materials and consumables = cost for raw materials and consumables / inventories of raw materials and consumables		6.9	6.8	5.8	5.0	5.5	5.9	5.3	-9
Turnover rate of stocks = sales revenues / inventories		4.6	4.1	3.7	3.8	3.9	4.5	4.3	-5
Turnover rate of receivables = sales revenues (incl. 16% or 19% VAT on domestic revenues) / average trade debtors		4.4	3.7	3.8	4.2	4.2	5.3	6.2	17
Total capital-sales ratio = sales revenues / total capital (incl. deferred tax and deferred income)		1.3	1.1	1.1	1.1	1.2	1.4	1.4	-2
DSO (Days sales outstanding) = average trade debtors / (sales revenues (incl. 16% or 19% VAT on domestic revenues)) x 365		83.6	97.6	96.1	87.3	86.2	68.4	58.6	-14

GILDEMEISTER GROUP		2001	2002	2003	IFRS 2004	2005	2006	2007	CHANGES AGAINST PREVIOUS YEAR IN %
Productivity ratios									
Intensity of materials = cost of materials / gross performance	%	54.0	54.5	52.8	52.6	53.1	52.5	52.1	-1
Intensity of staff = staff costs / gross performance	%	22.9	25.8	27.2	26.8	25.8	24.1	22.9	-5
Cash flow & Investments									
Cash flow from operating activities	€ million	31.5	47.7	28.7	12.8	27.2	108.1	128.2	19
Cash flow from investment activity	€ million	-70.7	-71.9	-32.3	-20.1	-24.4	-35.1	-46.7	33
Cash flow from financing activity	€ million	31.3	27.6	-1.8	57.0	-41.7	-52.5	-27.7	-47
Free cash flow = cash flow from operating activities + cash flow from investment activity (exc. cash flow from financial investments)	€ million	-29.7	-0.8	-3.7	-6.4	3.2	74.8	84.8	13
Investments	€ million	80.2	73.2	36.4	21.8	26.8	37.2	53.1	43
Share & valuation									
Market capitalisation	€ million	269.2	109.2	237.4	225.2	253.8	414.0	801.1	94
Company value = market capitalisation + amounts owed to banks + bills of exchange + other liabilities + pension provisions – liquid funds	€ million	619.9	496.1	643.8	609.8	636.0	698.3	1,071.4	53
Earnings per share [2] = result after minority interests / number of shares	€	0.85	-0.66	-0.13	0.15	0.32	0.63	1.16	84
Price-to-earnings ratio (P/E) = market capitalisation / EBT		4.9	-14.6	23.1	18.7	10.0	8.7	9.6	10
Company value-EBITDA-ratio = company value / EBITDA		5.5	9.0	9.1	8.6	7.1	6.1	6.8	12
Company value-EBIT-ratio = company value / EBIT		7.9	28.9	18.6	14.6	10.8	8.5	8.5	1
Company value sales ratio = company value / sales		0.5	0.5	0.7	0.6	0.6	0.5	0.7	31

[1] Under HGB incl. minority interests; under ifrs excl. minority interests, from 2004 incl. minority interests
[2] Under HGB in acc. with dvfa/sg; the share capital was split 1:10 in 1999; the figures for the previous years were adjusted accordingly.
[3] Without consideration of the capital increased accomplished at 16 June 2004.

Commercial Glossary

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

Acquisition
The acquisition of companies or operations either through the transfer of shares or the transfer of all or certain assets and liabilities of a company or through a combination of both. The legal independence of the partners may be preserved.

Cash flow
Changes in liquid funds in a reporting period.

Cash flow statement
Viwe of liquidity development/payment flows taking into account the sources and application of funds effects.

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

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

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

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

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

EBITDA
Earnings before interest, taxes, depreciation and amortisation.

EBIT
Earnings before interest and taxes.

EBT
Earnings before taxes.

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

Free Float
Part of the share capital in portfolio investments.

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

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

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

Interest rate derivates

Derivatives are contractual agreements that contain rights to currency payments and equivalents and that are based on an underlying asset. For financial derivatives the price of the derivative is determnined to e great extent by the price of the underlying asset. These include, for example, options, swaps and futures. Interest derivatives include interest rate swaps, floors, collars or caps.

Local Content

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

LTI

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

Market capitalisation

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

Merger

Joining of two or more companies that, up to then, used to be legally and economically independent organisations, where at least one of the companies will lose its independent legal status.

Rating

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

Relative economic value added

Difference between ROCE and cost of capital

ROCE

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

SD-KPIS

Sustainable Development Key Performance Indicators.

