www.gildemeister.com

ANNUAL REPORT 2006

Grasping the future.
Setting trends.

GILDEMEISTER

HERBERT LIPP, an employee at DECKEL MAHO in Pfronten, here at Zurich airport. Today he is collecting information that will lead to new solutions tomorrow. For example, for innovative engine components, which will make flying even safer.

How can we make mobility safer ?

Aerospace
Toys
Electronics
Medicine
Sport

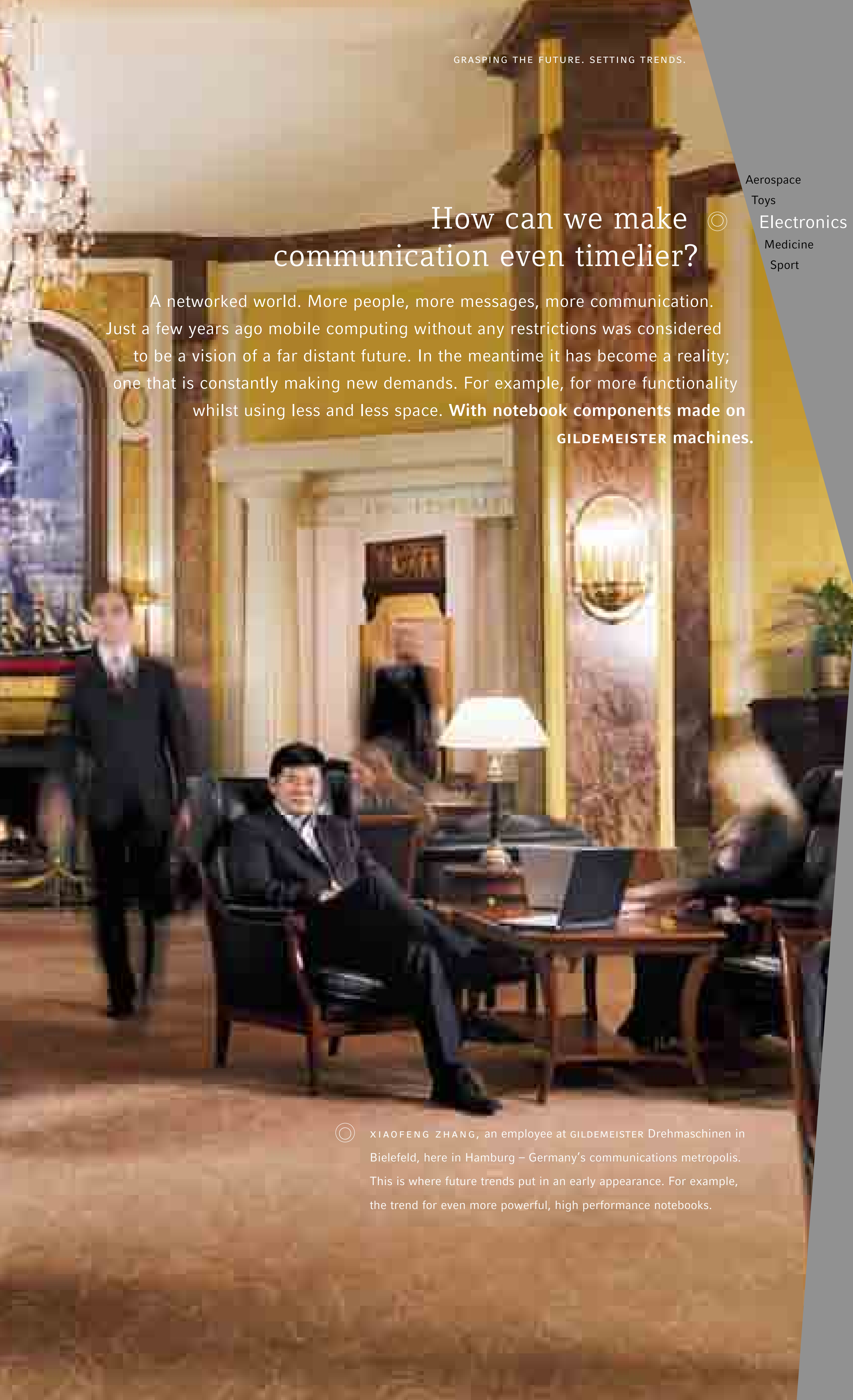
The world is growing smaller. Globalisation is overcoming borders and distances.To ensure that our movement is not limited in any way in the future, new standards of reliability and safety must be sought. At all the air travel hubs in the world. In all the production and manufacturing halls of the aerospace industry. **With aircraft components that are made on GILDEMEISTER machines.**

ELISA PATISSO, an employee at GRAZIANO in Tortona (Italy), here in Schwarzenberg in Austria. She is getting to know tomorrow's generation, which already has its own specific ideas of what a toy should be.

Aerospace
Toys
Electronics
Medicine
Sport

How can we ensure a carefree childhood?

Social structures are changing. Families are becoming smaller.Values are undergoing permanent change and are changing children’s upbringing, habits, play behaviour and even their natural curiosity about the world. We will accompany them along the way. With a characteristic feel for their desires. With a practised eye for reality. With a highly-developed instinct for the future. **With toy parts that are made on GILDEMEISTER machines.**



Aerospace
Toys
Electronics
Medicine
Sport

How can we make communication even timelier?

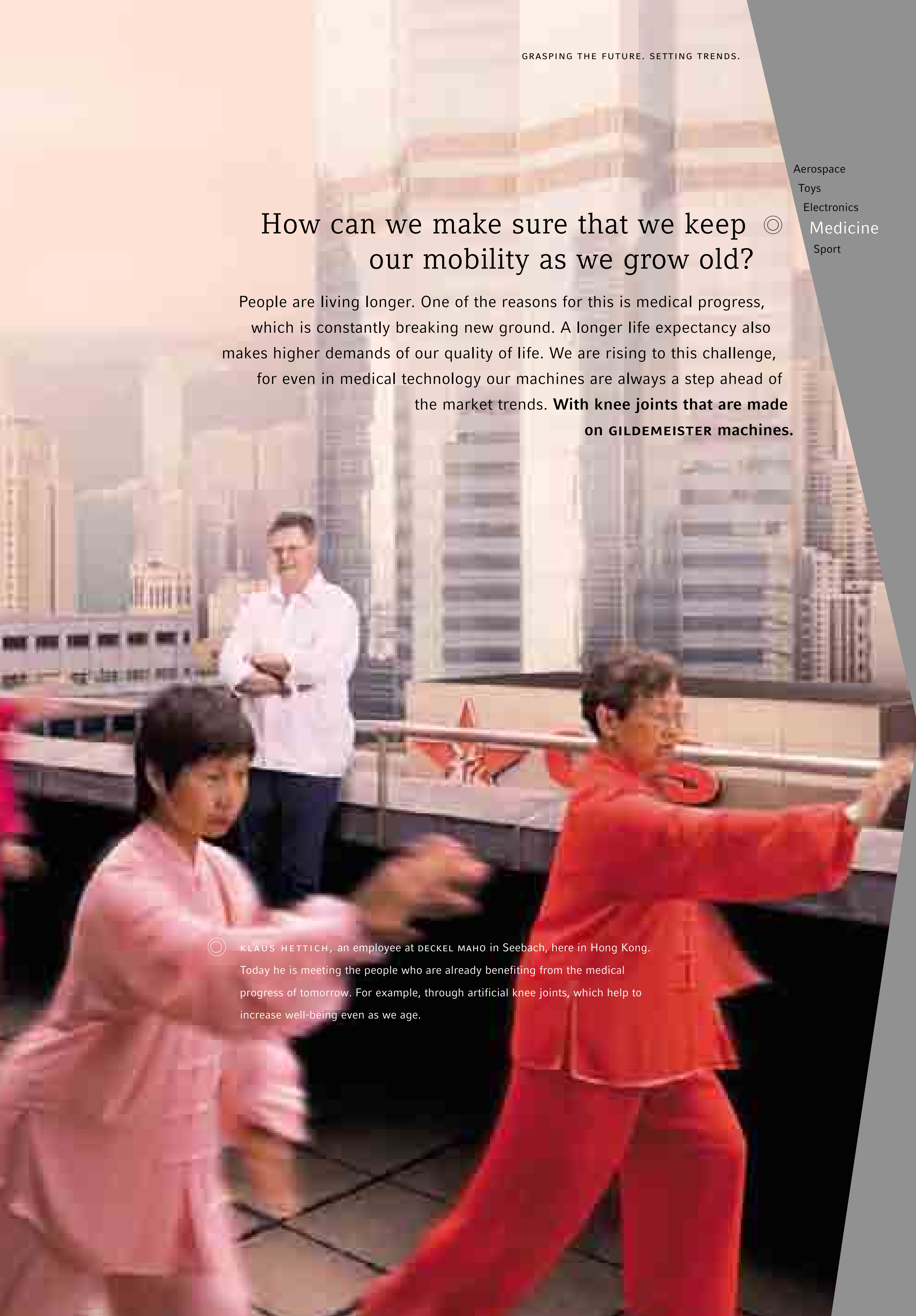
A networked world. More people, more messages, more communication. Just a few years ago mobile computing without any restrictions was considered to be a vision of a far distant future. In the meantime it has become a reality; one that is constantly making new demands. For example, for more functionality whilst using less and less space. **With notebook components made on GILDEMEISTER machines.**

XIAOFENG ZHANG, an employee at GILDEMEISTER Drehmaschinen in Bielefeld, here in Hamburg – Germany's communications metropolis. This is where future trends put in an early appearance. For example, the trend for even more powerful, high performance notebooks.

Aerospace
Toys
Electronics
Medicine
Sport

How can we make sure that we keep our mobility as we grow old?

People are living longer. One of the reasons for this is medical progress, which is constantly breaking new ground. A longer life expectancy also makes higher demands of our quality of life. We are rising to this challenge, for even in medical technology our machines are always a step ahead of the market trends. **With knee joints that are made on GILDEMEISTER machines.**



KLAUS HETTICH, an employee at DECKEL MAHO in Seebach, here in Hong Kong. Today he is meeting the people who are already benefiting from the medical progress of tomorrow. For example, through artificial knee joints, which help to increase well-being even as we age.

ANDREA ROMANINI, an employee at DMG America, here on the New York Brooklyn Bridge. He is gathering inspiration that will lead to new solutions tomorrow. For example, for high-protection shock-absorbent cycle helmets, which also provide maximum safety for the hobby cyclist.

Aerospace
Toys
Electronics
Medicine
Sport

How can we make movement even safer?

Every large city is pulsing with life. Fast and dynamic. More and more people have less and less space to move in. Mobility and flexibility are more important than ever before and demand new mobility concepts in the congested hotspots of the world. So that the risks involved with increased mobility in even less space are also kept to a minimum in the future, the sports equipment industry also has to offer the highest standards of safety. **With forms for cycle helmets that are made on GILDEMEISTER machines.**

Grasping the future.

GILDEMEISTER group
Key figures

Sales revenues
Order intake
EBIT
Annual result
Employees

COVER: Globality has many dimensions. The cover picture shows a relief representation of important markets in America and Asia.

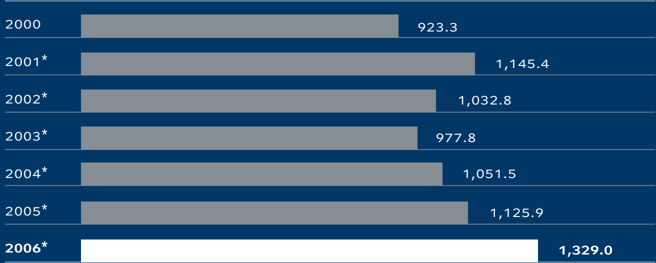
Key figures

The Consolidated Annual Financial Statements for GILDEMEISTER Aktiengesellschaft as at 31 December 2006 were prepared in accordance with the International Financial Reporting Standards (IFRS).

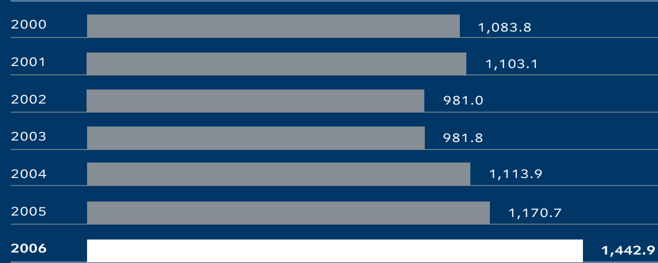
GILDEMEISTER GROUP	2006	2005	Changes 2006 against 2005	
	€ million	€ million	€ million	%
Sales revenues				
Total	1,329.0	1,125.9	203.1	18
Domestic	612.8	501.9	110.9	22
International	716.2	624.0	92.2	15
% International	54	55		
Order intake				
Total	1,442.9	1,170.7	272.2	23
Domestic	648.7	520.7	128.0	25
International	794.2	650.0	144.2	22
% International	55	56		
Order backlog*				
Total	446.7	346.8	99.9	29
Domestic	156.0	129.3	26.7	21
International	290.7	217.5	73.2	34
% International	65	63		
Investments	37.2	26.8	10.4	39
Personnel costs	320.2	295.9	24.3	8
Employees	5,367	5,083	284	6
Plus trainees	191	189	2	1
Total employees*	5,558	5,272	286	5
EBITDA	115.1	90.2	24.9	28
EBIT	82.5	58.8	23.7	40
EBT	47.4	25.4	22.0	87
Annual profit	27.1	13.5	13.6	101

* Reporting date 31 December

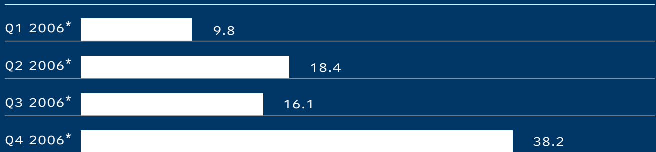
SALES REVENUES
in € million



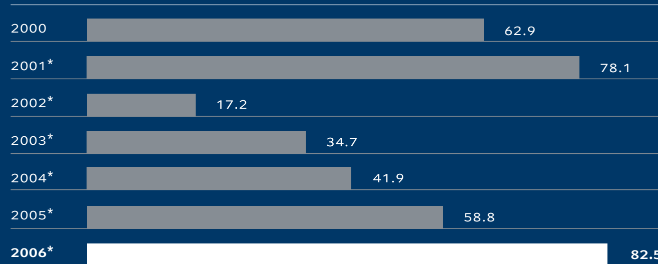
ORDER INTAKE
in € million



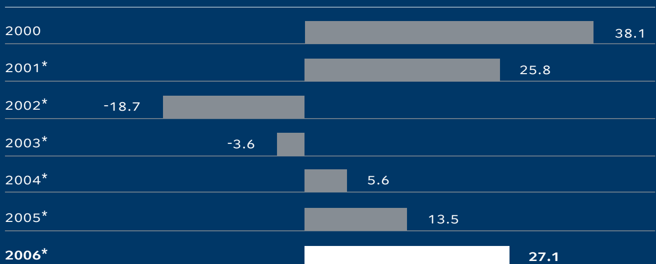
QUARTERLY RESULTS (EBIT)
in € million



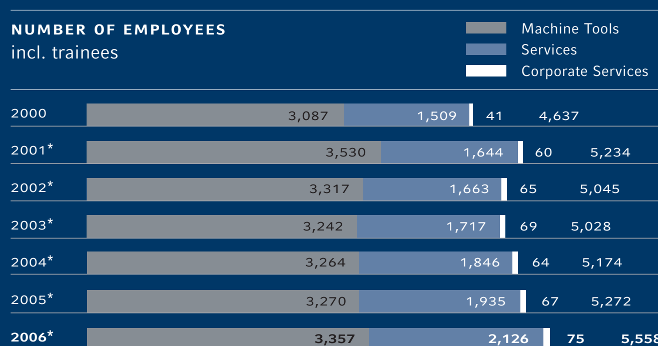
EBIT
in € million



ANNUAL RESULT
in € million



NUMBER OF EMPLOYEES
incl. trainees



* in accordance with IFRS

Setting trends.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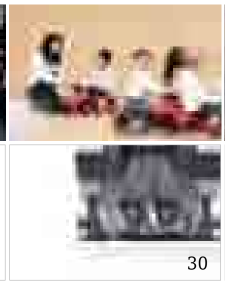
Creating safety.

AEROSPACE solutions.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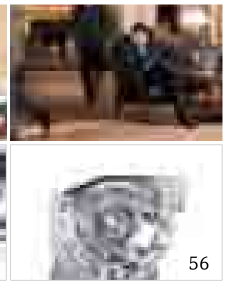
Ensuring fun and games.

TOY AND GAME solutions.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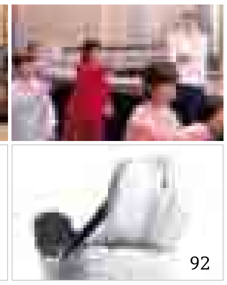
Improving communication.

ELECTRONICS solutions.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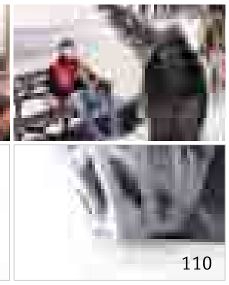
Maintaining quality of life.

MEDICAL solutions.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Avoiding risks.

SPORTS solutions.

Grasping the future. Setting trends. This is the GILDEMEISTER theme for the year 2007. Whoever wants to achieve success must identify the wishes of the customer in the specific market and transform these into technical performance. As regards machine tools and services, we have unique know-how at our disposal, which is focused on our core expertise of “turning”, “milling”, “ultrasonic”, “laser” and service. With its full-line range and global presence, GILDEMEISTER is setting the trend in every important market region. Retaining our permanent leadership in technology and innovation lies at the core of our strategy. At the same time the continued strengthening of our profitability and a sustainable increase in corporate value have the highest priority.

Table of Contents

The worldwide market for machine tools is developing positively. As a trendsetter GILDEMEISTER is once again at the forefront. Our global presence gives us the advantage of being close to our customers – all over the world.

Overview of the sites of the GILDEMEISTER group.

* New foundations 2006


MOSCOW
ISTANBUL
SHENYANG
BEIJING
SEOUL
YOKOHAMA
NAGOYA
XI'AN
SHANGHAI
CHONGQING
NEW DELHI
GUANGDONG
TAICHUNG
HANOI
BANGKOK
BANGALORE
KUALA LUMPUR
SINGAPORE
MELBOURNE

GILDEMEISTER is the leading manufacturer of cutting machine tools worldwide. Our business includes the "Machine Tools" and the "Services" segments, along with the "Corporate Services" segment which functions as the management holding company for the group. The "Machine Tools" segment includes the group's new machine business with turning, milling and ultrasonic/laser technologies. GILDEMEISTER combines its expertise in development and technology at five product facilities with ten production plants. The "Services" segment is operated by DMG Vertriebs und Service GmbH and its subsidiaries. They offer services for all aspects of our machines across all areas. GILDEMEISTER is represented by 62 national and international sales and service sites in 29 countries. A total of 5,558 highly motivated employees support our innovative machine technologies, excellent services and state-of-the-art software products.

GILDEMEISTER Aktiengesellschaft
Bielefeld

PRODUCTION

GILDEMEISTER Drehmaschinen GmbH
Bielefeld

GRAZIANO Tortona S.r.l.
Tortona

GILDEMEISTER Italiana S.p.A.
Bergamo

DECKEL MAHO Pfronten GmbH
Pfronten, Geretsried

DECKEL MAHO Seebach GmbH
Seebach, Geretsried

SAUER GmbH
Idar-Oberstein, Kempten

FAMOT Pleszew S.A.
Pleszew

DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd.; Shanghai

Simplified organisational structure in accordance to lead management criteria (Reporting date: March 2007).
The legal corporate structure is illustrated in the notes starting on page 162.

* New foundations 2006

SALES AND SERVICE ORGANIZATION	DMG Deutschland Stuttgart	DMG Europe Klaus (Österreich)	D… C…
DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER; Bielefeld	DMG Stuttgart Vertriebs und Service GmbH	DMG Italia S.r.l. Bergamo, Tortona, Ancona*	DMG USA
	DMG München Vertriebs und Service GmbH	DMG France S.a.r.l. Les Ulis, Lyon, Scionzier	
	DMG Hilden Vertriebs und Service GmbH	DMG Austria Klaus, Wiener Neudorf	
	DMG Bielefeld Vertriebs und Service GmbH	DMG (Schweiz) AG Dübendorf	
	DMG Berlin Vertriebs und Service GmbH; Berlin, Chemnitz	DMG Polska Sp.z.o.o. Pleszew	
	DMG Frankfurt Vertriebs und Service GmbH	DMG Russland o.o.o. Moscow	
		DMG (UK) Ltd. Luton	
		DMG Benelux Veenendaal, Zaventem	
		DMG Czech s.r.o. Brno, Trenčin	
		DMG Ibérica S.L. Barcelona, Bilbao	
		DMG Scandinavia Sverige AB* Sollentuna	
		DMG Scandinavia Danmark Kvistgård	
		DMG Istanbul Ltd. Istanbul	

MG America
hicago

DMG Chicago Inc.
Chicago / Schaumburg

DMG Charlotte Inc.
Charlotte

DMG Houston Inc.
Houston

ADMG Los Angeles Inc.
Los Angeles

DMG Boston*
Boston

DMG Canada Inc.
Toronto

DMG México S.A. de c.v.
Monterrey

DMG Brasil Ltda.
São Paulo

DMG Asia
Shanghai / Singapore

DMG CHINA

DMG Shanghai Co. Ltd.
Shanghai

DMG Beijing Sales Office
Beijing

DMG Guangdong Sales Office
Guangdong

DMG Chongqing Sales Office
Chongqing

DMG Shenyang Sales Office
Shenyang

DMG Xi'an Sales Office
Xi'an

DMG India Pvt. Ltd.
Bangalore, New Delhi

DMG Nippon K.K.
Yokohama, Nagoya

DMG Korea Ltd.
Seoul

DMG Machinery Taiwan Ltd.
Taichung

DMG ASIA PACIFIC

DMG Asia Pacific Pte. Ltd.
Singapore

DMG Australia Pty. Ltd.
Melbourne

DMG Malaysia SDN BHD
Kuala Lumpur

DMG (Thailand) Co. Ltd.
Bangkok

DMG Vietnam Sales Office
Hanoi

DMG Services
Bielefeld, Pfronten

DMG Service Fräsen Pfronten GmbH
Pfronten, Geretsried

DMG Service Fräsen Seebach GmbH
Seebach, Geretsried

DMG Service Drehen GmbH
Bielefeld

DMG Trainings-Akademie GmbH
Bielefeld, Pfronten, Stuttgart

DMG MICROSET GmbH
Bielefeld

SACO S.p.A.
Castelleone

a & f Stahl- und Maschinenbau GmbH
Würzburg

DMG Gebrauchtmaschinen GmbH
Geretsried, Bielefeld, Zlin

Understanding the future.