STI

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

Syndicated loan

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

Value added statement

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

WACC / Cost of capital

The WACC (weighted average cost of capital) is calculated as weighted average of the cost of equity and the cost of debt. The cost of equity is initially calculated after taxes. For 2006 we used a risk-free interest rate of 4.34%, a market risk premium of 5.0% ad a beta coefficient of 1.0. The cost of debt amounted to 2.47% after taxes. The tax rate in the pre-tax approach employed was applied at a flat rate of 28.8%. The equity/debt ratio is 32:68.

Technical Glossary

Advanced Materials (engl.)

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

Cavity

A cavity is a small hollow mould.

coSupply®

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

CTV

The CTV product line includes universally arranged lathes with a vertically placed head spindle and highly dynamic linear drive technology, providing integrated handling of components and the option of automated integrated machining in serial production.

CTX

The two CTX product lines provide a differentiated programme of CNC universal lathes with a variety of innovative options for numerous machining tasks.

DMC U

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

DMC H

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

DMC V

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

DMF

The DMF product line provides traversing column machines with large machining areas, effective pendulum machining in two separate work areas, high cutting performance, dynamics and precision with fast traverse speeds of the traversing column.

DMU

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

DMU eVolution / DMU P

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

Eco-machines

The eco range of machines offers reasonably priced yet technologically first-rate entry to CNC turning or milling. The universal lathes and milling machines are characterised by their low acquisition cost, their cost-effectiveness and flexibility, and are primarily intended for the Asian, American and eastern European markets.

Entry-machines

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

ERP-System BaaN

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

Fluid box

The fluid box is a standard assembly component which combines the hydraulic, pneumatic and the main lubrication in a standard module.

GMC / GM

The GMC / GM product line includes CNC multi-spindle turning centres and multi-spindle automatic lathes. GMC machines offer state-of-the-art control technology with 3D programming and integrated spindle engines than can, on request, be equipped with linear drives on the X-axes to achieve the highest dynamics and precision.

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

Inverter
The SunCarrier stores heat energy and transforms this into electrical power. In order to feed the electrical power obtained, that is, the direct current, into the electricity transmission grid, an inverter is required to convert the direct current to alternating current.

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

Lasertec
The machines from the LASERTEC product line offer high-quality, fast and economic options for high-precision machining of filigree workpieces and finest cavities, including those made from materials that are difficult to machine. The modular design of this line allows for a wide variety of applications for 3D laser erosion, laser fine cutting and laser drilling and for a combined production with high-speed milling machining.

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

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

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

Spheroidal graphite iron
(GGG = globularer Grauguss – nodular gray cast iron) Cast iron alloy with spheroidal graphite. The higher quality spheroidal graphite iron has steel-like mechanical features, which means that a higher complexity of parts, less wall thickness and, as a result, less weight than with traditional grey cast iron (GG = Grauguss) is possible.

SPRINT
This product line provides single-spindle machines for CNC automatic turning for the flexible economic and integrated machining of short lathe work of up to 65 mm in diameter.

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

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

Ultrasonic
The Ultrasonic product line consists of machines for ultrasound-supported, economic machining of 'advanced materials, such as ceramics, glass, silicon, composites, metal carbide, hardened steel, sapphire or mother-of-pearl. The ultrasonically energised main spindles interfere with the traditional machining process (for example milling) through a high-frequency oscillating motion. Compared with traditional machining processes, this machine design results in a productivity that is up to five times higher, longer tool lifes and at the same time better surface quality, and, with regard to the processed workpiece geometries, a substantially higher flexibility.

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

13 March 2008	Press Conference on the balance sheet, Bielefeld
13 March 2008	Publication of Annual Report 2007
14 March 2008	Society of Investment Professionals in Germany (DVFA) Analysts' Conference, Frankfurt
06 May 2008	First Quarterly Report 2008 (1 January to 31 March)
16 May 2008	Annual General Meeting of Shareholders at 10 a.m. in the Town Hall Bielefeld
19 May 2008	Distribution of Dividend
05 August 2008	Second Quarterly Report 2008 (1 April to 30 June)
24 September 2008	German Investment Conference, Munich
06 November 2008	Third Quarterly Report 2008 (1 July to 30 September)
12 February 2009	Press release on provisional figures for the financial year 2008
15 May 2009	Annual General Meeting of Shareholders at 10 a.m. in the Town Hall Bielefeld

Subject to alteration

Statements relating to the future

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

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

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