"The work of the Supervisory Board and its committees secures the long-term success of GILDEMEISTER. To increase the company value further is what we have taken to be our core task – now and in the future. This is what we have committed ourselves to on behalf of our shareholders and investors as well as on behalf of our customers, employees and business partners. At the same time the Supervisory Board expressly observes the principles of the corporate governance code."

Hans Henning Offen (66)
Has been the Chairman of the Supervisory Board since May 2004 and has been a board member since 1994. After graduating in business administration in Cologne and Hamburg, he started his professional career at Citibank in Hamburg, New York and Frankfurt. In 1979 he joined the board of Handelsbank in Lübeck AG and in 1985 became the spokesman for the Executive Board of Deutsche Bank Asia AG, both subsidiaries of Deutsche Bank AG. In 1990 Offen was appointed to the board of the Westdeutschen Landesbank Girozentrale and subsequently was the deputy chairman of the board from 1992 to 2002.

During the financial year 2006 the Supervisory Board was firmly occupied with the development of the group in the reporting year and with its strategic alignment up to the year 2010. Four meetings took place where the Supervisory Board discussed strategic issues involving corporate planning, business policy, business development, the risk status and risk management with the Executive Board. The Executive Board also prepared comprehensive and timely reports on all processes of particular importance and on the development of key financial indicators.

Annual Consolidated Financial Statements 2005 adopted

At the **annual accounts meeting on 28 March 2006,** also attended by the auditors, the Supervisory Board adopted the Annual Consolidated Financial Statements, the Group Management Report, the Annual Financial Statements and the Management Report of GILDEMEISTER Aktiengesellschaft as at 31 December 2005. Of significant importance was the appointment of the new Executive Board member Dr. Thorsten Schmidt. His area of responsibility, which he took over on 1 October 2006, covers the sales and service department. Dr. Schmidt was previously employed by the GILDEMEISTER Group as the managing director of DMG Asia. In addition, it was decided that following the process optimisation of recent years the focus was now to be placed on the technology and production area and that a fourth board member should be appointed for this department. All twelve members of the Supervisory Board and the auditors attended this meeting.

Preparation for the 104th Annual General Meeting

The main item on the agenda of the second **Supervisory Board Meeting on 18 May 2006** was the preparation for the Annual General Meeting of Shareholders and the appointment of Günter Bachmann, a qualified engineer, as a full member of the Executive Board. Günter Bachmann took up his new position as of 1 October 2006 and has since been responsible for the Production and Technology department. Mr. Bachmann was previously employed at the GILDEMEISTER Group as the managing director of DECKEL MAHO Seebach GmbH. He succeeds Prof. Dr.-Ing. Raimund Klinkner, who left GILDEMEISTER at the end of the year in order to take up a new responsible position. The Supervisory Board would like to take this opportunity to thank Prof. Dr.-Ing. Klinkner for his commitment and contribution during the last eight years. The entire Supervisory Board was also present at this meeting.

New Technology and Development Committee formed

Within the scope of the third **Supervisory Board Meeting on 20 September 2006,** the Supervisory Board formed a new Technology and Development Committee, to take into account the growing importance of this area. The members of the committee are all specialists. Prof. Dr.-Ing. Uwe Loos has been appointed as Chairman. The other members of the committee are Dr. Jürgen Harnisch, representing the shareholders, and Wulf Bantelmann and Gerhard Dirr as employee representatives. The committee is charged with preparing topics and resolutions from the fields of technology and development, with particular consideration being paid to the leadership position in innovations held by GILDEMEISTER, and presenting these to the Supervisory Board. Again, all twelve members of the Supervisory Board were present at the meeting.

"GILDEMEISTER 2010" strategy adopted

The main item on the agenda for the **planning meeting on 22 November 2006** was the long-term orientation of the group. The Supervisory Board closely analysed the corporate planning for 2007 to 2009. The "GILDEMEISTER 2010" strategy was discussed and approved. Based on returns, GILDEMEISTER should become the permanent leader in the market and in innovations of all globally active suppliers of metal-cutting machine tools and technical services. Eleven members of the Supervisory Board were present at this meeting.

New remuneration structure adopted for the Supervisory Board

In the financial year 2006 there were four Supervisory Board committees, which were mainly concerned with important distinct areas of corporate management. The **Financial and Auditing Committee** met three times. The items discussed were the audit of the Annual Consolidated Financial Statements and Annual Financial Statements, risk management and corporate planning for 2007, 2008 and 2009. Further major items included the independence and remuneration of the auditors and the preparation and assignment of the auditing mandate. The **Personnel, Nomination and Remuneration Committee** met three times, in particular to discuss the appointment of new board members, and the assessment and structure of remuneration. At the meeting of 14 March 2006, a new remuneration model was drawn up for the Supervisory Board which introduces short and long-term performance incentives as performance-based components. The new remuneration model was incorporated in Section 12 of the Articles of Association of GILDEMEISTER Aktiengesellschaft and was approved by the Annual General Meeting of Shareholders on 19 May 2006. At the meeting of 22 November 2006, the Personnel, Nomination and Remuneration Committee passed a resolution to introduce a remuneration component for the Executive Board with a long-term performance-based incentive. The "long term incentive" (LTI) complements the existing performance-based directors' bonus scheme. The new **Technology and Development Committee** held its first meeting immediately following its formation. This initial meeting focused on the issue of reducing material costs. In the reporting year there was no need to call a meeting of the **Conciliation Committee.**

Corporate Governance Code recommendations fully met

In the financial year 2006 no changes in the structure of the Supervisory Board occured. On 31 December 2006 the Supervisory Board and the Executive Board adopted the **2006 Declaration of Compliance** with the German Corporate Governance Code. Once again GILDEMEISTER met all the recommendations. The Executive Board and the Supervisory Board support 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 corporate value. The joint report on "Corporate Governance" can be found starting on pages 65.

Auditors issue unqualified audit certificate

On the basis of its own audit, the Supervisory Board approved the Consolidated Annual Financial Statements and the Annual Financial Statements for the financial year 2006 at the **annual accounts meeting on 27 March 2007.** 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 2006 of GILDEMEISTER Aktiengesellschaft in accordance with the provisions of the German Commercial Code (HGB). The Consolidated Annual Financial Statements for 2006 of GILDEMEISTER Aktiengesellschaft were prepared in accordance with the International Financial Reporting Standards (IFRS). In accordance with the exemption provision in Section 315a of the German Commercial Code, consolidated financial statements in accordance with the German Commercial Code were not prepared. The auditor, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin/Frankfurt am Main, issued an unqualified audit certificate for both Financial Statements and Management Reports.

Since 14 July 2006 the **Takeover Bids Directive Implementation Act** has been applicable. The Act is intended to create transparency in the preliminary stages of a possible takeover. Pursuant to Section 289 paragraph 4 and Section 315 paragraph 4 of the German Commercial Code (HGB), GILDEMEISTER must provide information for the first time on its rules concerning public offers, on the acquisition of securities and on company takeovers. In the reporting period no event occurred to cause the Supervisory Board of GILDEMEISTER Aktiengesellschaft to address questions of a takeover or to disclose any specific information under the Takeover Bids Directive Implementation Act. Further explanations are given in the "Organisation and Legal Corporate Structure" chapter starting on page 73.

The Supervisory Board would like to thank the Executive Board and all the employees for their dedication and for their successful work again in the last year.

Bielefeld, 27 March 2007
The Supervisory Board

Hans Henning Offen
Chairman

Setting trends.

"GILDEMEISTER meets the requirements of the global markets and the wishes of its customers with trend-setting products and services. Through our innovations we set international trends. We are continuing to actively pursue our long-term strategy of leadership in technology and innovations. Strengthening our profitability and increasing corporate value form the basis of our dealings."

Dr. Rüdiger Kapitza (52) 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 the areas of Corporate Strategy, Purchasing, Personnel, Key Accounting, Audit as well as Investor and Public Relations.

Günter Bachmann (55) 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 the area of Technology and Production.

Michael Welt (52) has been a member of the Executive Board since January 2003. He is responsible for Controlling, Finance, Taxes and Information Technology (it). Michael Welt holds a degree in business administration and joined the group in 1996 as the Managing 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.

Dr. Thorsten Schmidt (34) 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 for Sales and Service in America and then in Asia. Most recently Dr. Thorsten Schmidt held the position of Managing Director of dmg Asia.

From left to right: Günter Bachmann, Michael Welt and Dr. Thorsten Schmidt photographed in Kunsthaus Bregenz in Austria. The tools for manufacturing the lighting elements from Zumtobel are made on gildemeister machines.

Dear Shareholders,

GILDEMEISTER fully achieved its targets in the financial year 2006. During the course of the year we were even able to adjust our forecasts upwards. We have increased our sales revenues, order intake and result and thereby further strengthened our position in the global competitive market. Sales revenues reached € 1,329.0 million thereby achieving a record level in the 136-year history of the company. Order intake of € 1,442.9 million exceeded the previous year's intake by 23%. The most important thing though, is that profitability also increased further: EBITDA reached € 115.1 million. EBIT rose to € 82.5 million and EBT to € 47.4 million. The group annual profit doubled to € 27.1 million. Earnings per share rose to € 0.63 and the share value also made strong gains of 63%. GILDEMEISTER continued to head in a successful direction and now finds itself on the path to sustainable strength.

We would like you to participate in this success. The Executive Board and the Supervisory Board will propose to the Annual General Meeting of Shareholders on 25 May 2007 that a dividend of € 0.20 per share be distributed.

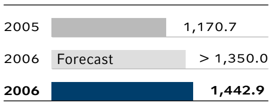
The excellent business development during the financial year 2006 has a solid basis. Both the "Machine Tools" and the "Services" segments contributed to the positive business development. Worldwide we were able to sell 5,956 machines, 842 more than in the previous year, and thus were able to continue our successful product policy of recent years. Once again GILDEMEISTER has been able to cement its leading role in the field of cutting machine tools. With our full-line of products and global presence we have further extended and reinforced our position in all world markets in the face of strong international competition.

Where would the world be without machine tools? Without machine tools there would be hardly any technical progress. It is machine tools that first bestow a function on each structural part – regardless of whether this is for a car, a wind generator or an injection moulding plant. Anyone producing sophisticated products needs machine tools. High-performance turning and milling machines form an essential part of the process chain. Currently more than 160,000 GILDEMEISTER machines are in use. The key to our success is our technological lead combined with our ability to develop new systems and software quickly and efficiently.

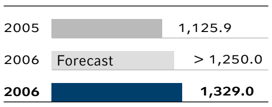
Our motto for the year 2007 is "Grasping the future. Setting trends." The search for ideal solutions defines our research and development work. GILDEMEISTER has know-how that is unparalleled in the industry – and we intend to advance our role as a trendsetter.

We will receive a strong boost from the international trade fairs for the industry. The most important machine tool trade fair in Asia is the CIMT in Beijing, where we will present 19 machines. From 17 to 22 September 2007 we will be present at the EMO in Hanover. This is the world's most important trade fair for machine tools and plays a significant role in setting future trends, for both manufacturers and their customers. GILDEMEISTER will present more than 60 product exhibits in Hanover, 12 of which are world innovations. Our technical know-how and our many years' experience provide a foundation for sustained growth. GILDEMEISTER shall remain the long-term leader in the market and in innovations for cutting machine tools and 2007 should confirm this position once again.

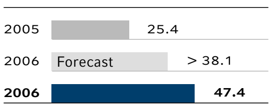
ORDER INTAKE
in € million



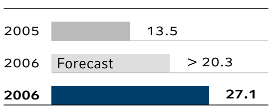
SALES REVENUES
in € million



EBT
in € million



ANNUAL PROFIT
in € million



Advanced Technologies have growth potentials

Internationally we are focusing our attention on Asia for this is where demand for machine tools remains strongest. GILDEMEISTER intends to meet a large part of this demand, as it already has in previous years. The worldwide market for machine tools will continue to develop positively this year. We will counteract existing cyclical risks with our technological lead. Moreover, we will continue to expand our service orientation as a full-service supplier and extend our "advanced technologies": In addition to ultrasonic and laser technology, we intend to strengthen our position as a supplier of alternative energy solutions.

We will continue to pursue our value and growth-focused strategies in the financial year 2007. Our targets for the current business year are once again ambitious. We are currently planning to achieve order intake of around € 1.5 billion. Including order backlog, we anticipate that sales revenues will reach more than € 1,370 million. We anticipate a double-digit percentage increase in EBT and the annual profit, which will allow us to plan for the distribution of a higher dividend for the current financial year.

Continuation of the value and growth oriented strategy

We aim to improve sales profitability continuously. Medium-term sales profitability should reach more than 5% within the framework of our "Strategy 2010" compared with EBT. In the course of improving the results, we aim to increase the equity ratio to more than 35%. The return on capital employed (ROCE) should reach well 12%. In achieving these targets, we will increase our company's market value and highlight our shareholder-value approach as a major component of our corporate governance. We are not planning any major acquisitions at the moment, rather it is our intention to grow organically.

Long-term value added and high transparency

The short version of our "2010 Strategy" is simply profitable growth. Our success is based in the long run on a relationship of trust and cooperation with all those involved. For this reason we would like to thank our employees, our customers, suppliers, investors and all our business partners. Our special thanks are due to you, our shareholders, for your commitment to GILDEMEISTER. Ultimately your trust is the basis for our work. At GILDEMEISTER we believe that long-term corporate management focused on value added and a high level of transparency belong together inextricably within good corporate governance. The members of the Executive Board and myself are confident that our well-coordinated work will also bear fruit in the future. We will make every effort to ensure that GILDEMEISTER also remains an attractive investment for you in the future!

Yours sincerely

Rüdiger Kapitza

Dr. Rüdiger Kapitza
Chairman of the Executive Board
Bielefeld, 27 March 2007

The year 2006

January February March April May June

DEVELOPMENT OF THE GILDEMEISTER SHARE

JANUARY

GILDEMEISTER presented 13 new product developments in the financial year 2006. Once again the leading producer worldwide of cutting machine tools was able to prove its innovative strength.

The group-wide production system PULL is further developed to become the PULLplus added value management system. PULLplus provides exemplary methods by which corporate processes as a whole can be analysed and optimised.

FEBRUARY

The traditional in-house exhibition at DECKEL MAHO in Pfronten from 14-16 February is a complete success once again. With 205 machines sold at a value of € 48.6 million, every expectation was fulfilled at this year's starting event.

MARCH

In order to take account of increased globalisation and the distinct product and market focus within the group, Dr. Thorsten Schmidt is appointed as a full member of the Executive Board by the Supervisory Board. His area of responsibility, which he took over on 1 October 2006, includes the sales and service department.

The series of in-house exhibitions continues from 14-19 March at DECKEL MAHO in Seebach. With 83 machines sold and order intake of € 12.9 million, here, too, the closing balance is very positive.

APRIL

Business development at GILDEMEISTER goes according to plan in the first quarter. Order intake increases to € 339.2 million (+21%). Business in Asia and Germany progresses favourably.

GILDEMEISTER presents a further highlight in its software development: the "DMG Production Manager" for the first time links all production-related data for machine tools and thus increases production efficiency.

MAY

On the day prior to the Annual General Meeting the Supervisory Board of GILDEMEISTER Aktiengesellschaft appoints Günter Bachmann, a qualified engineer, as a full member of the Executive Board. He takes up his new position on 1 October 2006 and is responsible for Production and Technology.

The 104th Annual General Meeting takes place in the Stadthalle, Bielefeld. More than 1,000 shareholders attend and approve the dividend distribution of € 0.10 per share for the financial year 2005.

JUNE

On 8 June the ground-breaking ceremony takes place for the approx. € 4.5 million investment at the site in Poland, where production capacity is to be expanded at FAMOT Pleszew S.A. A modern technology center is being developed for the customers of DMG Polska.

At the leading trade fair for metalworking in Dusseldorf (METAV) from 20-24 June GILDEMEISTER sells 192 machines with a total value of € 37.4 million. The orders confirm that the noticeable upturn in domestic demand from the start of the year is being maintained.

JULY

GILDEMEISTER achieves excellent order intake in the second quarter and further increases sales and income. The group reports annual profit of € 6.3 million as at 30 June. Based on positive business development, GILDEMEISTER adjusts the annual forecast upwards.

GILDEMEISTER hires 55 trainees throughout the group. With a total of 191 young people obtaining their professional qualification, the group follows its goal of hiring future specialists and executive staff from within.

AUGUST

A further step in the future of software: with the “DMG Virtual Machine”, for the first time the customer has a system for the complete simulation of the machine, the control behaviour and workpiece processing.

For the seventh time in a row the GILDEMEISTER Annual Report achieves a top position in the annual ranking of “manager magazin” and is the winner in the SDAX category. The judges make special mention of the high degree of transparency.

SEPTEMBER

With order intake of € 69 million and 260 machines sold at the IMTS (Chicago) and the AMB (Stuttgart) GILDEMEISTER achieves positive results at the first important autumn trade fairs in the major consumer countries of the USA and Germany.

On 20 September GILDEMEISTER inaugurates the Technology and Service Centre of DMG Guangdong in southern China and thereby clearly underlines the importance of the Chinese market.

OCTOBER

GILDEMEISTER continues to be successful at the international trade fairs. At the JIMTOF (Japan) and the BMU (Italy) customers from all over the world are impressed by our innovations. These trade fairs provide additional stimulus.

NOVEMBER

The strong worldwide demand for machine tools continues to grow; this trend is also noticeable in the German market. In the third quarter we achieve further growth in order intake, sales revenues and results, allowing the annual forecast to be revised upwards once again.

GILDEMEISTER optimises its provision of sales and services in northern Europe. DMG Scandinavia serves our customers in the Danish and Swedish markets.

DECEMBER

A successful end to 2006. Investor confidence is rewarded: The share price gain of 63% performs better than the SDAX (+31%). Market capitalisation rose by € 160.2 million to € 414.0 million.

Aerospace
Toys
Electronics
Medicine
Sport

How can we make mobility safer?

By developing new technologies that expand new horizons.

BLADED DISK FORM TITANIUM BASE ALLOYS FOR AIRCRAFT TURBINES: completely manufactured on the DMC 125 FD duoblock universal machining centre with 5-sided full technology machining and a CNC universal swivel rotary table as the A-axis for the machining of undercuts relative to the setting.

Business Environment

Worldwide economic recovery continued in 2006. The main driving forces were the USA and China. In addition to the USA, Japan also lost a little momentum at the end of the year. The expansion of the European Union speeded up. This had positive effects on the German economy.

Overall Economic Development

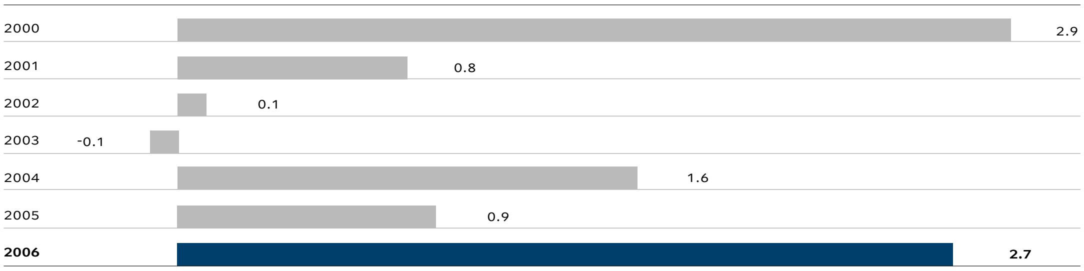
The **world economy** continued its growth trend in 2006. The cyclical dynamics in the USA remained high overall but slowed slightly towards year end. Sustained stimulus once again came from Asia and above all China. The economic upturn in the European Union grew in strength. The German economy also performed distinctly better than in the previous year. 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: 3.1%).

In **Asia** the high rate of growth remained unchanged. In China the strong economic development was even able to speed up. Over the course of the year the Japanese economy lost some of its impetus. Dampening effects were felt from the financial policy and a slackening in domestic demand, although foreign stimulus remained strong. Gross domestic product in China was up 10.5% (previous year: 9.7%) and in Japan 2.2% (previous year: 2.6%).

The **USA** remained a major driving force of the world economy, even though vigour waned during the course of the year. This was due primarily to stagnation in the real estate market. Private consumption rose and capital investment was stronger. Exchange rates also had a positive effect on the US national economy. Gross domestic product for the whole year rose to an expected 3.3% (previous year: 3.2%).

Economic activity in **Europe** also improved noticeably. Countries that had had less than average rates of growth in the previous year made gains. The main stimulus came from demand within the European Union, in particular capital investments increased. Private consumption also grew. A positive trend was also noticeable in the job market. According to provisional figures, gross domestic product in the euro states was up 2.7% (previous year: 1.4%); for the European Union as a whole it was 2.8% (previous year: 1.7%).

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

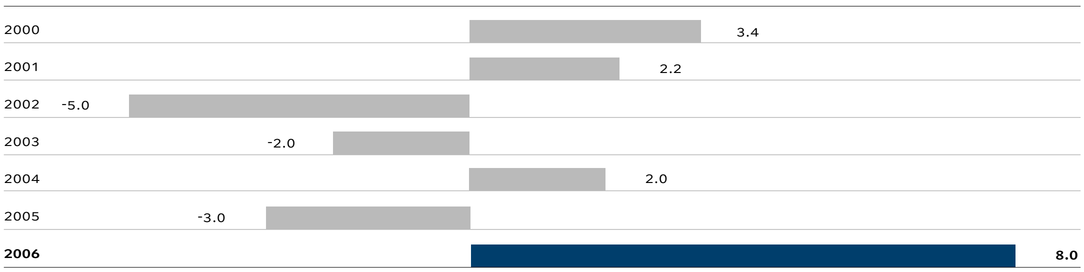


Source: Federal Statistical Office, Wiesbaden

In **Germany** the revival trend was clearly stronger. According to estimates of the Federal Statistical Office in Wiesbaden gross domestic product reached 2.7% (previous year: 0.9%). Again the driving force was exports with an increase of 10.5%. An upturn was also noted in domestic economic activity: Investment in plant and equipment grew by 7.7% (previous year: 6.1%). The improved economic situation also strengthened the job market. In 2006 the average number of people registered unemployed was 4.4 million, some 370,000 less than the previous year. The number of insolvencies fell by 6,000 to about 31,000. The rate of inflation was 1.7% (previous year: 2.0%). The situation in public spending became more relaxed in the reporting year. The deficit quota of 1.7% was once again below the deficit ceiling of the Maastricht Treaty.

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

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



Source: ifo Institute, Munich

The **exchange rate** was equally affected throughout the year by the strong development of the euro. The US dollar lost in value in relation to the euro and fluctuated in the first quarter from its lowest level on 2 January 2006 (US dollar 1.18) between US dollar 1.18 and US dollar 1.23. Thereafter the dollar continued to make gains and fluctuated between US dollar 1.24 and US dollar 1.29 before exceeding a value of US dollar 1.30 on 24 November 2006. On 5 December the US dollar reached its highest value for the year of US dollar 1.33. This resulted in an average annual exchange rate in relation to the euro of US dollar 1.26 (previous year: US dollar 1.24). In parallel with the US dollar the euro also gained 8% against the Yuan throughout 2006; at the end of the year it had a value of 10.29 Yuan. Following its lowest value of Yen 137.5 on 12 January 2006, the Yen rose continuously. Up until 29 December 2006 and its highest value of Yen 156.7, the Yen lost 14% against the euro; this corresponded to an average annual exchange rate of Yen 146.2 (previous year: Yen 137.1) in relation to the euro. For the day-to-day business of GILDEMEISTER, the US dollar, the Japanese Yen and the Chinese yuan are of particular importance. More detailed information on the annual average of selected currencies can be found in the explanatory notes on the currency translation difficulties in the global machine tool statistics on page 27.

We are further expanding our competition situation

The growth in the world economy had an overall positive effect on **GILDEMEISTER** with its extensive international business. Our business development was rather cyclical and, with regard to time, lagged behind national economic development. As leading producer of cutting machine tools we could increase our worldwide **market share** in the relevant sub-segment “turning and milling”, to 5.4% (previous year 5.0%). Despite strong international competition, we have further extended our **competitive position** in the important regions. In Germany we have clearly increased our order intake. In Europe brisk business ensured further strengthening of our competitive position. In America orders have developed in line with expectations. In Asia our success was above average. Our customer base is widely spread across all industries and is very balanced; there is no strong dependency on any individual consumer industry.

Development of the Machine Tool Industry

International development

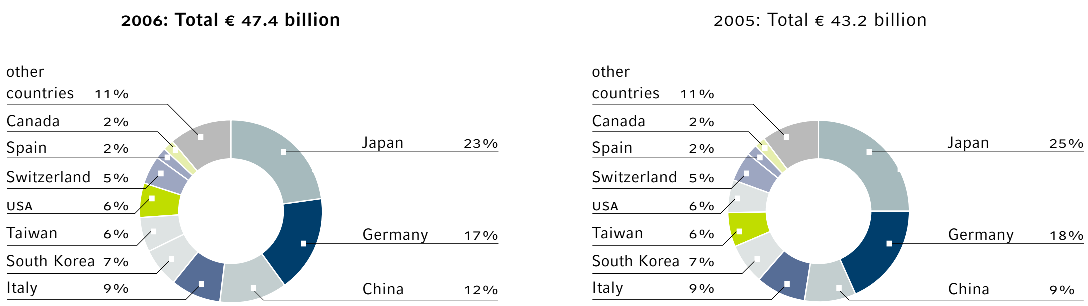
In 2006 the global market for machine tools continued its positive upwards trend. According to calculations of the German Machine Tool Builders’ Association (VDW) **global output** was € 47.4 billion. This represents an increase in output compared to the previous year of 10% (2005: € 43.2 billion). Japan maintained its top position worldwide with € 10.8 billion. The Japanese market share of global production fell two percentage points to 23% (previous year: 25%). This was followed by Germany with a € 8.2 billion (17%) market share of machine tools produced worldwide (previous year: 18%). China once again took third place with output of € 5.6 billion (12% of the global market). The three leading nations were followed in places four to seven by Italy (output: € 4.4 billion, global share in production: 9%), South Korea (€ 3.3 billion, 7%), Taiwan (€ 2.9 billion, 6%) and the USA (€ 2.9 billion, 6%). Together these seven countries produced 80% of all machine tools (previous year: 80%).

THE INDIVIDUAL WORLD REGIONS' SHARES IN INTERNATIONAL PRODUCTION*

in %	2006	2005
Shares in worldwide production		
Europe	42	42
(of which Germany)	(17)	(18)
Asian Pacific Region	48	48
(of which Japan)	(23)	(25)
(of which China)	(12)	(9)
America	10	10

* provisional figures for 2006; revised values 2005

WORLDWIDE PRODUCTION OF MACHINE TOOLS



* provisional figures for 2006; revised values 2005

In 2006 57% of global production was exported (previous year: 54%). Germany confirmed its leading role with regard to **exports** with an export share of 73% (previous year: 65%). Japan had an export share of 51% (previous year: 46%). Together – as in the previous year – both countries accounted for 43% by value of world exports. They were followed by Italy, Taiwan, Switzerland, the USA and South Korea, each with a share in world exports of less than 10%.

Parallel to global output, according to calculations of the VDW, **global consumption** also rose by 10% to € 47.4 billion (previous year: € 43.2 billion). An overview of the development of global consumption over the last ten years is presented on page 102. Once again China was the largest market at € 10.1 billion, consuming 21% of all machine tools (previous year: 20%). It was followed at a noticeable distance by Japan (€ 5.9 billion). Third place was taken by the USA (€ 5.0 billion), followed by Germany (€ 4.1 billion), South Korea (€ 3.3 billion) and Italy (€ 2.8 billion). These six industrial nations account for 66% of the global consumption of machine tools (previous year: 68%). The growth dynamic in the Indian market continued with an increase of 35%. Thus for the first time India became one of the top ten consumption countries.

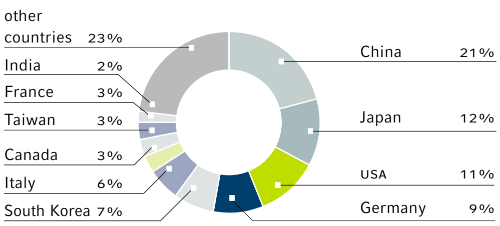
THE INDIVIDUAL WORLD REGIONS'S SHARES IN INTERNATIONAL CONSUMPTION *

	2006	2005
Shares in worldwide consumption in %		
Europe	31	32
(of which Germany)	(9)	(10)
Asian Pacific Region	50	48
(of which Japan)	(12)	(14)
(of which China)	(21)	(20)
America	18	19
Rest of the world	1	1

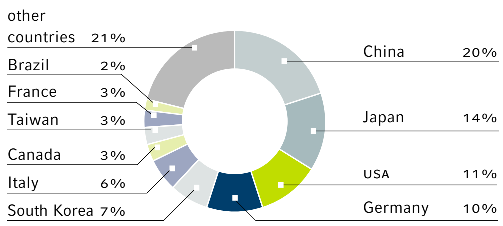
* provisional figures for 2006; revised values 2005

WORLDWIDE CONSUMPTION OF MACHINE TOOLS*

2006: Total of € 47.4 billion



2005: Total € 43.2 billion



* provisional figures for 2006; revised values 2005

With respect to the **import** of machine tools, China once again took the lead for the fifth successive year with growth of 8% to € 5.5 billion (previous year: € 5.1 billion). The USA increased its imports from € 3.1 billion in 2005 to € 3.5 billion (13%). Together the two major importing nations accounted for 34% of worldwide imports (previous year: 35%). Based on total consumption, China's import share decreased by 6 percentage points to 54% (previous year: 60%). Whilst the USA had to import 71% of its consumption in 2006 (previous year: 66%). The German import share amounted to 47% (previous year: 38%). This was followed by South Korea with an import share of 39% (previous year: 36%) and Italy with 38% (previous year: 37%).

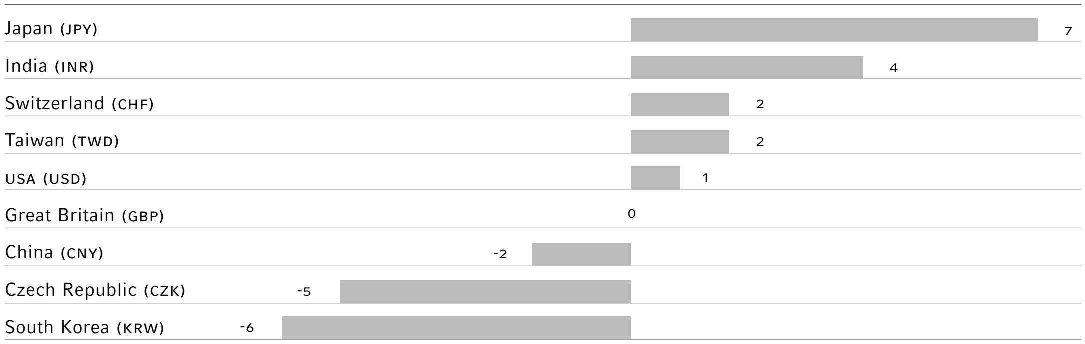
Sources: The basis of the world machine tool statistics is the data published by the VDW (German Machine Tool Builders' Association) (excluding parts and accessories). This data is requested by the national producers' associations of each individual country and is based on the current actual values or,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

Within the euro zone there are no longer any fluctuating exchange rates. However, with respect to third currencies, such as the US dollar, Yuan or Yen, exchange rate distortions remain relevant. As the chart of the movement of the euro with respect to selected currencies shows, the shifts in purchasing power remain moderate in comparison to 2005. Due to an upward revaluation of 7% against the previous year, the rise in price of the euro was felt mostly by customers from Japan. This was followed by the Indian rupee, which in comparison to the previous year was devalued by 4%. There were no changes or hardly any changes for Switzerland and Taiwan (each 2%), the USA (1%) and Great Britain (±0%). As in the previous year, the US dollar remained at a weak level. Thus the euro had a strong negative impact on products invoiced in dollars. In comparison to the previous year, the euro lost in value against China (2%), the Czech Republic (5%) and South Korea (6%). In these countries purchasing power increased due to exchange rate effects.

CHANGES IN THE EURO IN 2006 COMPARED WITH 2005 AGAINST THE INDIVIDUAL NATIONAL CURRENCIES
in %



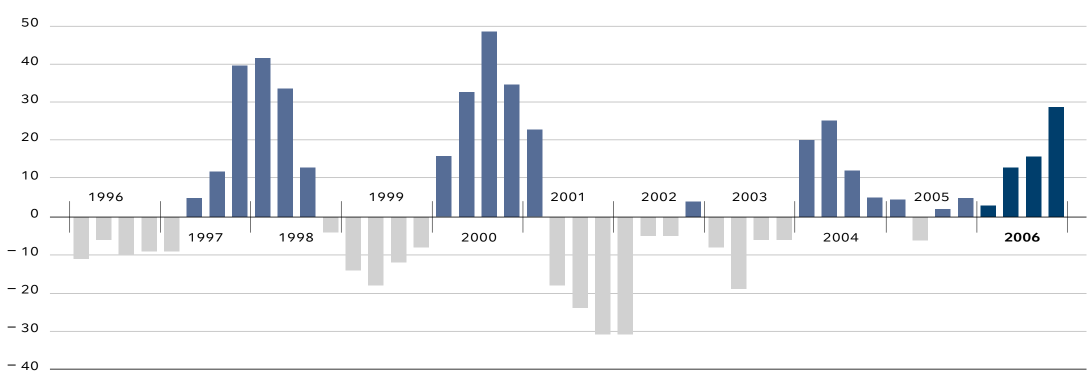
Source: Deutsche Bundesbank

German Machine Tool Industry

In 2006 the German machine tool industry recorded a rise in order intake, increased production and a growth in exports. **Incoming orders** were up 16% at € 12.1 billion (previous year: € 10.4 billion). There was a particularly high increase in domestic demand of +27% following stagnation in 2005. International demand rose by 10% (previous year: 2%). The business climate index of the Munich-based ifo Institute reflected this positive development trend. According to this survey, the main industrial consumers in mechanical engineering, automotive manufacturing and electrical engineering reflected a high assessment value.

MACHINE TOOL ORDER INTAKE IN GERMANY*

Real changes against the previous year in %



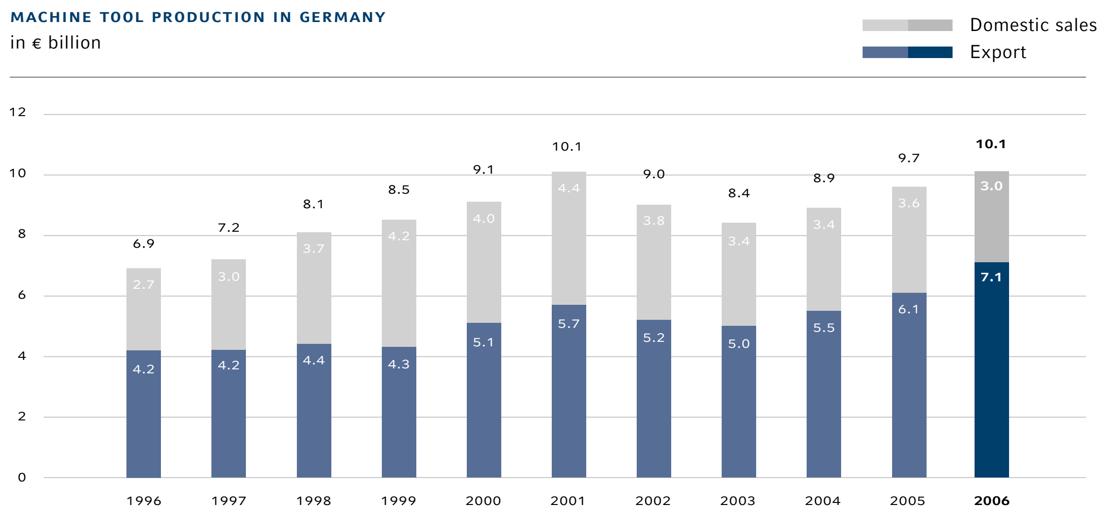
* previous year's figures partly adjusted

Production rose by 4% to € 10.1 billion (previous year: € 9.7 billion), whereby the German manufacturers again produced as many machine tools as in the record year 2001.

Machines to the value of € 7.1 billion went into **export**. This exceeded exports in 2005 by 16% or € 1.0 billion. The export share amounted to 70% (previous year: 63%). With € 845.5 million China was the most important market for the third year in succession for German machine tools (previous year: € 792.4 million). This represents 12% of German exports (previous year: 13%). This is followed by the USA, which took delivery of machines to a value of € 792.9 million (previous year: € 790.7 million); representing a share of German exports of 11% (previous year: 13%). Austria became the third most important export market, taking delivery of machines to a value of € 358.6 million (previous year: € 255.7 million). Exports also increased noticeably to Russia (+57%), Great Britain (+52%), Slovakia (+51%), India (+37%), South Korea (+35%) and Japan (+33%).

MACHINE TOOL PRODUCTION IN GERMANY

in € billion



The **Import** of machine tools rose in 2006 by € 0.4 billion or 18% to € 2.6 billion (previous year: € 2.2 billion). Domestic sales of German machine tools achieved a value of € 3.0 billion. **Domestic consumption** achieved € 5.6 billion and was thus € 0.1 billion or 2% below the previous year's level (€ 5.7 billion). With an import share of 32%, nearly every third imported machine tool came from Switzerland, followed by Japan, Italy, the USA and the Czech Republic. The USA rose from fifth place to fourth place among the most important import countries.

Capacity utilisation at German machine tool factories at the start of the year amounted to 90% (previous year: 88%). In summer capacity utilisation rose to 92% (previous year: 89%), whereas at the end of the year it fell slightly to 91% (previous year: 90%). At the start of the year capacity utilisation of manufacturers of cutting machine tools amounted to 94% (previous year: 91%), in September to 92% (previous year: 95%) and at the end of the year was again 93% (previous year: 94%).

The extent of the **order backlog** was an average of 6.4 months (previous year: 6.2 months). The backlog remained nearly constant throughout the year. 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 times but also special machines and non-cutting machine tools with long delivery times.

The number of **employees** at German machine tool companies remained unchanged at 65,000.

Reliable statements on the **profitability** of the German machine tool industry are not readily available as only a few companies publish their figures. Therefore the association has to rely on estimates. It has to be stated though, that despite an improvement in economic trends the overall profitability of the industry must be regarded as unsatisfactory.

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)

Aerospace
Toys
Electronics
Medicine
Sport

How can we ensure a carefree childhood?

By paying a lot of attention to the smallest wishes.

INJECTION MOULD FROM TOOL STEEL FOR BOBBYCARS: completely manufactured in 45 hours on the DMC 105 V *linear* vertical machining centre with high-speed cutting with 90 m/min rapid traverses and up to 2g acceleration on all axes.

Results of Operations, Net Worth and Financial Position

GILDEMEISTER has achieved its targets for the financial year 2006. Sales revenues rose to € 1,329.0 million, the forecast was for over € 1,250 million. Our order intake of € 1,442.9 million has also more than exceeded our forecast. EBT rose to € 47.4 million and the annual profit doubled to € 27.1 million. The achievement of these key figures surpassed all our targets.

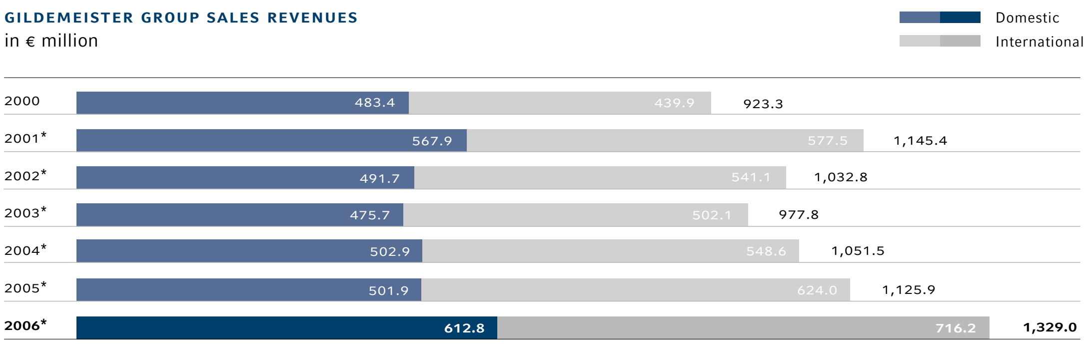
Sales Revenues

The worldwide rise in demand for machine tools had a positive impact on sales revenues development. This allowed us to achieve further increases in sales revenues not only for the complex technological machines but also for entry-level machines. Sales revenues reached € 1,329.0 million and thus achieved the highest level ever in the history of the company (previous year: € 1,125.9 million); this corresponds to an increase of 18% or € 203.1 million. Through pushing the sale of our demonstration machines to clear, we achieved sales revenues in the fourth quarter of € 404.8 million whereby we exceeded sales in the same period of the previous year (€ 333.3 million) by 21%.

Domestic sales revenues rose by 22% to € 612.8 million. International sales revenues increased by 15% to € 716.2 million. The export share amounted to 54% (previous year: 55%).

More detailed information on sales revenues development in each segment is given starting on page 48.

GILDEMEISTER GROUP SALES REVENUES
in € million



* in acc. with IFRS

Order Intake

GILDEMEISTER achieved order intake of € 1,442.9 million (previous year: € 1,170.7 million). This exceeded the previous year's record by an additional € 272.2 million or 23%. This means that we exceeded our order intake target for the year of € 1,350 million. In the fourth quarter order intake rose by € 87.2 million or 29% to € 384.1 million (previous year's quarter: € 296.9 million).

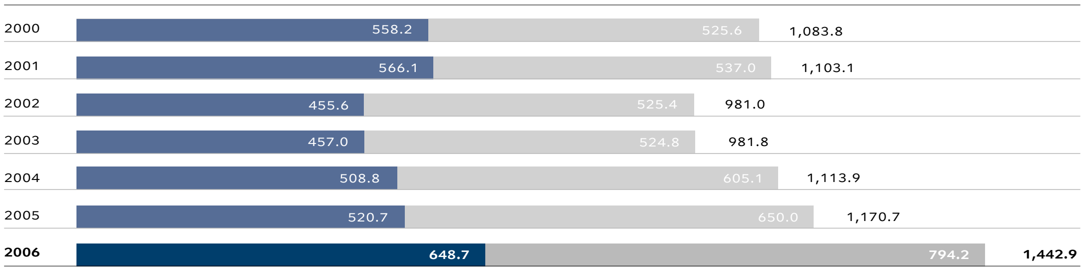
In particular the autumn trade fairs played a decisive role in contributing to this positive development. At the AMB in Stuttgart, the BIMU in Milan, the IMTS in Chicago and the JIMTOF in Tokyo we received orders to a value of € 87.7 million. Additional order intake in the fourth quarter is a result of the targeted sale to clear of demonstration machines.

Both domestic and international sales contributed to the increase in order intake. Domestic orders rose by 25% to € 648.7 million (previous year: € 520.7 million); international orders increased 22% to € 794.2 million (previous year: € 650.0 million). International orders accounted for 55% of orders (previous year: 56%).

More detailed information on order intake for each segment can be found starting on page 48.

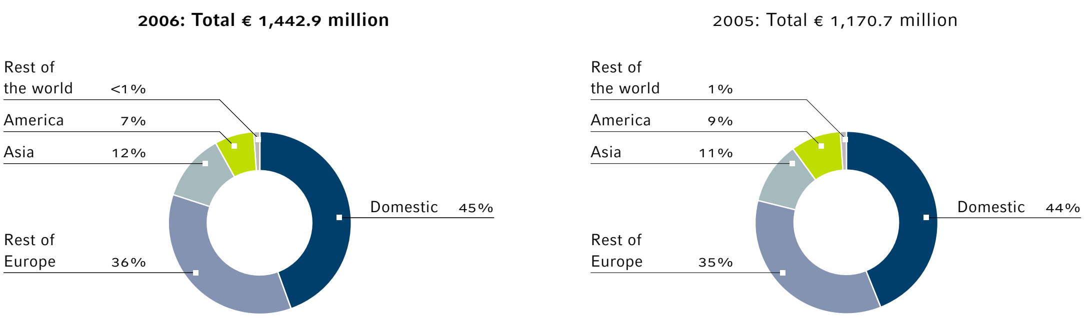
GILDEMEISTER GROUP ORDER INTAKE
in € million

Domestic
International



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

ORDER INTAKE GILDEMEISTER GROUP BY REGIONS

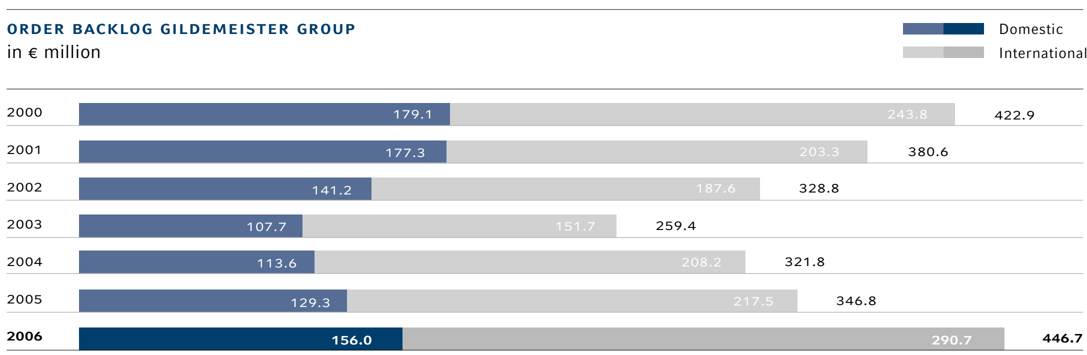


A total of 5,956 turning, milling, ultrasonic/laser and used machines went to 4,075 different customers. The **sales volume** increased by 16% in comparison to the previous year. As demand increased particularly for our high-quality technological machines, the average value per machine rose by 5%. Throughout the year we raised **selling prices** by 2% to 8% depending on the market conditions and the particular product. Once again **key accounting** played a major part in order intake. The support we give to our international **major customers** is geared towards their specific requirements. We were therefore able to secure orders to a value of € 121.8 million (previous year: € 96.3 million).

Order Backlog

As at 31 December 2006, the group order backlog amounted to € 446.7 million and thus was € 99.9 million or 29% above the previous year (€ 346.8 million). Of these orders, international orders accounted for 65% (corresponding date of the previous year: 63%). Domestic order backlog increased by € 26.7 million or 21% to € 156.0 million (previous year: € 129.3 million). International order backlog increased by € 73.2 million or 34% to € 290.7 million (previous year: € 217.5 million).

More detailed information on the order backlog in each segment is given starting on page 48. The order backlog signifies production capacity utilisation of around five months – thus represents a good basic capacity utilisation for the current financial year.



Results of Operations

The profitability of the GILDEMEISTER Group increased again in the financial year 2006. **EBITDA** reached € 115.1 million (previous year: € 90.2 million). **EBIT** rose to € 82.5 million (previous year: € 58.8 million) and **EBT** to € 47.4 million (previous year € 25.4 million). **Annual profit** doubled to € 27.1 million (previous year: € 13.5 million). By an increase in sales revenues of 18%, EBT rose by 87%. At the same time the **balance sheet total** decreased to € 954.9 million (previous year: € 961.4 million). With the improved balance sheet structure, the **equity share** increased to 30.2% (previous year: 27.6%). Thus we have achieved the target we set for the reporting year of approximately 30%. Net indebtedness decreased by € 88.4 million to € 216.7 million (previous year: € 305.1 million). Corresponding to the positive development trend in income and in the balance sheet, the **free cash flow** rose to € 74.8 million (previous year: € 3.2 million) and thus exceeded forecasts of more than € 30 million. For other forecasts for the relevant income and financial figures we would like to refer to the "Letter from the chairman" or page 16.

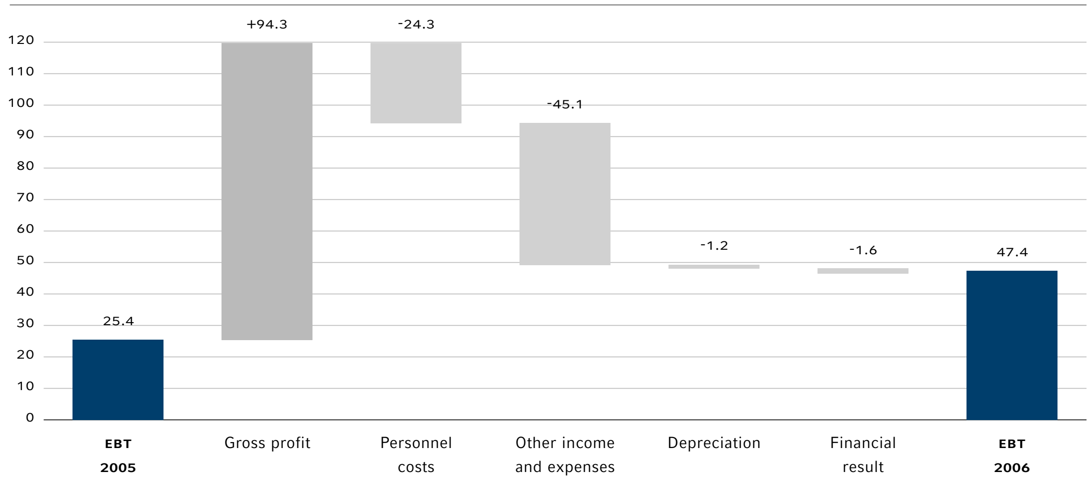
Group profit doubled

INCOME STATEMENT GILDEMEISTER GROUP	2006 € K	%	2005 € K	%	CHANGES AGAINST PREVIOUS YEAR € K	%
Sales revenues	**1,328,971**	**99.9**	**1,125,897**	**98.2**	**203,074**	**18.0**
Change in finished goods and work in progress	-5,131	-0.4	11,195	1.0	-16,326	-145.8
Other capitalised payments	6,276	0.5	9,141	0.8	-2,865	-31.3
Total work done	**1,330,116**	**100.0**	**1,146,233**	**100.0**	**183,883**	**16.0**
Cost of materials	-698,153	-52.5	-608,542	-53.1	-89,611	14.7
Gross profit	**631,963**	**47.5**	**537,691**	**46.9**	**94,272**	**17.5**
Personnel costs	-320,201	-24.1	-295,926	-25.8	-24,275	8.2
Other income and expenses	-196,691	-14.7	-151,564*	-13.2	-45,127	29.8
EBITDA	**115,071**	**8.7**	**90,201**	**7.9**	**24,870**	**27.6**
Depreciation of fixed assets	-32,600	-2.5	-31,369	-2.7	-1,231	3.9
EBIT	**82,471**	**6.2**	**58,832**	**5.1**	**23,639**	**40.2**
Financial result	-35,053	-2.6	-33,467*	-2.9	-1,586	4.7
EBT	**47,418**	**3.6**	**25,365**	**2.2**	**22,053**	**86.9**
Taxes on profit	-20,318	-1.6	-11,835	-1.0	-8,483	71.7
Annual profit	**27,100**	**2.0**	**13,530**	**1.2**	**13,570**	**100.3**

* previous year's figures adjusted

Total work done rose to € 1,330.1 million and was thus € 183.9 million or 16.0% above the previous year (€ 1,146.2 million). The materials quota of 52.5% decreased slightly compared to the previous year (53.1%) by 0.6 percentage points. Gross profit at € 632.0 million was € 94.3 million or 17.5% above the previous year's figure (€ 537.7 million). The gross profit margin increased to 47.5% (previous year: 46.9%).

GILDEMEISTER GROUP DEVELOPMENT OF PROFITABILITY (EBT) 2005 AGAINST 2006
in € million



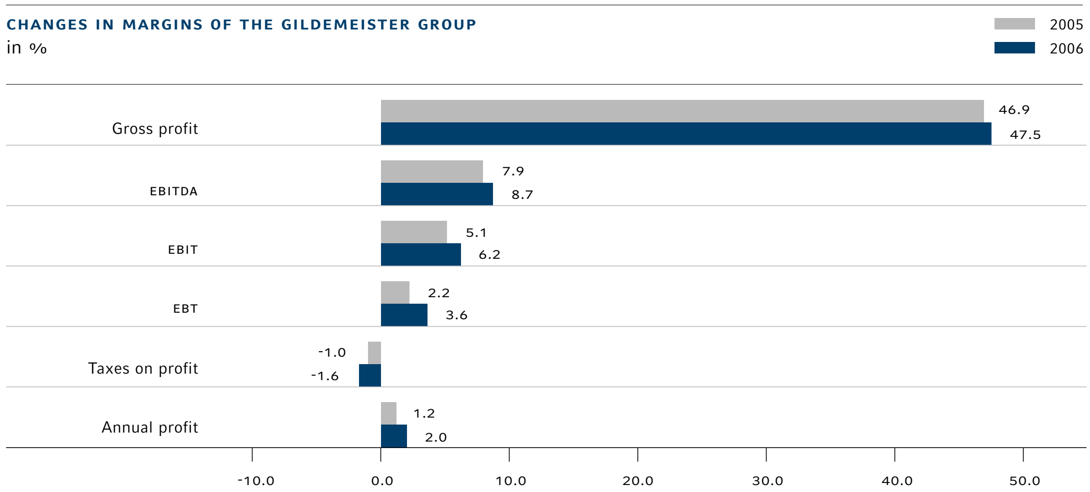
The personnel quota fell to 24.1% (previous year: 25.8%). Personnel costs increased to € 320.2 million (€ +24.3 million) (previous year: € 295.9 million). More detailed information can be found in the section "Employees" on page 87. The balance of other expenses and income rose by € 45.1 million to € 196.7 million due to volume. In addition to sales-related rises in costs, costs also rose for rentals and leases (€ +3.2 million). As at 31 December 2006 leasing and rental obligations for the financial year 2007 stood at € 20.6 million. Depreciation rose by € 1.2 million to € 32.6 million (previous year: € 31.4 million). The financial result of € -35.1 million increased by € 1.6 million in comparison with the previous year (€ -33.5 million). The increase resulted mainly from the reclassification of transaction costs from other income and expenses of € 3.6 million (previous year: 2.4 million). In the interests of a fair representation of costs, expenses from transaction costs are presented in the financial result. These arose from the issue of the corporate bond and from the syndicated loan facility.

The tax load ratio amounts to 42.8%; it has been reduced compared to the previous year (46.7%) by 3.9 percentage points. Tax expenditure amounts to € 20.3 million (previous year: € 11.8 million).

Our EBIT margin further improves

The earnings margins, which are determined on the basis of total work done, have developed positively. With an increase in the gross profit margin of 0.6 percentage points to 47.5%, the EBITDA, EBIT and EBT margins improved compared to the previous year. The EBITDA margin improved by 0.8 percentage points to 8.7% (previous year: 7.9%) and the EBIT margin rose by 1.1 percentage points to 6.2% (previous year: 5.1%). The reduced percentage of personnel costs, of depreciation and of the financial results compared to the previous year had a positive impact on the earnings margins. The increased percentage of the balance from other income and expenses had a negative impact. The EBT margin rose by 1.4 percentage points to 3.6% (previous year: 2.2%). Taking into account tax expenditure, the annual profit margin improved by 0.8 percentage points to 2.0% (previous year: 1.2%).

CHANGES IN MARGINS OF THE GILDEMEISTER GROUP
in %



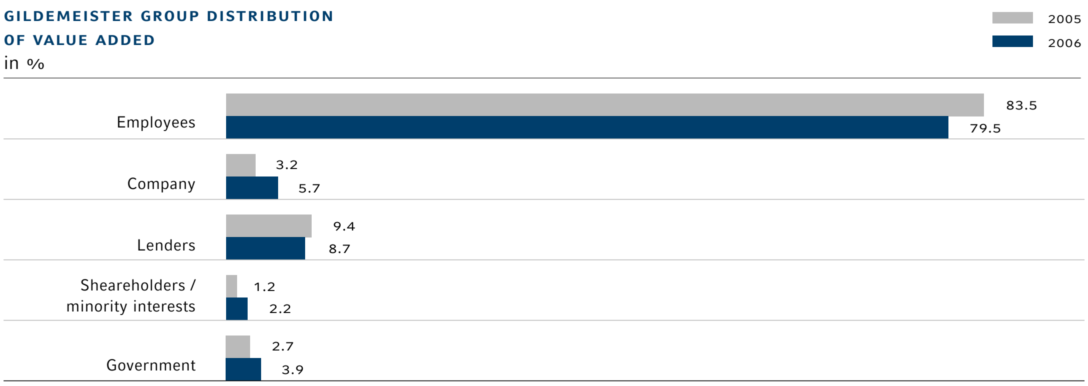
The **value added statement** presents the difference between the company's output and the consumption of products and services in terms of value. The distribution statement shows the contribution of those participating in value-added activities – employees, companies, lenders, shareholders/minority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

In the financial year 2006 the value added achieved by the GILDEMEISTER group amounted to € 403.1 million (previous year: € 354.9 million). This corresponds to an increase of 13.6% or € 48.2 million. Following the distribution of the contributions to the value added, the company is left with a positive share of € 22.9 million (previous year: € 11.5 million). The doubling of the annual profit is thus reflected in the company's share.

The following table shows the detailed value added statement:

VALUE ADDED STATEMENT OF THE GILDEMEISTER GROUP	2006		2005		CHANGES AGAINST THE PREVIOUS YEAR	
	€ M	%	€ M	%	€ M	%
Source						
Sales revenues	1,329.0	98.2	1,125.9	95.4	203.1	18.0
Other revenues	24.5	1.8	54.9	4.6	-30.4	-55.4
Operating performance	**1,353.5**	**100.0**	**1,180.8**	**100.0**	**172.7**	**14.6**
Cost of materials	698.2	51.6	608.5	51.5	89.7	14.7
Depreciation	32.6	2.4	31.4	2.7	1.2	3.9
Other expenses	219.6	16.2	186.0	15.8	33.6	18.1
Purchased materials and services	**950.4**	**70.2**	**825.9**	**70.0**	**124.5**	**15.1**
Value added	**403.1**	**29.8**	**354.9**	**30.0**	**48.2**	**13.6**
Distribution						
Employees	320.6	79.5	296.1	83.5	24.5	8.3
Company	22.9	5.7	11.5	3.2	11.4	99.1
Lenders	35.0	8.7	33.5	9.4	1.5	4.5
Shareholders/minority interests	8.7	2.2	4.3	1.2	4.4	102.3
Government	15.9	3.9	9.5	2.7	6.4	67.4
Value added	**403.1**	**100.0**	**354.9**	**100.0**	**48.2**	**13.6**

GILDEMEISTER GROUP DISTRIBUTION OF VALUE ADDED
in %



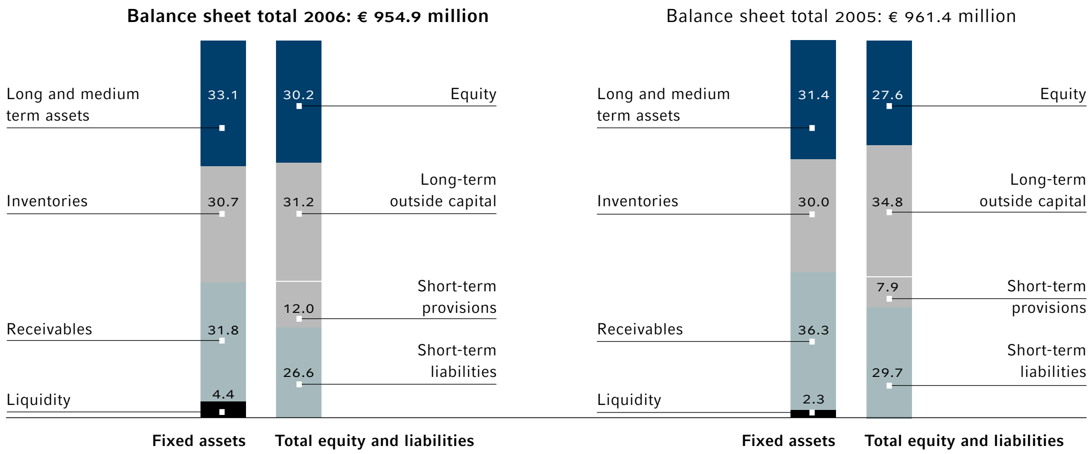
Net Worth and Financial Position

We were able to improve the assets and capital structure as planned. Despite a considerable increase in sales revenues, compared to the previous year, the balance sheet total decreased by € 6.5 million or 0.7% to € 954.9 million (previous year: € 961.4 million). The equity ratio increased to 30.2% (previous year: 27.6%).

GILDEMEISTER GROUP BALANCE SHEET

	31 DEC. 2006		31 DEC. 2005		CHANGES AGAINST PREVIOUS YEAR	
	€ K	%	€ K	%	€ K	%
Assets						
Long and medium-term assets						
Fixed assets	265,420	27.8	262,353	27.3	3,067	1.2
Current assets	50,781	5.3	39,845	4.1	10,936	27.4
	316,201	33.1	302,198	31.4	14,003	4.6
Short-term assets						
Inventories	292,964	30.7	288,777	30.0	4,187	1.4
Receivables and other assets	303,511	31.8	348,521	36.3	-45,010	-12.9
Liquid funds	42,181	4.4	21,920	2.3	20,261	92.4
	638,656	66.9	659,218	68.6	-20,562	-3.1
Balance sheet total	954,857	100.0	961,416	100.0	-6,559	-0.7
Total equity and liabilities						
Long and medium-term financing resources						
Equity	288,574	30.2	265,782	27.6	22,792	8.6
Outside capital						
Provisions	51,529	5.4	49,796	5.2	1,733	3.5
Liabilities	245,870	25.8	284,412	29.6	-38,542	-13.6
	297,399	31.2	334,208	34.8	-36,809	-11.0
	585,973	61.4	599,990	62.4	-14,017	-2.3
Short-term financing resources						
Provisions	114,677	12.0	75,611	7.9	39,066	51.7
Liabilities	254,207	26.6	285,815	29.7	-31,608	-11.1
	368,884	38.6	361,426	37.6	7,458	2.1
Balance sheet total	954,857	100.0	961,416	100.0	-6,559	-0.7

ASSETS AND CAPITAL STRUCTURE OF THE GILDEMEISTER GROUP
in %



The **fixed assets** on the **assets side** increased by € 3.0 million or 1.2% to € 265.4 million (previous year: € 262.4 million). Intangible assets decreased by € 3.6 million whilst tangible fixed assets rose by € 6.7 million. The asset additions are set out in more detail in the "Investments" chapter starting on page 46.

Long and medium-term current assets increased by € 10.9 million or 27.4% to € 50.8 million (previous year: € 39.8 million). In this respect deferred taxes increased by € 3.7 million and other assets by € 7.6 million. This includes discounted bills receivable of € 16.1 million (previous year: € 6.9 million).

In the reporting year **inventories** recorded an increase of € 4.2 million or 1.4% to € 293.0 million (previous year: € 288.8 million). Whilst the inventory of finished goods fell by € 10.1 million to € 94.8 million (previous year: € 104.9 million), the inventory of raw materials and consumables rose by € 6.7 million to € 99.1 million (previous year: € 92.4 million) and the unfinished goods inventory rose by € 7.4 million to € 96.5 million (previous year: € 89.1 million). The total inventories share in the balance sheet was 30.7% (previous year: 30.0%). In relation to sales volume, the turnover rate of inventories increased from 3.9 to 4.5.

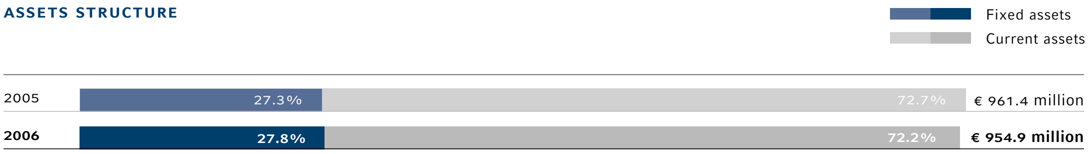
We are optimising our management of receivables

Compared to the previous year **short-term receivables and other assets** decreased by 12.9% or € 45.0 million to € 303.5 million. In this respect trade receivables decreased by € 34.3 million to € 252.5 million mainly because we further optimised our accounts receivable management and increased our factoring within the scope of the existing factoring agreements in comparison to the previous year. The total factoring volume at year end amounted to € 83.8 million (previous year: € 46.1 million). Other assets decreased by € 11.7 million to € 49.9 million. Other assets include the statement of discounted customers bills of € 5.5 million (previous year: € 18.3 million). The ratio of trade receivables to sales improved to 5.3 (previous year: 4.2).

The date **liquid funds** amounted to € 42.2 million (previous year: € 21.9 million). The relative share in the balance sheet total increased from 2.3% to 4.4%.

In the assets structure the share of long and medium-term assets increased by 1.7 percentage points to 33.1% (previous year: 31.4%).

ASSETS STRUCTURE



In **total equity and liabilities** the annual profit, which rose by € 13.6 million to € 27.1 million, primarily led to an increase in **equity** of € 22.8 million or 8.6% to € 288.6 million (previous year: € 265.8 million). The relationship of net indebtedness to equity **(gearing)** improved to 75.0% (previous year: 114.7%), as we reduced net financial liabilities whilst at the same time there was an increase in equity.

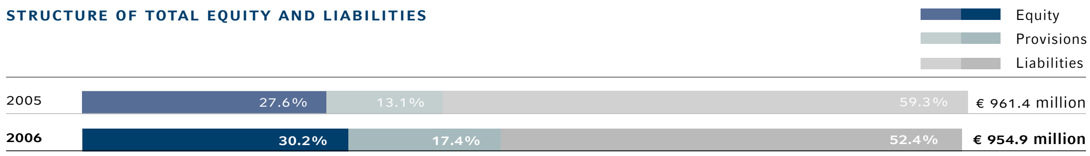
Long and medium-term borrowed funds decreased by € 36.8 million to € 297.4 million. Their share in the balance sheet total decreased by 3.6 percentage points to 31.2% (previous year: 34.8%). The share of **long and medium-term provisions** amounted to 5.4% (previous year: 5.2%). These include € 28.0 million (previous year: € 27.5 million) for company pension provisions and other provisions for obligations arising out of personnel amounting to € 19.2 million (previous year: € 22.3 million). Liabilities include € 16.1 million (previous year: € 6.9 million) relating to discounted customers bills and € 9.7 million (previous year: € 8.0 million) relating to deferred tax liabilities.

In the reporting year **long and medium-term financing resources** decreased by € 14.0 million or 2.3% to € 586.0 million. Long and medium-term fixed assets are 185.3% financed (previous year: 198.5%) by funds that are available on a long and medium-term basis.

Short-term financing resources increased by € 7.5 million or 2.1% to € 368.9 million, whereby provisions increased by € 39.1 million or 51.7% to € 114.7 million (previous year: € 75.6 million). This includes increased provisions for risks arising from warranties and retrofittings of € 32.8 million (previous year: € 24.8 million) due to sales and for obligations arising from sales € 17.7 million (previous year: € 8.0 million). Liabilities decreased by € 31.6 million to € 254.2 million (previous year: € 285.8 million). In this respect discounted customers bills decreased by € 12.8 million or 70% to € 5.5 million.

The total of fixed assets and inventories of € 558.4 million (previous year: € 551.1 million) is 104.9% covered (previous year: 108.9%) by long and medium-term financing resources. When compared to the previous year, the structure of total equity and liabilities showed a 2.6 percentage points increase in equity ratio and an increase in short-term provisions of 4.1 percentage points. The liabilities ratio decreased by 6.9 percentage points to 52.4% (previous year: 59.3%).

STRUCTURE OF TOTAL EQUITY AND LIABILITIES



Actual financial measures are securing our growth

In the reporting year GILDEMEISTER extended its financing scope by concluding new syndicated loans and an asset backed securities programme (ABS). Both measures were of vital importance for the financing of the planned growth in sales. On 30 June 2006 an agreement was concluded for a syndicated loan for € 175 million on improved terms with a term of five years. The ABS programme with a volume of € 100 million and a term of five years was signed on 22 December 2006. Through these measures we are systematically continuing to optimise our financial structure.

Material off-balance sheet financing instruments and future financial obligations are set out in the Notes in the “Financial liabilities” section starting on page 151 and under “Other financial obligations” starting on page 155.

For an illustration of our risk management targets and methods for the hedging of all major types of transactions that are recorded in the accounting of hedging transactions, and of risks arising from price fluctuations, risks of default, liquidity risks and risks arising from fluctuations in the cash flow, each in relation to the use of financial instruments, we refer to the section on risks arising from financing and evaluation included in the “Opportunities and Risk Report” starting on page 96 and the explanatory notes on “Derivative Financial Instruments” starting on page 157 included in the Notes.

Cash flow

The group cash flow showed a positive development. The free cash flow (balance of cash flow from running operations and cash flow from investment activities excluding investments in financial assets) in the reporting year amounted to € 74.8 million (previous year: € 3.2 million), which is € 71.6 million more than in the previous year. This improvement resulted mainly from the positive development of earnings before taxes (EBT), which rose by € 22.0 million to € 47.4 million and from the reduction in trade receivables of € 32.1 million.

CASH FLOW	2006 IN € M	2005 IN € M
Cash flow from current operations	108.1	27.2
Cash flow from investment activity	-35.1	-24.4
Cash flow from financing activity	-52.5	-41.7
Changes in cash and cash equivalents	20.3	-38.4
Liquid funds as at 1 January	21.9	60.3
Liquid funds as at 31 December	42.2	21.9

The detailed flow of funds analysis is set out on page 114. Key figures pertaining to the analysis of the financial position are presented in the "Multiple Year Overview" starting on page 168.

The **flow of funds analysis (cash flow statement)** records the payment flow in a financial year in order to represent the changes occurring in the means of payment.

Based on the annual profit for the year the **cash flow from running operations** is indirectly deduced. It is calculated by adding to the annual profit those expenses that are not set off against any payments, and subtracting from it income that did not result from the receipt of monies. Changes taken into account in this process are adjusted for changes due to foreign currency conversion and changes in the consolidated group. The **cash flow from investment activity** and the **cash flow from financing activity** are each calculated in terms of actual sums paid, therefore the cash flow cannot be directly deduced from the consolidated balance sheet.

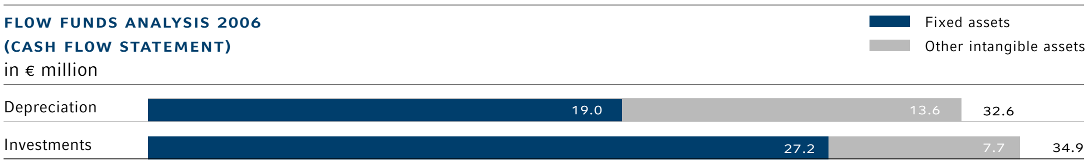
In the reporting year the **cash flow from running operations (cash received)** was positive at € 108.1 million and thus exceeds the previous year's figure by € 80.9 million (previous year: € 27.2 million). Based on earnings before taxes (EBT) of € 47.4 million (previous year: € 25.4 million), the increase in depreciation of € 32.6 million (previous year: € 31.3 million) and the reduction in trade receivables of € 32.1 million were conducive to this cash flow. A further positive effect was achieved by increased allocations to provisions (€ 34.6 million). Contrarily, the increase in inventories (€ 6.0 million) and the reduction in trade accounts payable (€ -13.7 million), which is primarily due to greater use of cash payment conditions, led to a reduction in the cash flow. Payments of taxes on earnings (€ 18.8 million) and of interest (€ 29.3 million) led to a reduction in cash flow.

Due to an increase in investment volume the **cash flow from investment activity (outflow of funds)** rose by € 10.7 million to € 35.1 million (previous year: € 24.4 million). Amounts paid out for investments in tangible fixed assets were € 27.2 million (previous year: € 17.6 million). Further details are set out in the "Investments" chapter on page 46.

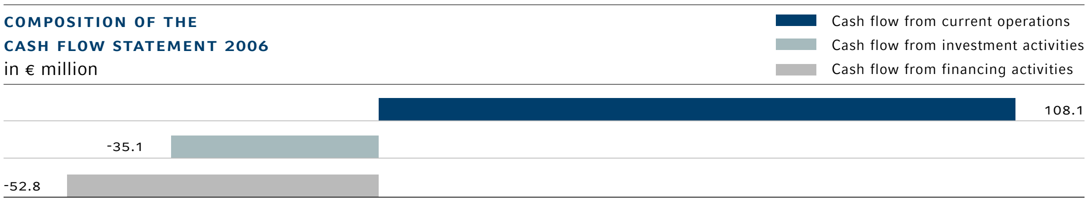
Payments made for investments in intangible fixed assets of € 7.7 million mainly covered development services capitalised in the reporting year.

The **cash flow from financing activity (outflow of funds)** was affected by the repayment of financial liabilities of € 48.1 million and the distribution of the dividend for the financial year 2005 (€ 4.3 million). With regard to the main terms we refer to the explanatory notes on "Financial Liabilities" on page 151 in the Notes. Liquid funds as at the balance sheet date increased to € 42.2 million (previous year: € 21.9 million). GILDEMEISTER covers its capital requirements from operating cash flows and from financial liabilities. Our capital requirements as at 31 December 2006 were covered by liquid funds, open cash lines of € 148.6 million (previous year: € 78.9 million) and further open credit lines (guaranteed bills outstanding, bills of exchange, factoring) of € 41.0 million (previous year: € 29.9 million). The open credit lines thus amounted to € 189.6 million (previous year: € 108.8 million).

FLOW FUNDS ANALYSIS 2006 (CASH FLOW STATEMENT)
in € million



COMPOSITION OF THE CASH FLOW STATEMENT 2006
in € million



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

BALANCE SHEET OF GILDEMEISTER AKTIENGESELLSCHAFT (HGB)

	2006 € K	2005 € K
Assets		
Fixed assets		
Shares in affiliated companies	344,809	297,202
Other fixed assets	18,237	16,206
	363,046	**313,408**
Current assets		
Receivables from affiliated companies	288,548	281,655
Other current assets	26,860	14,228
	315,408	**295,883**
Balance sheet total	**678,454**	**609,291**
Total equity and liabilities		
Equity	**323,954**	**313,337**
Provisions	**26,119**	**19,860**
Liabilities		
Financial liabilities	192,902	234,684
Liabilities to affiliated companies	118,643	26,651
Other liabilities	16,836	14,759
	328,381	**276,094**
Balance sheet total	**678,454**	**609,291**

INCOME STATEMENT GILDEMEISTER AKTIENGESELLSCHAFT (HGB)

	2006 € K	2005 € K
Sales revenues	23,589	16,939
Other operating income	6,969	4,956
Other income and expenses	-46,116	-35,781
Income from dividend distribution	54,356	50,349
Financial result	-5,731	-4,671
Profit/loss on ordinary activities	33,067	31,792
Taxes on corporate income & business	-18,120	-4,953
Annual result	14,947	26,839
Profit brought forward	**9,109**	0
Transfer to revenue reserves	-7,470	-13,400
Net profit	**16,586**	**13,439**

In the financial year just ended the results of GILDEMEISTER Aktiengesellschaft were dominated primarily by income from financial assets comprising transfers of profits from domestic subsidiaries (€ 54.4 million) (previous year: € 50.3 million). The financial result of € -5.7 million worsened by € 1.0 million (previous year: € -4.7 million). Tax expenditure of € 18.1 million (previous year: € 5.0 million) is primarily due to corporate income and trade tax expenditure. Current tax losses carried forward were set off in line with legally permitted limits.

GILDEMEISTER Aktiengesellschaft closed the financial year 2006 with an annual profit of € 14.9 million (previous year: € 26.8 million). The transfer to revenue reserves amounted to € 7.5 million (previous year: € 13.4 million). Taking into account the profit brought forward of € 9.1 million from the previous year, net profit increased by € 3.2 million to € 16.6 million (previous year: € 13.4 million).

€ 0.20 dividend for the year 2006

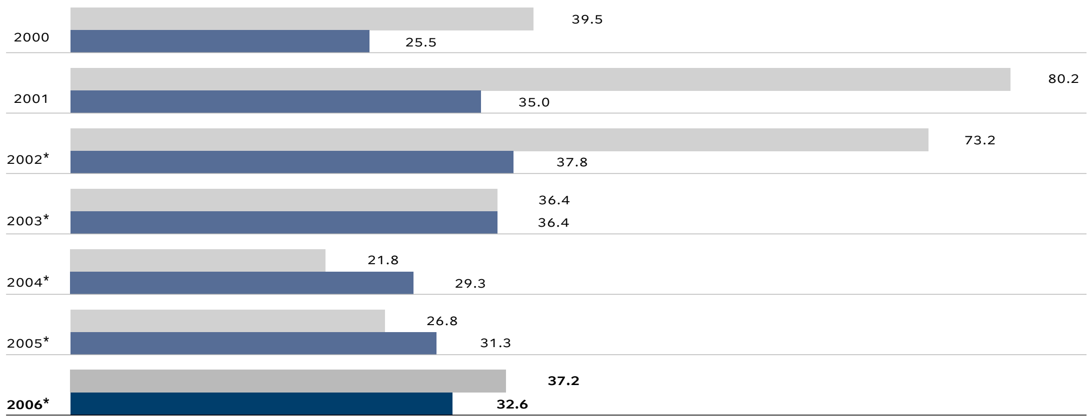
The Executive Board and the Supervisory Board will propose to the General Meeting of Shareholders on 25 May 2007 that a **dividend** of € 0.20 per share distribute (previous year: € 0.10). This corresponds to an amount of € 8.7 million (previous year: € 4.3 million). Moreover it will be proposed to the General Meeting of Shareholders to carry forward the remaining balance of GILDEMEISTER Aktiengesellschaft of € 7.9 million to new account (previous year: € 9.1 million).

Investments

In the reporting year investments amounted to € 37.2 million (previous year: € 26.8 million) and therefore corresponded to our planned investment level of € 35 million. Of this, tangible fixed assets accounted for € 27.5 million (previous year: € 17.8 million) and intangible assets for € 9.7 million (previous year: € 9.0 million). In the reporting year depreciation of fixed assets, taking into account capitalised development costs and finance leases, amounted to € 32.6 million (previous year: € 31.3 million). For the first time in four years investments exceeded depreciation and thus contribute to the long-term preservation of the company's value. We have continued our consolidation course of the previous years and concentrated our investments in tools and fixtures, capitalised development costs and selective measures to improve infrastructure.

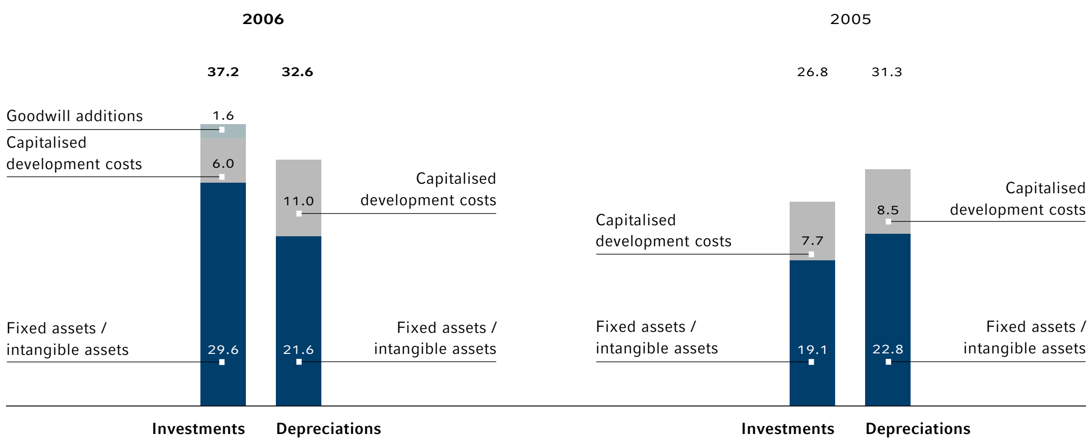
More detailed information on investments in each segment is included in the "Segmental Reporting" chapter starting on page 48.

INVESTMENTS AND DEPRECIATION
IN THE GILDEMEISTER GROUP
in € million



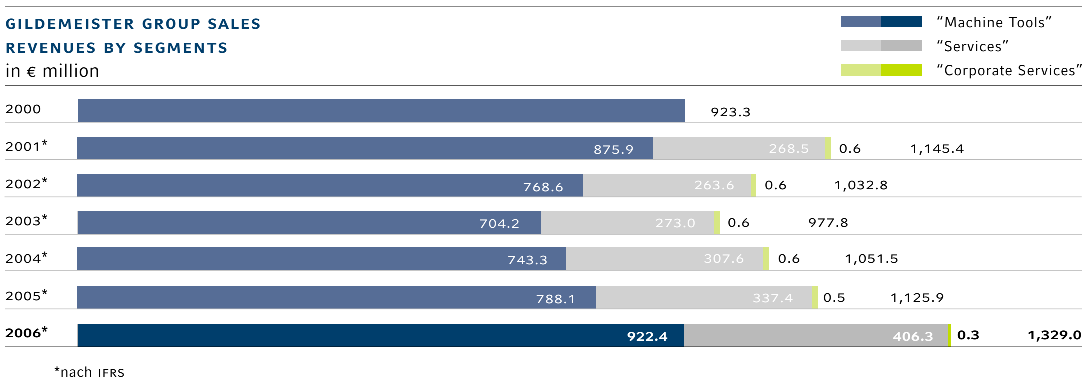
*in acc. with IFRS

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



Segmental Reporting

In addition to the "Machine Tool" business, our business activities also include "Services". The "Corporate Services" segment comprises the group-wide holding functions. In a multiple year comparison the segments contributed to the total sales revenues of the group as follows:



Further information on the segmentation by business segments and geographical regions is given in the Notes starting on page 120.

"Machine Tools" Segment

The "Machine Tools" segment includes the group's new machine business with its turning, milling and ultrasonic/lasertec business divisions. Our range of products consists of 16 product lines. Our product programme can be viewed in a removable supplement on the front cover page. We have bundled our development and technological expertise in the turning and milling divisions into two product plants each.

The turning division is technologically led by the product plants at GILDEMEISTER Drehmaschinen GmbH in Bielefeld and at GILDEMEISTER Italiana S.p.A. in Bergamo. Our full-line turning machine range is divided into eight 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.

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

Also included in the "Machine Tools" segment are the new technologies. SAUER GmbH is responsible for the ultrasonic/lasertec division. The ultrasonic and lasertec product lines complement our range of machines.

More detailed information on our products in the "Machine Tools" segment can be found in the "Production, Logistics, Products and Services" chapter starting on page 84.

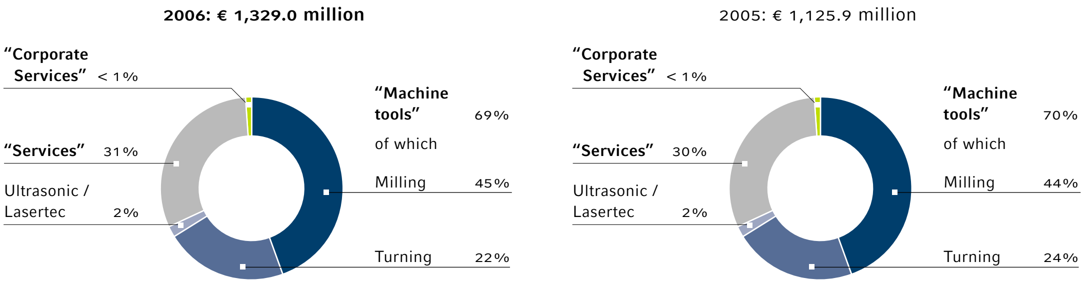
KEY FIGURES "MACHINE TOOLS" SEGMENT	2006 € M	2005 € M	CHANGES 2006 AGAINST 2005 € M	%
Sales revenues				
Total	922.4	788.1	134.3	17
Domestic	404.7	329.3	75.4	23
International	517.7	458.8	58.9	13
% International	56	58		
Order intake				
Total	1,013.1	831.9	181.2	22
Domestic	434.0	339.3	94.7	28
International	579.1	492.6	86.5	18
% International	57	59		
Order backlog*				
Total	390.6	299.9	90.7	30
Domestic	119.2	89.9	29.3	33
International	271.4	210.0	61.4	29
% International	69	70		
Investments	25.4	18.9	6.5	34
Employees	3,166	3,081	85	3
plus trainees	191	189	2	1
Total employees*	3,357	3,270	87	3
EBITDA	70.5	54.5	16.0	29
EBIT	46.0	30.3	15.7	52
EBT	34.8	18.2	16.6	91

* Reporting date 31 Dec.

The innovative product policy in the "Machine Tools" segment contributed to the positive development of the machine tools business. **Sales revenues** rose by € 134.3 million or 17% to € 922.4 million (previous year: € 788.1 million). International sales revenues increased by 13% to € 517.7 million (previous year: € 458.8 million). The international quota amounted to 56% (previous year: 58%). Domestic sales revenues increased by € 75.4 million to € 404.7 million (previous year: € 329.3 million). The "Machine Tools" segment had a 69% share of group sales revenues (previous year: 70%). The milling technology of DECKEL MAHO contributed 45% (previous year: 44%). The turning technology of GILDEMEISTER amounted to 22% (previous year: 24%). New technologies accounted for 2% (previous year: 2%). The **sales revenues volume** also increased by 19% compared to the previous year.

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

GILDEMEISTER GROUP SALES REVENUES BY SEGMENTS/DIVISIONS



In the "Machine Tools" segment **order intake** increased by € 181.2 million or 22% to € 1,013.1 million (previous year: € 831.9 million). International orders rose by € 86.5 million or 18% to € 579.1 million (previous year: € 492.6 million). The international share therefore amounted to 57% (previous year: 59%). Domestic order intake amounted to € 434.0 million (previous year: € 339.3 million). The "Machine Tools" segment accounted for 69% of all orders (previous year: 70%). Our product innovations were well received by the market. In connection with targeted marketing measures, well attended trade fairs and the DMG in-house exhibitions, our new products have contributed significantly to the higher order intake.

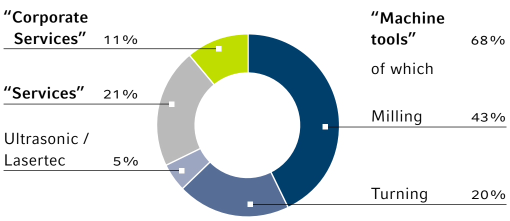
On 31 December 2006 the **order backlog** amounted to € 390.6 million, which was 30% more than the previous year (corresponding date of the previous year: € 299.9 million). International orders accounted for the majority of the order backlog with a share of 69% (previous year: 70%). The absolute level of order backlog from international orders received rose by € 61.4 million or 29% to € 271.4 million (previous year: € 210.0 million). The order backlog from domestic orders rose to € 119.2 million (previous year: € 89.9 million).

Earnings in the "Machine Tools" segment increased due to a rise in sales volume and improved earnings margins **EBITDA** rose by 29% or € 16.0 million to € 70.5 million (previous year: € 54.5 million). **EBIT** amounted to € 46.0 million (previous year: € 30.3 million). **EBT** rose to € 34.8 million (previous year: € 18.2 million).

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

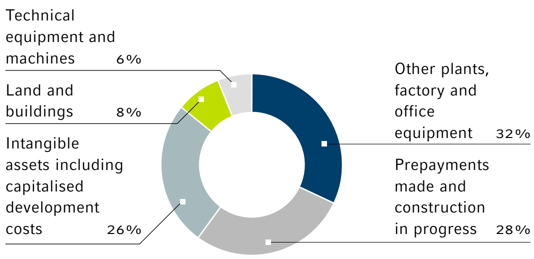
CONSTRIBUTION OF EACH SEGMENTS / DIVISION TO INVESTMENTS
in %

2006: € 37.2 million



INVESTMENT VOLUME BROKEN DOWN BY INVESTMENT TYPES
in %

2006: € 37.2 million



In the **Turning division** investments by GILDEMEISTER Drehmaschinen GmbH amounted to € 1.6 million. The main focus was placed on quality assurance measures, such as the purchase of a high-precision coordinate-measuring machine at the Bielefeld location. GILDEMEISTER Italiana S.p.A. invested € 1.2 million primarily in improvements to existing machining facilities and to the maintenance of operational readiness. At the Pleszew location we invested a total of € 4.1 million in expanding the production capacity of our FAMOT production plant; in addition, a new technology centre for DMG Polska has been developed. By mid-2007, a total surface area of 5,300 square metres comprising a production area (3,100 square metres) and a modern technology centre (2,200 square metres) will have been developed and completed. In line with the construction progress, € 2.9 million were capitalised in the reporting year. FAMOT Pleszew S.A. invested a total of € 1.1 million. Capitalised development costs in the turning division amounted to € 0.9 million.

In the **Milling division** investments made by DECKEL MAHO Pfronten GmbH amounted to € 9.4 million. Of these € 2.1 million were accounted for by models and fixtures as well as by further investments for the commencement of production of new machine types. In order to keep pace with the increase in sales volume, € 1.9 million were required to expand the shipping area. DECKEL MAHO Seebach GmbH invested € 5.3 million. The main focus of € 2.9 million was placed on fixtures and models, a further € 0.5 million were spent on modernising factory and office equipment. DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd. invested € 0.7 million. These were concentrated at € 0.4 million in infrastructural measures to extend storage space and at € 0.2 million in measures to increase process quality in the area of machine assembly. Capitalised development costs in the Milling division amounted to € 3.8 million.

SAUER GmbH invested € 2.2 million in the **Ultrasonic/Lasertec division.** The main focus was placed on the acquisition of goodwill shares (€ 1.4 million). Further investment activity was concentrated on the production start of new machine types (€ 0.2 million). Development costs of € 0.5 million were capitalised in the ultrasonic/lasertec division.

Personnel expenditure quota decreased again

At the end of the year, 3,357 **employees** (previous year: 3,270) worked in the "Machine Tools" segment. This represents 61% of total staff at the GILDEMEISTER group (previous year: 62%). Compared to the corresponding date of the previous year, the number of employees has increased by 87. In particular the number of staff at the Pfronten and Shanghai locations was systematically increased in the light of increased production activity. In connection with the personnel restructuring measures that commenced last year, staff levels were reduced at the Bergamo location. Personnel expenses in the "Machine Tools" segment amounted to € 164.5 million (previous year: € 155.2 million); the personnel expenditure quota decreased to 17.8% (previous year: 19.7%).

"Services" Segment

The "Services" segment mainly includes the business activities of DMG Vertriebs und Service GmbH and its subsidiaries. The new concept of **DMG Service Solutions** has received an excellent response in the marketplace. It offers worldwide customised service solutions and service products over the entire lifespan of the DMG machine tools. The **Service Solutions** include various services provided by our highly-qualified service staff, whose worldwide network ensures direct customer contact and rapid availability. The **DMG Service Products,** such as spare parts, DMG power tools, components from SACO as well as the MICROSET tool management, enable the user to achieve noticeable increases in the productivity of his DMG machine tools.

KEY FIGURES "SERVICES" SEGMENT	2006 € M	2005 € M	CHANGES 2006 AGAINST 2005 € M	%
Sales revenues				
Total	406.3	337.4	68.9	20
Domestic	207.8	172.2	35.6	21
International	198.5	165.2	33.3	20
% International	49	49		
Order intake				
Total	429.5	338.3	91.2	27
Domestic	214.4	180.9	33.5	19
International	215.1	157.4	57.7	37
% International	50	47		
Order backlog*				
Total	56.2	46.9	9.3	20
Domestic	36.9	39.4	-2.5	-6
International	19.3	7.5	11.8	158
% International	34	16		
Investments	7.7	6.7	1.0	14
Employees*	2,126	1,935	191	10
EBITDA	61.5	46.7	14.8	32
EBIT	56.0	41.6	14.4	35
EBT	43.6	28.0	15.6	56

* Reporting date 31 Dec.

In the reporting year demand for qualified service solutions rose once again, enabling the "Services" segment to make a noticeable contribution to the positive development of the business. **Sales revenues** rose by € 68.9 million or 20% to € 406.3 million (previous year: € 337.4 million). International sales revenues from services rose by € 33.3 million or 20% to € 198.5 million. As in the previous year this represents a share of 49%. In Germany sales revenues also showed clear growth. Following € 172.2 million in 2005, sales revenues in the reporting year amounted to € 207.8 million, this represents an increase of 21% or € 35.6 million. The "Services" segment contributed 31% of total group sales revenues (previous year: 30%).

Order intake also developed positively with an increase of € 91.2 million or 27% to € 429.5 million (previous year: € 338.3 million). Fifty percent of all orders came from abroad. In total international orders had a value of € 215.1 million, which represents an increase of 37% compared to the previous year (previous year: € 157.4 million). Domestic orders increased by € 33.5 million or 19% to € 214.4 million (previous year: € 180.9 million). The "Services" segment accounted for 30% of all orders (previous year: 29%). The **order backlog** as at 31. December 2006 amounted to € 56.2 million (previous year: € 46.9 million).

In the reporting year earnings in the “Services” segment increased due to a rise in sales volume. The earnings margins improved. **EBITDA** rose by € 14.8 million or 32% to € 61.5 million (previous year: € 46.7 million). **EBIT** amounted to € 56.0 million (previous year: € 41.6 million). **EBT** rose to € 43.6 million (previous year: € 28.0 million).

Investments of DMG sales and service organisations in the reporting year amounted to € 7.7 million (previous year: € 6.7 million), of which office equipment accounted for € 4.6 million.
A core focus was placed on the investment of € 1.5 million in the ongoing upgrading and restocking of tools and measuring equipment for our service personnel. We invested € 0.4 million in the implementation of our DMG showroom concept, which we have gradually been introducing since 2005. Investment in the DMG Czech building amounted to € 0.7 million. Development costs of € 0.8 million were capitalised in the “Services” segment.

We are further expanding our service in Asia and Europe

The number of **employees** increased by 191 to 2,126 (previous year: 1,935). In particular our regional service capacity in Asia and Europe was strengthened with the aim of improving our ability to meet the needs of our customers. Moreover, in addition to the founding of DMG Scandinavia, the areas of service and distribution were specifically reinforced. Thus those employed in this segment accounted for a percentage share of 38% (previous year: 37%). Personnel expenses in the “Services” segment amounted to € 144.0 million (previous year: € 132.5 million); the personnel expense ratio decreased to 35.4% (previous year: 39.3%).

“Corporate Services” Segment

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 group-standardised IT integrated in GILDEMEISTER Beteiligungen AG.

KEY FIGURES “CORPORATE SERVICES” SEGMENT	2006 € M	2005 € M	CHANGES 2006 AGAINST 2005 € M
Sales revenues	0.3	0.5	-0.2
Order intake	0.3	0.5	-0.2
Investments	4.2	1.2	3.0
Employees*	75	67	8
EBITDA	-16.5	-10.7	-5.8
EBIT	-19.1	-12.8	-6.3
EBT	-30.5	-20.4	-10.1

* Reporting date 31 Dec.

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 € -19.1 million (previous year: € -12.8 million). This change in the results is due primarily to an increase in personnel expenses, higher depreciation as well as additional costs arising from the ABS programme.

Investments amounted to € 4.2 million (previous year: € 1.2 million). These focused on construction measures taken to implement an improved logistics concept at the Bielefeld plant. Investments in intangible fixed assets accounted for € 0.9 million.

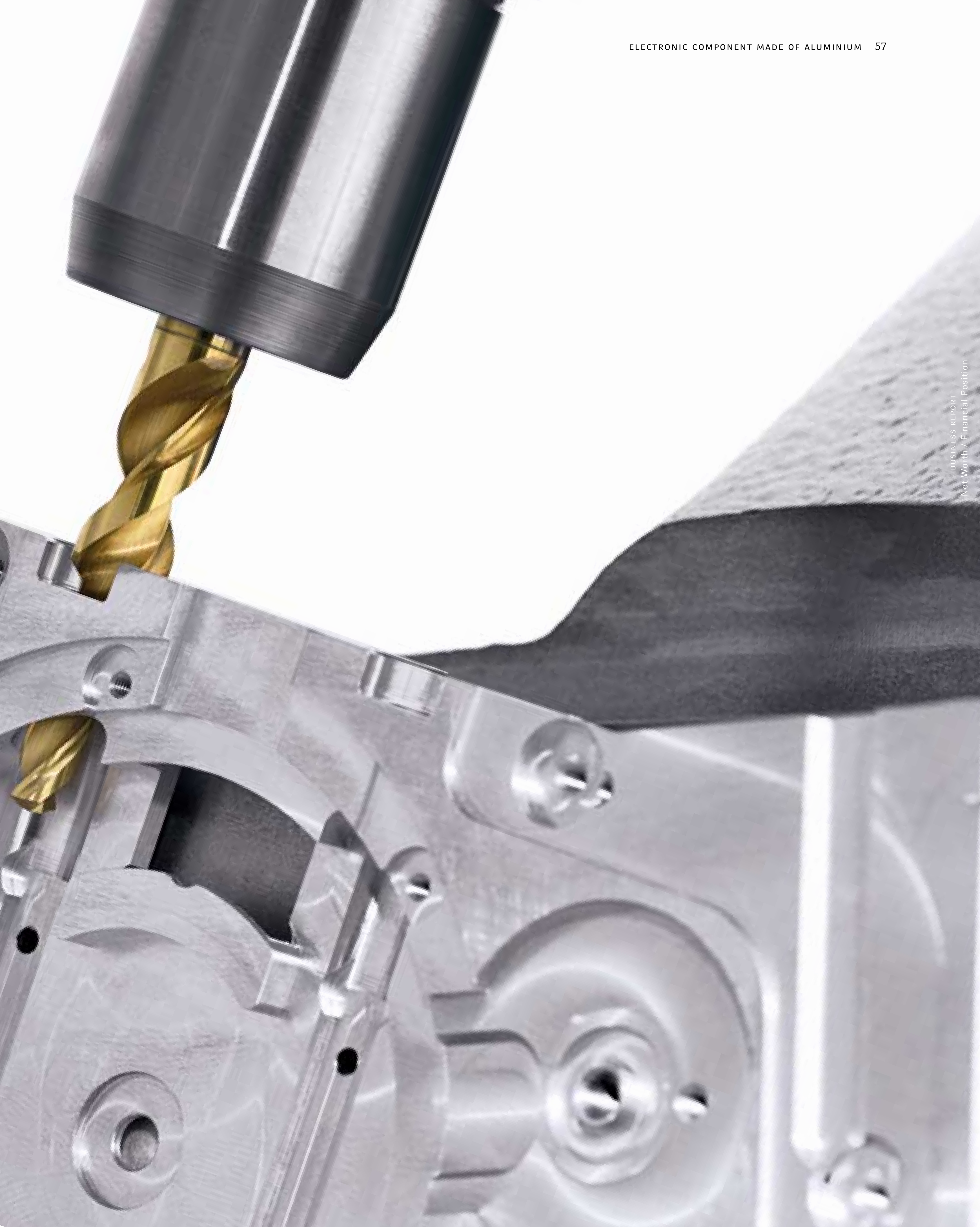
As at 31 December 2006 this segment had 75 **employees** (previous year: 67 employees), which represents an unchanged percentage of 1% of the group work force.

Aerospace
Toys
Electronics
Medicine
Sport

How can we make communication timelier?

By observing communication and improving it permanently.

ELECTRONIC COMPONENTS MADE OF ALUMINIUM FOR NOTEBOOKS: completely manufactured in 17 minutes on the DMU 50 eVo *linear* universal milling machine with 5-axis machining with high precision linear drive technology for maximum productivity.



Corporate Situation

GILDEMEISTER continuously develops technologically advanced innovative products and services. In the reporting year the cost of our research and development amounted to € 43.9 million. Our prize-winning concept of integrated procurement management provides the basis for cooperation with our suppliers. The foundation of our success is our highly-qualified and extremely motivated staff.

GILDEMEISTER Share and Bond

The trading year 2006

The **stock markets** experienced a good trading year. The growth impulses driving the economy ensured an increase in trading activity both on the international and national markets. In particular this was reflected in the German stock market indexes. The DAX rose by 21.9%, the MDAX by 28.6% and the SDAX by 31.0%. The EURO STOXX 50 grew somewhat stronger at 15.1% than the British FTSE 100 Index (+10.7%). The US DOW JONES increased by 16.3%, the S&P 500 Index by 13.6%. The Japanese NIKKEI 225 Index performed moderately better at 6.9%.

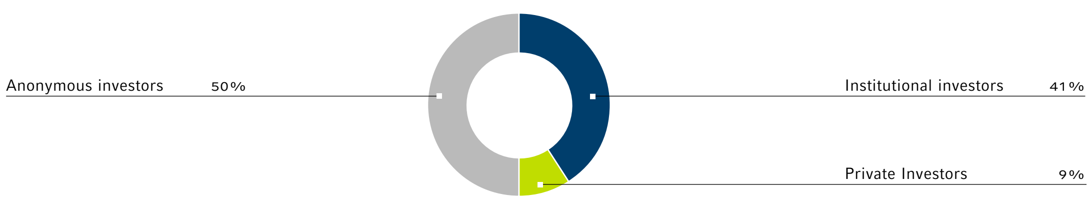
Stock market listing, trading volume and shareholder structure

The GILDEMEISTER share is quoted in official trading at the stock exchanges in Frankfurt am Main, Berlin-Bremen and Dusseldorf, and also in unofficial dealing at the stock markets in Hamburg, Munich and Stuttgart. It is listed in the SDAX and meets the internationally applicable transparency requirements in the "Prime Standard".

The average **trading volume** increased in the reporting year by 14% to approximately 183,000 shares per day (previous year: 160,000). The trading volume of the GILDEMEISTER share at year end was 46.6 million shares (previous year: 40.9 million shares). On the basis of the total number of shares of 43.3 million, this represents an annual turnover of 1.1 (previous year: 0.94).

The GILDEMEISTER shares are held in wide portfolio investment **(100% free float)**. To our knowledge the shareholder structure has not changed significantly compared with the previous year. Due to the high extent of free float, data regarding the shareholder structure can only be determined approximately, resulting in the following overview of the size and composition of investors:

GILDEMEISTER GROUP INVESTOR STRUCTURE
in %



Performance of the GILDEMEISTER share

The GILDEMEISTER share made further gains in value. The share price gain of 63% performed better than the SDAX (+31%). The share started the trading year 2006 at € 5.96 (2 January 2006) and reached its annual low of € 5.87 on the following day. From mid-year the share continuously followed an upwards trend. Whereas the average share price in the third quarter was only € 7.62, this improved in the fourth quarter to € 8.67. On 21 December 2006 the share achieved its highest value for the year of € 9.70. Its annual closing price was € 9.56 (29 December 2006). The positive development trend continued at the start of 2007. The share is currently quoted at € 12.09 (28 March 2007).

The share is analysed by various research institutes. The latest assessments are as follows: „Strong Buy“ (BHF-Bank, 19 March 2007), „Buy“ (WESTLB, 19 March 2007), „Hold“ (Bayerische Landesbank, 26 February 2007), „Hold“ (LBBW, 21 February 2007), „Neutral“ (HSBC, 15 February 2007), „Buy“ (HVB, 14 February 2007), „Buy“ (Berenberg Bank, 14 February 2007) and „Hold“ (Bankhaus Lampe, 14 February 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 SDAX®
JANUARY 2006 TO MARCH 2007
in %

GILDEMEISTER | SDAX® | 30-day average | 200-day average

*1 Jan. 2006 = 100 price trends indexed
Source: Deutsche Börse Group

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

THE GILDEMEISTER SHARE IN COMPARISON WITH THE SDAX®
JANUARY 2000 TO MARCH 2007
in %

*01 Jan. 2000 = 100 price trends indexed
Source: Deutsche Börse Group

Market capitalisation

In the reporting year market capitalisation rose by 63% to € 414.0 million (previous year: € 253.8 million). The development in a multiple year overview is presented as follows:

		2000	2001	2002	2003	2004	2005	2006
Market capitalisation	€ million	235.3	269.2	109.2	237.4	225.2	253.8	414.0

Earnings per share

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

DETERMINATION OF EARNINGS	2006
Group result excluding minority interests	€ 27,243,266
Average weighted number of shares	43,302,503 shares
Earnings per share acc. to IAS 33	€ 0.63

Earnings resulted 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 25 May 2007, to distribute a **dividend** of € 0.20 per share (previous year: € 0.10). With regard to the 43.3 million shares having an entitlement to a dividend, the total distribution amounts to € 8.7 million. Using the annual closing price 2006 as a basis, this results in a dividend yield of 2.1% (previous year: 1.7%). In accordance with the "50 percent exemption" system (Halbeinkünfteverfahren), pursuant to Section 3, no. 40, sentence 1 of the German Income Tax Act (EStG), only half of the dividends and taxable gains from the sale of capital interests received by domestic investors are subject to tax.

We have provided a new service for you on our website in the form of a **total yield calculator.** This allows you to determine the profit your GILDEMEISTER share has actually achieved together with the dividend payment.

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

		2000	2001	2002	2003	2004	2005	2006
Registered capital	€ million	75.1	75.1	75.1	75.1	112.6	112.6	112.6
Number of shares	million shares	28.7	28.9	28.9	28.9	43.3	43.3	43.3
Year-end price [1]	€	8.20	9.32	3.78	8.22	5.20	5.89	9.56
Annual high [1] [2]	€	10.30	9.90	12.07	8.25	8.94	6.50	9.70
Annual low [1] [2]	€	6.65	6.20	3.21	2.83	5.00	4.61	5.87
Annual average market price [1] [3]	€	8.66	8.78	8.24	5.25	6.52	5.68	7.61
Dividend	€	0.60	0.60	-	-	-	0.10	0.20
Dividend total	million €	17.2	17.3	-	-	-	4.3	8.7
Dividend yield	%	7.3	6.4	-	-	-	1.7	2.1
Earnings per share [4]	€	0.91	0.85	-0.66	-0.13	0.15	0.32	0.63
Price-to-earnings ratio [5]	€	9.0	10.9	-	-	34.7	18.4	15.2
Cash flow per share [6]	€	-0.17	1.09	1.65	0.99	0.30	0.63	2.5
Price-to-cash flow ratio [6] [7]	€	-	8.5	2.3	8.3	17.3	9.4	3.8

1) Prices since 2000 Frankfurt
2) Highest/lowest prices based on variable prices
3) Annual average price based on closing prices
4) Since 2001 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 issue of the subordinated corporate bond of GILDEMEISTER Aktiengesellschaft took place in July 2004 with a volume of € 175 million. The coupon amounts to 9.75% per year. The bond will mature on 19 July 2011. The **corporate rating** of GILDEMEISTER was rated unchanged by Moody's at Ba3 and at B+ by Standard & Poor's. Taking into account subordinated nature of the bond, the credit worthiness of the bond was rated unchanged at B2 and B-, respectively.

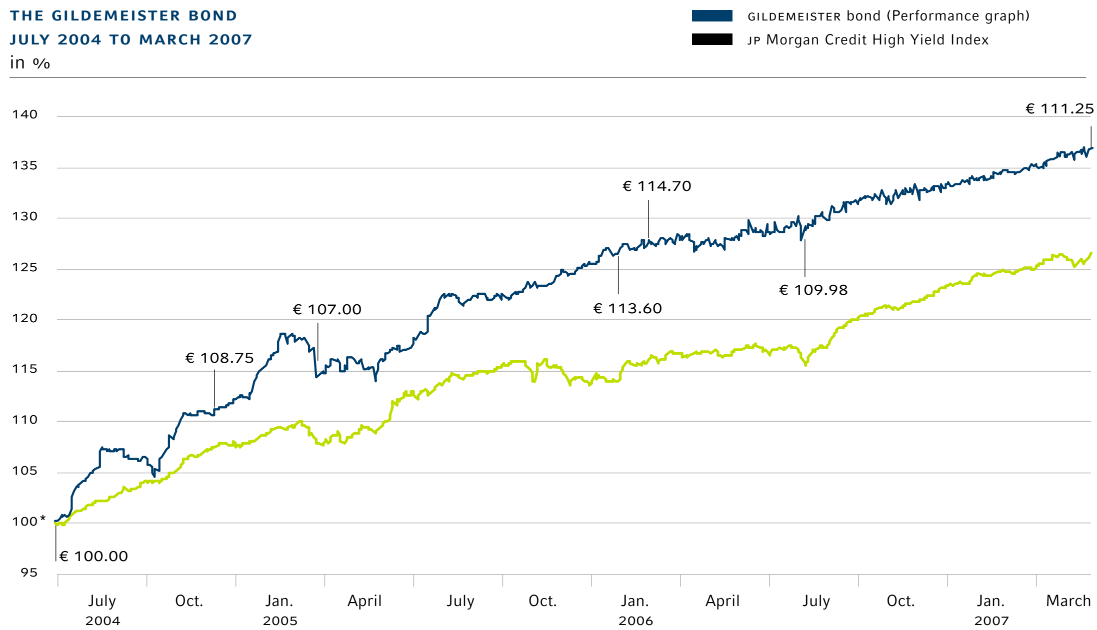
The bond is continuously observed by bond analysts, who present their ratings in the form of letters and figures. Moody's uses figures as an additional notation (A1, A2, A3), whereas Standard & Poor's add a plus and minus sign (B+, B, B-). The letters AAA represent the highest rating and D represents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

Source: Deutsche Börse Group

Bond performance

In the reporting year the bond was quoted above its issue price of € 100.00. It started trading on 2 January 2006 at € 113.60 and achieved its highest price on 25 January 2006 at € 114.70 since its issue on 19 July 2004. Its annual low occurred on 23 June at € 109.98. The GILDEMEISTER bond closed the year 2006 at a price of € 111.90 (29 December 2006). Currently it is trading at € 111.25 (28 March 2007).

THE GILDEMEISTER BOND
JULY 2004 TO MARCH 2007
in %



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

GILDEMEISTER BOND MASTER DATA

Security code number	Europe	USA
ISIN	xs0196635402	xs0196669724
WKN	AOBVFC	AOBVFD
Common	19663540	19666972

GILDEMEISTER BOND KEY FIGURES

in €	2006	2005
Year-end price [1]	111.90	113.00
Annual high [1) 2)]	114.70	114.50
Annual low [1) 2)]	109.98	106.30
Annual average market price [1) 3)]	112.26	111.37

1) Bloomberg prices
2) Highest/lowest prices based on variable prices
3) Annual average price based on closing prices

Investor and Public Relations

The aim of our **investor relations** work is an open and continuous exchange of information with participants in the capital markets. GILDEMEISTER has re-intensified its activities in the field of financial communication and has been present at numerous roadshows in all the major financial centers in Europe and at capital market conferences. We have maintained and strengthened our circle of investors and also won new investors for our shares and bonds. Following the publication of our quarterly figures, we also explained the prospects for the company and the industry at presentations and in telephone conferences. The Annual General Meeting is an important forum for us for maintaining contact. In the reporting year we were able to welcome more than 1,000 shareholders to the meeting. We have posted the speech of the Chairman of the Executive Board on our website by means of a live stream. The internet is an important instrument in our financial communications: 28,279 annual and quarterly reports – including 15,437 in English – have been accessed from our website **www.gildemeister.com**.

Our **public relations** activities are a further important component of our long-term communication concept with the aim of maintaining and strengthening GILDEMEISTER's public image. We consider it important to maintain an open dialogue with the national and international business and trade press, as well as with the associations, institutions and decision-makers who are relevant for our business. We ensure that they are always competently informed about the current position of the group and its companies in a fast, open and reliable manner. We make efficient use of the resources necessary for this purpose to ensure a carefully designed and co-ordinated range of measures. In the financial year just ended five international press conferences and three trade press discussions took place, which were attended by a total of 240 journalists. Their reports on GILDEMEISTER appeared worldwide on more than 850 pages of print. Spending in the field of investor and public relations amounted to € 1.9 million (previous year: € 2.1 million).

Your contacts at the GILDEMEISTER Investor and Public Relations Team:

GILDEMEISTER Aktiengesellschaft
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Internet:	www.gildemeister.com	
E-Mail:	ir@gildemeister.com	

Corporate Governance

For years corporate governance has been a core element of corporate policy covering all areas of GILDEMEISTER. The Executive Board and the Supervisory Board have again issued a complete compliance statement that confirms our compliance with all the recommendations of the German Corporate Governance Code as amended on 12 June 2006. The following **declaration of compliance of 31 December 2006** is permanently accessible to our shareholders at the company's website: *"GILDEMEISTER Aktiengesellschaft complies with all recommendations of the "Government Commission on the German Corporate Governance Code" as amended on 12 June 2006 and has complied with these since the issue of the last declaration of compliance on 8 September 2005."* At GILDEMEISTER corporate governance has always signified responsible and transparent management and control of the company. Our corporate guidelines are based on these principles and rules, and these are observed in all areas of the company.

Complete compliance to the Corporate Governance Code

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 was re-defined at the Annual General Meeting of shareholders and is regulated under Section 12 of the Articles of Association of GILDEMEISTER Aktiengesellschaft. The new Supervisory Board remuneration was designed with the aim of ensuring a modern and appropriate remuneration that is aligned with the performance of the group and that is transparent for the shareholders. The remuneration includes performance based and non-performance based components. The remuneration components not dependent upon performance include the fixed remuneration that each member of the Supervisory Board receives and their remuneration for committee work. The performance-based components comprise a short term incentive (STI) and a long-term incentive (LTI).

Composition of the remuneration

In the financial year 2006 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 annual fixed remuneration therefore totalled € 167,967 (previous year: € 135,000).

Remuneration for committee work totalled € 86,368 (previous year: € 37,500). The individual members each received € 6,000. The chairperson of a committee also receives an additional remuneration of a further € 6,000 and the deputy chairperson € 3,000. In the financial year 2006, in addition to the existing committees consisting of the Finance & Auditing Committee, the Personnel, Nominations and Remuneration Committee and the Conciliation Committee, a Technology and Development Committee was formed on 20 September 2006. The work of the Conciliation Committee did not receive any remuneration.

Performance-based components

The performance-based remuneration components, STI and LTI, are based on target values aligned with key figures. In both remuneration components the earnings per share (EPS) are used as the performance-based key figure. The EPS is an established key indicator that relates to performance taking into account the respective share capital. It is calculated by dividing the annual profit less the profit share of minority interests by the weighted average number of shares.

The STI and LTI are variable, which means they are not a secure form of remuneration. Again, the Supervisory Board chairman receives 2.5-times the amount in each component and the deputy chairman 1.5-times the remuneration amount of the other members of the Supervisory Board. Both the STI and the LTI are capped at the level of the respective fixed remuneration.

The STI is only paid if the EPS in the reporting year reaches a minimum of € 0.15. The STI calculated performance-based remuneration for the Supervisory Board totalled € 132,274. The LTI takes into account not only the reporting year but the two previous years. The key figure is the mean average of the EPS values in the corresponding financial year. The LTI is only paid if the average EPS for the relevant three years achieves a minimum of € 0.15. The LTI calculated performance-based remuneration for the Supervisory Board totalled € 75,585. A comparison of the two remuneration components with the previous year is not determining due to the structural changes.

In 2006 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, Nominations & Remuneration (PNR) in €	Committee remuneration Technology & Development (T+D) from 20 Sep. 2006 in €	STI in €	LTI in €	Total in €
Hans Henning Offen Chairman SB, Chairman PNR	30,000	6,000	12,000	0	23,625	13,500	85,125
Prof. Dr.-Ing. Uwe Loos Chairman T+D	12,000	0	0	3,353	9,450	5,400	30,203
Günther Berger Chairman F+A	12,000	12,000	0	0	9,450	5,400	38,850
Dr.-Ing. Jürgen Harnisch	12,000	0	0	1,677	9,450	5,400	28,527
Ulrich Hocker (Resigned 30 Dec. 2006)	11,967	0	5,984	0	9,424	5,385	32,760
Prof. Dr.-Ing. Walter Kunerth	12,000	6,000	0	0	9,450	5,400	32,850
Gerhard Dirr Deputy chairman SB, Deputy chairman PNR	18,000	6,000	9,000	1,677	14,175	8,100	56,952
Wulf Bantelmann	12,000	0	0	1,677	9,450	5,400	28,527
Harry Domnik Deputy chairman F+A	12,000	9,000	6,000	0	9,450	5,400	41,850
Norbert Zweng	12,000	6,000	0	0	9,450	5,400	32,850
Günther Johann Schachner	12,000	0	0	0	9,450	5,400	26,850
Rainer Stritzke	12,000	0	0	0	9,450	5,400	26,850
Total	**167,967**	**45,000**	**32,984**	**8,384**	**132,274**	**75,585**	**462,194**

In the financial year 2006 the total remuneration of the Supervisory Board amounted to € 462,194 (previous year: € 174,910). Further to this, the provisions (€ 67,500) set up in the previous year for the former long-term variable remuneration components were dissolved upon the introduction of the new remuneration system.

Notices from the members of the Supervisory Board of the company 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 managers. 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 Supervisory Board through its Personnel, Nomination and Remuneration Committee. The chairman of the Supervisory Board has provided members of the Supervisory Board with detailed information on discussions held by the Committee. The chairman also reports on this at the Annual General Meeting.

Performance-based remuneration of Executive Board members

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 criteria for the appropriateness of the remuneration include in particular the tasks rendered by each Executive Board member, his or her personal performance, the performance of the Executive Board and the company's economic situation, success and future prospects in view of its comparative environment.

In the financial year 2006 two new members were appointed to the Executive Board of GILDEMEISTER Aktiengesellschaft. Direct remuneration of the members of the Executive Board amounted to € 3,974 K (previous year: € 2,489 K). Of this amount € 1,236 K were attributed to fixed remuneration (previous year: € 1,090 K), € 2,643 K to the management bonus and € 95 K to remuneration in kind. In 2006 the direct remuneration of the Executive Board is made up as follows:

EXECUTIVE BOARD DIRECT REMUNERATION

	FIXED € K	MANAGEMENT BONUS € K	PAYMENT IN KIND € K	TOTAL* € K
Dipl.-Kfm. Dr. Rüdiger Kapitza Chairman	455	813	34	1,302
Prof. Dr.-Ing. Raimund Klinkner Deputy chairman (until 31 Dec. 2006)	350	813	28	1,191
Dipl.-Kfm. Michael Welt	299	813	25	1,137
Dipl.-Ing. Günter Bachmann (since 1 Oct. 2006)	63	102	6	171
Dipl.-Kfm. Dr. Thorsten Schmidt (since 1 Oct. 2006)	69	102	2	173
Total	1,236	2,643	95	**3,974**

* not including any special payments agreed

The fixed remuneration is the contractually defined basic remuneration that is paid in equal amounts monthly. The management bonus is based on target values aligned with the key figures. In the reporting year the reference value was earnings after taxes (EAT). The scale of the target values is re-defined annually.

The management bonus is variable, which means it is not a secure remuneration. In addition the bonus is capped at € 1,200 K each. In the financial year 2006 half of the target bonus was contractually defined for new members of the Executive Board and was calculated pro rata. No project-related bonus was paid in the reporting year.

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
Dipl.-Kfm. Dr. Rüdiger Kapitza, Chairman	123
Prof. Dr.-Ing. Raimund Klinkner, deputy chairman (until 31 Dec. 2006)	45
Dipl.-Kfm. Michael Welt	45
Dipl.-Ing. Günter Bachmann (since 1 Oct. 2006)	60
Dipl.-Kfm. Dr. Thorsten Schmidt (since 1 Oct. 2006)	50
Total	**323**

In accordance with IAS, provision expenses of € 123 K arose for the defined-benefit contribution commitment in 2006 (previous year: € 96 K). The payments restricted to the contribution-based pension plan amounted to € 200 K (previous year: € 90 K). Contribution payments for the new members of the Executive Board are due under the contractually defined amount and thus are not accounted for pro rata. To guarantee continuity and under a legally binding obligation of the company, the chairman of the Executive Board was paid an amount of € 379 K. The deputy chairman was paid € 75 K in settlement of his contract terminating on 31 December 2006.

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. In the reporting year there are no stock option plans or similar security-orientated incentive systems of the company. Neither are there any stock option plans for the reporting year 2007. However, at the start of 2007 a long-term incentive (LTI) was introduced as part of the variable Executive Board remuneration for its members.

Remuneration components also depend on share price

In future the total Executive Board remuneration will be made up as to approximately 20% by the LTI, as to 40% by the STI (bonus regulation) and as to 40% by payment in kind and fixed remuneration. 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. Moreover the units may not be traded nor sold to third parties. The tranche awarded at the beginning of each year has 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 tranche is awarded.

Notices from the members of the Executive Board of the company 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.

Neither did the companies of the GILDEMEISTER group 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 € 591 K (previous year: € 586 K). Company pension commitments (present value of future pension commitments or "defined benefit obligation") for former members of the Executive Board and their surviving dependants amounted to € 7,612 K (previous year: € 8,151 K).

Responsible management of opportunities and risks

Our opportunities and risk management enables us to systematically identify, assess and control opportunities and risks. The system is continuously being developed further. Further details can be found in the "Opportunities and Risk Report" chapter starting on page 96.

Close cooperation between Executive Board and Supervisory Board

The Executive Board and the Supervisory Board share the joint goal of achieving a sustainable increase in the corporate value. The Executive Board informs the Supervisory Board regularly, timely and comprehensively on corporate planning, business development and the risk situation. Target and budget variances in the course of business and the strategic orientation and development of the group are promptly explained to the Supervisory Board. The Articles of Association provide approval reservations for the Supervisory Board for any transactions of fundamental significance.

Avoiding conflicts of interest

In making decisions and in connection with their functions, the members of the Executive Board and of the Supervisory Board may not pursue any personal interests nor 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 will report any conflicts of interest and the handling of them to the Annual General Meeting. In the reporting year there were no conflicts of interest with respect to the members of the Executive Board nor with respect to members of the Supervisory Board.

Safeguarding the interests of the shareholders

Through candour and transparency we aim to strengthen the confidence in our company of our shareholders and investors, business partners and employees, as well as of the public. The Supervisory Board and the Executive Board place a high value on transparency and communication at GILDEMEISTER. Therefore we provide regular and timely information on the company's situation as well as on other significant business changes. A detailed financial calendar is an inherent part of our annual and quarterly reports. All dates are updated regularly on our website at www.gildemeister.com.

Shareholders may either exercise their voting rights themselves in 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, KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main, 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. The auditor will inform the Supervisory Board of, or include in the auditing report, any facts found during the audit process that prove 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) to be incorrect.

Suggestions included in the German Corporate Governance Code

GILDEMEISTER also meets most of the suggestions of the Code. Deviations from the Code currently exist in the following areas:

- Annual General Meeting: As before, for organisational reasons, we have not provided for the complete transmission of the Annual General Meeting over the internet. In our opinion the cost of this would exceed the benefit to GILDEMEISTER and its shareholders. The Code suggests that the proxy exercising the shareholder's voting rights at the shareholder's directive should be contactable during the Annual General Meeting.
- Supervisory Board: It is not envisaged to introduce different terms of office for shareholder representatives on the Supervisory Board as recommended by the Code.

Value Reporting

In its corporate communications GILDEMEISTER lays claim to a value-oriented reporting system (value reporting). This includes regular and structured communication with capital markets. The stringent value-orientation facilitates the determination of the company's value for the investor. In the group annual report and consolidated financial statements we provide detailed information in order to meet the requirements of the capital market. We also view the fundamental principles of a comprehensive annual report as an integral part of due and proper value reporting.

Long-term value-added performance is our corporate goal

GILDEMEISTER focuses its corporate governance on long-term value-added performance. Our controlling system enables the target-oriented control and management of the group. The group companies are controlled using standardised defined key figures. These are further differentiated according to the functions of the strategic business unit. The essential difference arises from the production or distribution and service function of a business unit. For example, production plants are controlled according to the intensity of the materials or personnel as well as by the key figures regarding productivity and quality, whilst key figures corresponding to order intake and market share are the focus of the distribution companies. In the reporting year our principal target and key performance indicators for all companies were **earnings before TAX** (EBT). In addition to this, the group's key performance indicator, **return on capital employed** (ROCE) was also implemented in the control process of companies.

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 and maintained. ROCE reflects the efficiency of capital employed in the form of a relative variable and arises from the ratio of EBIT to the average working funds. The cost of capital is calculated as 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

	2006	2005*
EBIT (€ million)	82.5	58.8
Capital employed (€ million)	671.5	696.3
ROCE (in %)	12.3	8.4
WACC (in %)	9.9	10.2
Relative economic value before taxes (in %)	2.4	-1.8
Economic value before taxes (€ million)	16.1	-12.5

* previous year's figures adjusted

In the reporting year we were able to increase the ROCE to 12.3% (previous year: 8.4%) We achieved this by improving EBIT by € 23.7 million and by reducing capital employed. The ROCE achieved is thus 2.4 percentage points above the average weighted cost of capital (WACC) of 9.9%; this allowed us to achieve an economic value of € 16.1 million (previous year: € -12.5 million). The derivation of the cost of capital can be found in the Glossary starting on page 172.

Organisation and Legal Corporate Structure

As the parent company of the group GILDEMEISTER Aktiengesellschaft controls key functions across all areas of the group centrally. The group comprises GILDEMEISTER Beteiligungen AG with its holding function for all product and production plants and DMG Vertriebs und Service GmbH together with its subsidiaries. DMG Vertriebs und Service GmbH assumes the holding function for all sales and service companies.

DMG offers worldwide one-stop service

More detailed information on the business activities is included in the “Segment Report” chapter starting on page 48. The GILDEMEISTER group runs all its companies as profit centres. The management structure is illustrated in the group structure starting on page 4. To achieve optimal performance and results, all companies operate according to clear guidelines. All operational processes and sequences are standardised through the IT infrastructure that is coordinated throughout the group. The IT system therefore acts as an integral link within the group. The organisational expenses of GILDEMEISTER Aktiengesellschaft amounted to € 14.6 million (previous year: € 13.3 million).

GILDEMEISTER has concluded the reorganisation of the **legal corporate structure.** The following major changes occurred in the holding structure of the GILDEMEISTER group:

- Effective as of 1 January 2006 GILDEMEISTER Aktiengesellschaft transferred its interests in the production plants GILDEMEISTER Drehmaschinen GmbH, GILDEMEISTER Italiana S.p.A., FAMOT Pleszew S.A. and DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co. Ltd. to GILDEMEISTER Beteiligungen AG as a non-cash contribution. GILDEMEISTER Aktiengesellschaft transferred 94.9% of its interests in DECKEL MAHO Seebach GmbH as a non-cash contribution to GILDEMEISTER Beteiligungen AG effective as of 1 December 2006. The target of positioning GILDEMEISTER Beteiligungen AG as the overall holding company for all group production plants has now been met.
- Effective as of 6 April 2006 GILDEMEISTER acquired the remaining 1.2% interest in SAUER GmbH and now holds a 100% interest (formerly 98.8%).
- On 5 July 2006 DMG Vertriebs und Service GmbH founded DMG Asia Pte. Ltd. with head office in Singapore, to combine all its sales activities in Asia.
- On 30 June 2006 DECKEL MAHO Geretsried GmbH was merged with DECKEL MAHO Pfronten GmbH with retroactive effect as of 1 January 2006.
- Effective as of 28 September 2006 sales activities in Scandinavia were strengthened through the founding of DMG Scandinavia Sverige AB with its head office in Sollentuna, Sweden. It is a fully-owned subsidiary of DMG Europe Holding GmbH.

_ Effective 4 August 2006 GILDEMEISTER Italiana S.p.A. disposed of its interest in GRAZIANO Immobiliare S.r.l. to GILDEMEISTER Beteiligungen AG and transferred 100% of its interest in DMG Italia S.r.L., in GRAZIANO Tortona S.r.l. and in SACO S.p.A. Subsequently GILDEMEISTER Beteiligungen AG transferred its interest in GILDEMEISTER Italiana S.p.A. to GRAZIANO Immobiliare S.r.l. as a non-cash contribution. GRAZIANO Immobiliare S.r.l. as the holding company now holds a 100% interest in all Italian subsidiaries; in addition, it also administers all real estate in Italy. In order to emphasise the superior function of GRAZIANO Immobiliare S.r.l., it was re-named GILDEMEISTER Partecipazioni S.r.l. effective as of 22 November 2006.

A detailed overview of the shareholding relationships within the GILDEMEISTER group as of 31 December 2006 and further explanations of the changes in the legal corporate structure including the individual steps taken are set out in the Notes to the Consolidated Financial Statements starting on page 122. Also included in the Notes starting on page 162 is a summary of all management and profit and loss transfer agreements.

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

We operate 62 sales and service sites

DMG Vertriebs und Service GmbH, Bielefeld, is a 100% subsidiary of GILDEMEISTER Aktiengesellschaft. It operates 62 sales and service sites, in addition to sales offices and several **branch offices** abroad, which are not legally independent enterprises. DMG Scandinavia Danmark (until 20 September 2006 DMG Danmark) operates as a sales and service branch in Denmark. The sales offices of DMG Vertriebs und Service GmbH in Shanghai, Beijing, Guangdong, Chongqing, Shenyang and Xi'an are authorised to market group products in China. The following companies also 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).

Implementation Act on the Takeovers Directive (Section 315, paragraph 4, German Commercial Code (HGB))

The German Legislator adopted on 8 July 2006 the EU Takeovers Directive. This has resulted in an amendment to Section 315 of the German Commercial Code (HGB) through the addition of a new paragraph 4. GILDEMEISTER thus provides the following 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 an accounting par value of € 2.60.

_ Pursuant to Section 84 of the German Companies Act (AktG) the Supervisory Board shall appoint and dismiss members of the executive board. This authority was specified to that effect in Section 7 para. 2 of the Articles of Association of GILDEMEISTER Aktiengesellschaft, by which the Supervisory Board appoints the members of the Executive Board, determines their number and assigns their duties.

_ Pursuant to Section 119, para. 1 no. 5 of the German Companies Act (AktG), the Annual General Meeting 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 in connection with Section 15 para. 4 of the Articles of Association of GILDEMEISTER Aktiengesellschaft.

- A resolution of the Annual General Meeting passed on 19 May 2006 authorises the Executive Board, with the approval of the Supervisory Board, to increase the registered capital of the company in the period up to 15 May 2010 through a one time only issue or through several issues of new shares for cash or non-cash contributions to a nominal amount of € 56.0 million (authorised stock). This authorisation is included in Section 5 para. 3 of the Articles of Association. In addition, the company is authorised to acquire its own shares up to a proportionate amount of nearly 10% of the registered capital, which corresponds to € 11,258,650. 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, so that when acquiring companies or interests in other companies these may be offered in return to the seller. Moreover the share capital has been conditionally increased by up to a further € 37.5 million through the issue of up to 14,423,076 individual shares in the name of the holder (conditional capital I). The conditional capital increase will only be effected insofar as the options or conversion rights relating to warrant or convertible bonds, issued or granted by the company on the basis of the authorisation resolution of the Annual General Meeting of Shareholders held on 14 May 2004 in the period until 31 March 2009 are exercised or any conversion obligation or any obligation to exercise an option under the above bonds is fulfilled.
- Ultimately the Executive Board is authorised to issue shares to employees of the company and of companies affiliated with the company with respect to a partial amount of € 5.0 million compare 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.

In addition, a resolution was passed by the Germany Legislator, which requires the Executive Board to issue an explanatory report on the information required pursuant to Section 315 paragraph 4 of the German Commercial Code (HGB):

- The registered capital of the company as at 31 December 2006 amounts to € 112,586,507.80 and is divided into 43,302,503 individually registered ordinary shares. Each share carries the right to one vote and is authoritative for the share of profits.
- The Executive Board is responsible for managing the company and representing the company in dealings with third parties. The Supervisory Board appoints and dismisses members of the Executive Board pursuant to Section 84 of the German Companies Act (AktG). With effect from 1 October 2006, Dipl.-Ing. Günter Bachmann and Dr. Thorsten Schmidt were appointed to the Executive Board of the company by the Supervisory Board.
- The Articles of Association were last amended at the 104th Annual General Meeting on 19 May 2006 when Section 12 of the Articles of Association was amended. In the reporting year the Executive Board did not make any use of the authorisations provided.
- The conditions relating to a takeover correspond to customary agreements for the market. They do not lead to an automatic termination of the aforementioned agreements but merely provide our contractual partners with the possibility of terminating these, if necessary, in the event of a takeover.

Research and Development

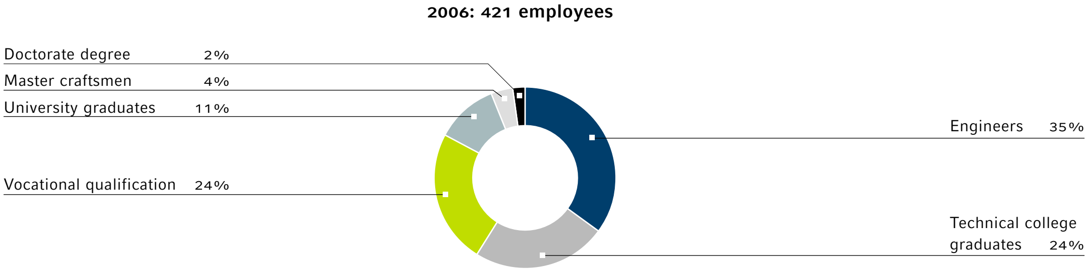
Our activities are geared towards the development of competitive, technologically advanced new products and services. We continue to focus on the following four core development areas: the integration of technology, an increase in machine dynamics and precision, ultrasonic and laser machining of advanced materials, and an increase in customer benefits, in particular through improved, trend-setting control and utilisation concepts.

In the reporting year expenditure on research and development amounted to € 43.9 million (previous year: € 45.7 million) and was thus just below our budget of € 45 million. Due to the growth in sales revenues and the cost reductions achieved of € 1.1 million, the innovations ratio fell and now represents a share of 4.8% of sales revenues in the "Machine Tools" segment (previous year: 5.8%). As a growth driver, research and development activities make a definite contribution to the group's results. However, it is not possible to give a qualified statement on the contribution to results of individual measures.

Technology is our area of expertise

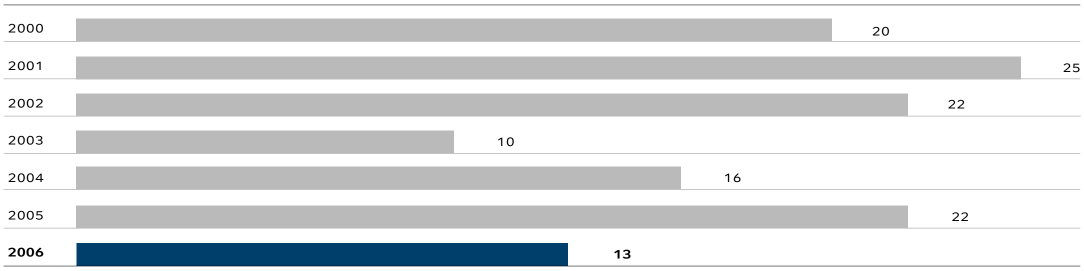
Technology is our area of expertise. Our employees design new machine concepts and implement them. In the area of research and technology we work closely together and in partnership with our systems suppliers, who can then transfer our know-how to their subassemblies and components. At the same time we enjoy a close cooperation with research institutes in the areas of fundamental research, applied research and experimental development. As an example of this, the development of the "DMG Virtual Machine" simulation software was sponsored by the Austrian state-owned research enterprise, the "Österreichischen Forschungsförderungsgesellschaft (FFG)". This software, which allows the complete simulation of the machine, the controls and operation, is explained on page 77. Apart from joint development with our systems suppliers, we do not acquire any external development know-how. In the area of research and development we essentially obtain the services of third parties for aspects relating to industrial design. At the present time 421 employees are working on the development of our new products and services (12% of the workforce at the plants). This reflects the high level of importance attached to this area.

QUALIFICATION STRUCTURE THROUGHOUT THE GROUP IN THE AREA OF DEVELOPMENT/CONSTRUCTION
in %



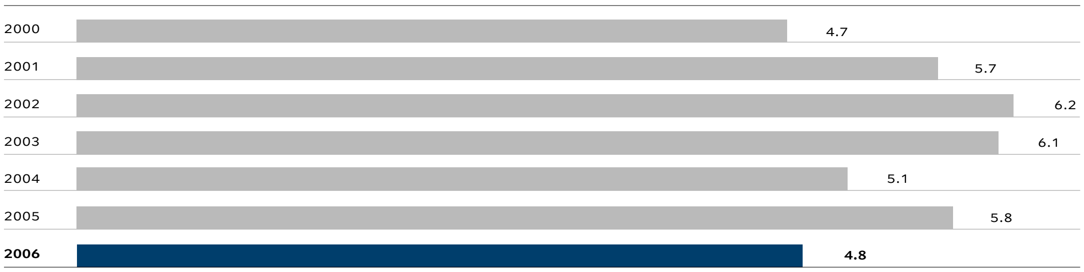
The result of our innovation-oriented strategy, which is also directed towards meeting the requirements of the market, was reflected in the successful presentation of a total of 13 new developments at more than 67 national and international trade fairs and exhibitions, such as the IMTS in Chicago, the JIMTOF in Tokyo and the AMB in Stuttgart.

NUMBER OF INNOVATIONS AT THE GILDEMEISTER GROUP



The "DMG Virtual Machine" simulation and programming software was presented for the first time at the AMB. For the first time our customers now have a comprehensive system for the integrated simulation of machine, control behaviour and workpiece processing. The user receives an additional noticeable benefit through a distinct increase in processing certainty prior to his actual machining process. Real-time collision monitoring, machining time calculations, as well as settings monitoring, permit an integrated simulation of workshop geometry, control behaviour and workpiece machining. Around two-thirds of the products in our current range have been developed in the past three years.

SPENDING ON RESEARCH AND DEVELOPMENT AT GILDEMEISTER GROUP
in %*



* of the relevant sales revenues in the "Machines Tools" segment

The significant of our innovative power is evident in the increased number of industrial property rights, such as patents, utility-models and design patents, brands and trademarks, whose value – calculated in accordance with our internal commercial value method - is now estimated at approximately € 300 million (previous year: € 260 million). The increase of approximately

€ 40 million in comparison with the previous year is attributable to a greater number of industrial property rights and a higher commercial value. In the reporting year 27 new industrial property right applications safeguarded our expertise in important key technologies.

In the **Turning division** the two product plants GILDEMEISTER Drehmaschinen GmbH and GILDEMEISTER Italiana S.p.A. presented a total of seven new developments, which complete the product range to a large extent. GILDEMEISTER Drehmaschinen GmbH expanded the successful GMX turning and milling centers product line by two further models with workshop programming. This provides our customers with access to the turning and milling operations segment. The GMX 200 S *linear* integrates the ShopTurn programming system in the Siemens SolutionLine control and enables flexible production of complex workpiece geometries for small to medium-sized batches. Moreover the GMX 250 S *linear* is unique in offering dual channel control for the separate control of two tool boxes in the field of workshop programming. We are therefore opening up new fields of application, in particular for the simultaneous machining of two work-pieces on the main and counter spindles for our customers without internal process planning. A medium-term sales revenue target of more than € 50 million has been set, by which the GMX product line should achieve more than a 15% share in the turning division sales revenues.

We have extended our range of vertical lathes with the CTV 400 *linear* with two turrets that can be applied independently. This enables increased flexibility with minimum tool exchange times. Our modular machine concept allows us to take specific customer requirements into account and completes our vertical lathes product line. In the medium-term the CTV range should achieve annual sales revenues of more than € 30 million, which represents a share of more than 10%.

We realise cost advantages by local content

The CTX 310, which was presented for the first time at the in-house exhibition in Shanghai, was designed to compete with local manufacturers in the growth markets such as China, India, Russia and Brazil, by offering the same high quality standards at favourable entry-level prices. The high level of local content at the Shanghai production site ensures cost advantages in procurement, as well as proximity to the customer and the market with short, flexible delivery times.

GILDEMEISTER Italiana S.p.A. presented three new products in the SPRINT and SPEED ranges. We complete our CNC Swisstype automatic turning machines product line with the SPEED 20-8 *linear* and the SPEED 32-10 *linear*. The combination of Swisstype mounting form and linear drive technology guarantees high precision and dynamic. The SPEED 32-10 *linear* thus offers the highest performance in this area with up to 36 millimeter bar diameter and ten controlled. At the same time we offer our customers a further range of applications for the integrated machining of highly-complex subassemblies, such as in the medical technology, electronics and clock and watch industries. The modular construction of the SPEED *linear* range facilitates maximum flexibility and reduces production costs. We are complementing our range of highly-productive CNC automatic lathes with a twin-turret version of the SPRINT 65 *linear*.

In the **Milling division** the modernisation introduced in the last two years was continued with further parts of the product range. In the area of horizontal machining centers, automation and chain-linking solutions were developed including additional variants and a range of options. A medium-term annual sales revenue target of more than € 100 million has been set, by which the horizontal machining centers product line should achieve more than a 15% share in the turning division sales revenues. In the reporting year one new product was presented: DECKEL MAHO Seebach GmbH completed its range of CNC universal milling machines for economic 5-axis machining with the DMU 70. The DMU 70 machine concept is based on the successful DMU 50 universal milling machine and facilitates the use of proven technology on a new scale. The optional swivel rotary table is integrated in the machine base and offers very high rigidity.

Ultrasonic and Laser processing of advanced materials

The **Ultrasonic/Lasertec division** distinguishes itself with a high level of innovation and should therefore exceed our profitability targets by achieving sales revenue growth of more than € 50 million per year in the medium-term. To give an example, the new HSC 20 *linear* combines ultrasonic technology with conventional high-speed milling in one machine through the application of the HSK 32 actor system. The compact gantry design with extension capability to a 4/5-axis machine enables the machining of complex components of advanced materials, such as glass, ceramic, metal carbide or composites. Through a large workspace the new ULTRASONIC 100-5 extends the product line fields of application to ultrasonic integrated machining of advanced materials. The combination of ultrasonic and conventional milling in 5-axis integrated machining ensures the highest dynamics and maximum flexibility. The LASERTEC 80 *PowerDrill* providers our customers with dynamic solutions for precision laser drilling such as for turbine plates. The 5-axis simultaneous machining allows shaped hole drilling of bevelled or cylindrical holes.

Application-oriented innovations will continue to ensure a continuous increase in customer satisfaction with respect to our products. We also safeguard our technological lead with a wide range of modern service products in our “Services” segment. These include the innovative software solutions from DMG Powertools and the range of components from SACO S.p.A. The SACO Bar Loader 65 completes our range of components and is used in our single spindle automatic lathes and turning machines. The specially adjusted and optimised set-up system enables precise loading and positioning of raw materials with simultaneous higher feed rates. Our customers are assured of the highest flexibility with the SACO Bar Loader 65 as it may be combined with existing machine systems.

We increasingly use standardised subassemblies

Intensified central development coordination in the reporting year led to development project targets relating to cost, technology and logistics to either be achieved or exceeded. The use of standardised subassemblies and synchronised project management throughout the group has also contributed to this success. This is evidenced by the numerous new developments presented in the consistently followed platform strategy of modular construction. Further cost effective results of our standardisation activities can be found in the “Purchasing and Procurement” chapter starting on page 80.

The products developed in all divisions in the reporting year were introduced onto the market in accordance with our series start-up management. We report on further details in this respect in the “Production, Logistics, Products and Services” chapter starting on page 84.

Purchasing and Procurement

In **Purchasing and Procurement** GILDEMEISTER invested in a close and partnership-based collaboration with suppliers, which again had a clear positive impact. Cost of materials and purchased services amounted to € 698.2 million (previous year: € 608.5 million), of which € 580.2 million (previous year: € 506.8 million) was attributed to raw materials and consumables. The **materials quota** was 52.5% (previous year: 53.1%). We therefore met the target we stated in the previous year. The rate of price increase could be limited to 1-2% with respect to the entire purchasing volume. Our company internal level of value-added was 30.3% (previous year: 31.5%). Our annual suppliers' day serves to maintain our **supplier capital** and to acknowledge our close collaboration with our supply partners. During the in-house exhibition in Pfronten the "Supplier of the Year" award was bestowed for the sixth time in front of more than 200 invited guests in the categories of innovation, quality, supply performance and for the overall winner.

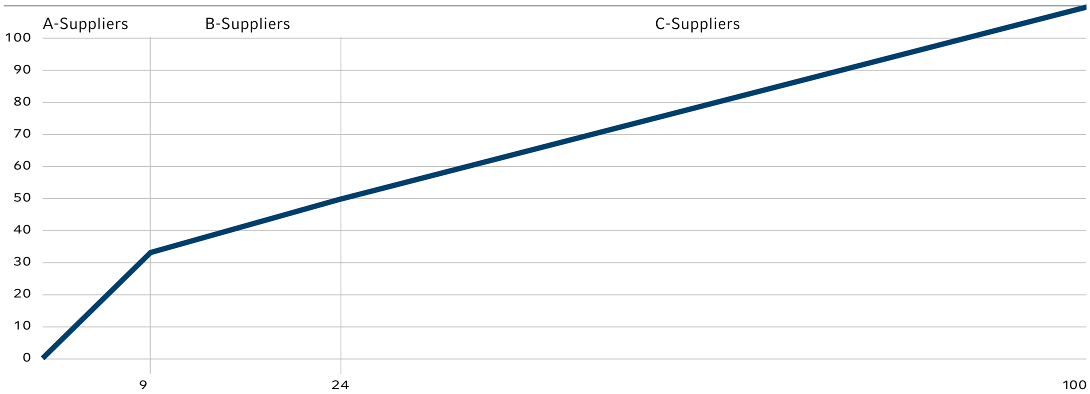
Our coSupply enables integrated sourcing

Our prize-winning concept of integrated procurement management provides the basis for cooperation with our top suppliers. It comprises three pillars, namely **coSupply®** supply management, material group management and integrated global sourcing. Therefore we continuously increase our purchasing and logistics efficiency. Our coSupply® supplier management actively integrates our top 50 supply partners, with whom we process more than 75% of our purchasing volume. Together we are continuously working to **ensure the procurement of goods** and to **enhance the quality** of start materials. The supplier cockpit, for example, enables the electronic processing of commissions and orders and has a direct interface to our ERP system. This significantly facilitates the day-to-day work of our purchasing managers and our supply partners. The use of improved forecasting tools and the continuous exchange of current inventory and process information along the whole length of the value added chain allow us to optimise the logistics key figures. The supplier cockpit forms an integral part of our group-wide workflow management system, which we have expanded in line with our stated intention.

In the area of transport management we have optimised internal processes and further improved services for our customers. Through closer cooperation with globally operating logistics partners, we are now able to reduce delivery times and counteract the worldwide increase in transport costs.

Our communications platform www.coSupply.de has been extended to include significant exchange of data functions with the introduction of the supplier cockpit. In the reporting year 45,000 online sessions led to an increase in use of 23%. Our transparent and fair evaluation system creates the pre-conditions that allow us to further streamline and optimise our supplier structure. Our goal is to establish permanent, reliable supply partnerships. This allows us to access the technical expertise of our partners and to strengthen and sustain our innovative power. Our **strategic supply partnerships** are marked by a mutual focus on the respective core expertise. For this reason we do not currently hold any licences for the production of our goods. It is not possible to provide reliable figures on the average length of time of supplier relationships as some of these relationships have lasted for decades.

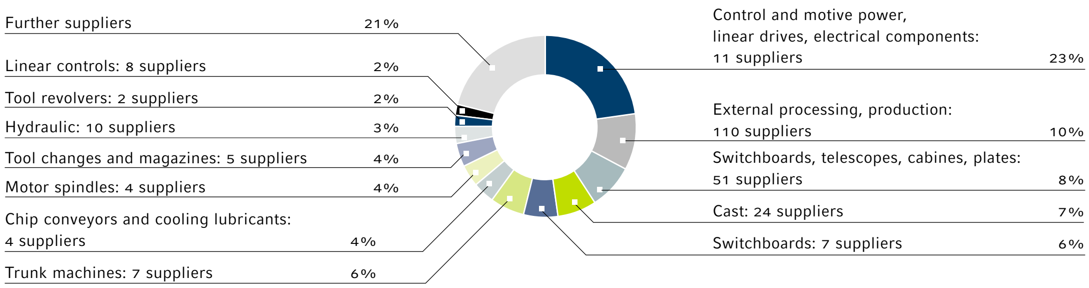
STRUCTURE ANALYSIS OF COSUPPLY® SUPPLIERS
Share of suppliers in purchasing volume in %



Our **materials group management** combines our strategic purchasing activities and coordinates team-based collaboration between purchasing and technology. This allows us to synchronise and optimise procurement activities at the plants. Group-wide specialisation in materials groups optimises the content of specialist collaboration with our supply partners, which we are intensively promoting for further standardisation and modularisation of components and subassemblies. In the reporting year this enabled us to successfully implement further projects aimed at system integration, and the simplification and streamlining of the delivery programme. We continue to pursue a strategy of "early supplier involvement" and involve our strategic supply partners in the product development process. This enables us to identify the potential standardisation and integration capabilities at an early stage and to implement these together with our suppliers. Thanks to this we enjoy the benefit of our suppliers' innovative power and avoid expensive follow-up costs in the initial phase of our product development.

SHARE OF MATERIALS GROUPS IN PURCHASING VOLUME
in %

2006: € 698.2 million

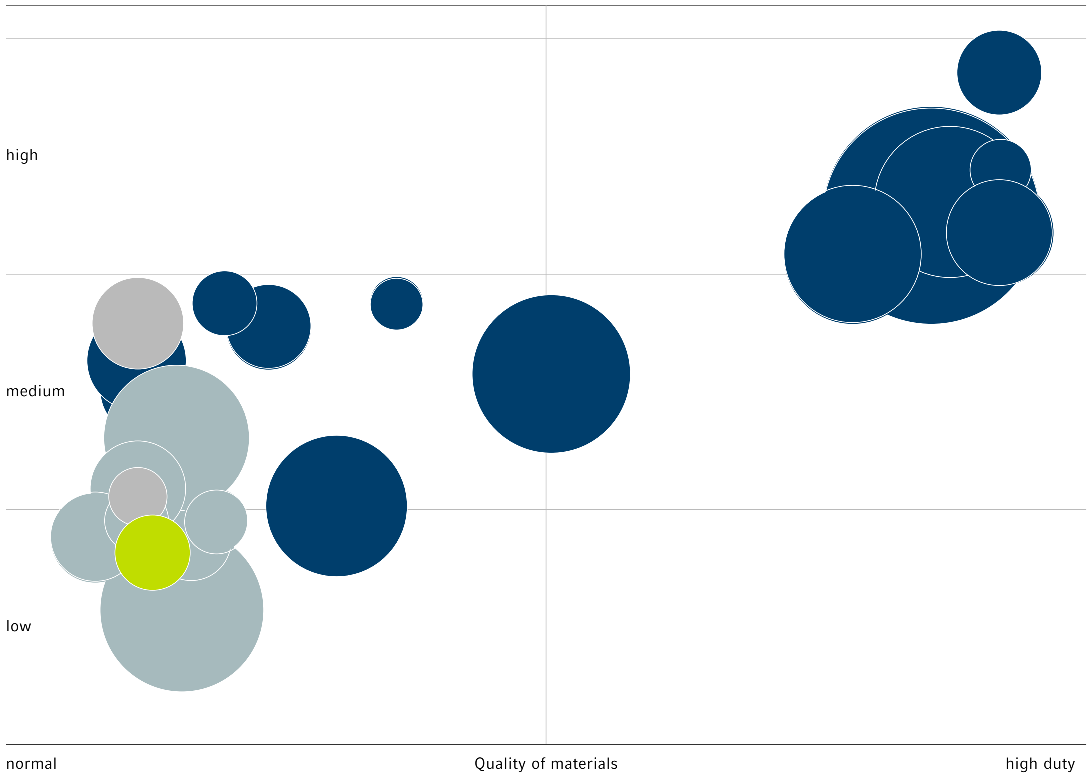


In the reporting year GILDEMEISTER procured cast components with a total weight of 25,628 metric tons (previous year: 21,754 metric tons) from 24 different suppliers.

The development in the procurement market for cast components stands as an example for our **strategy of integrated global sourcing.** Our goal is to ensure favourable and stable procurement prices throughout the group and to build up a reliable worldwide supplier structure. Our foreign plants in particular are benefiting more and more from the possibilities offered by their respective local procurement markets and thus are systematically increasing their local content. Taking our plant in Shanghai as an example, we are increasingly using the cost advantages of the Chinese procurement market, reducing the burden of import duties and shortening the lead time. The close coordination between product and production plants ensures the same high quality of the procured components. Furthermore, the global supply of goods and services reduces exchange rate risks (natural hedge). In view of the structure of our sales markets, we particularly aim to source a larger portion of our purchasing volume in the US dollar regions.

CAST SUPPLIERS PORTFOLIO
Complexity of part

GERMANY
EASTERN EUROPE / TURKEY
ITALY
CHINA



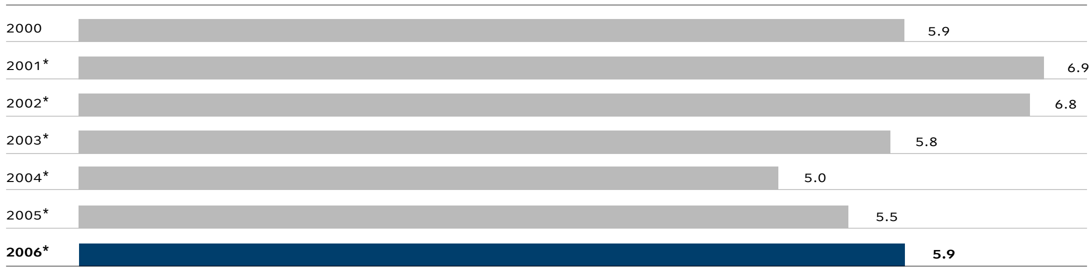
Total volume in t: 25,628
Number of suppliers: 24
Size of circle corresponds to volume/supplier

The group purchases strategic production parts and, optimised as to cost and process, approximately one in two machines as pre-assembled trunk machines from our FAMOT production plant.

To further optimise our mechanical machining capacity we have relocated three machines from other production locations to FAMOT, allowing us to achieve further flexibility in our manufacturing options within the group. In this way we also safeguard our expertise in strategic production parts long-term.

With respect to the **storage of goods** we are pursuing the target of being tied to the lowest possible stocks whilst safeguarding the procurement of goods to the highest extent. Inventories amounted to € 293.0 million and thus did not rise proportionately to the increase in sales revenues (previous year: € 288.8 million). Primarily this was due to the coordinated work of Purchasing and Production and Logistics in numerous activities and projects within the integrated procurement management. We are therefore meeting the trend towards complex technology machines with lower repeat frequency of components and longer replenishing, lead and process times. Despite the purchasing activities prior to sales revenues, we were able to increase the **rate of turnover of raw materials and consumables** by 7.3% to 5.9 (previous year: 5.5). When compared to the industry and taking into account the entire stockpiling of spare parts, we were able to shorten the average period of storage of raw materials and consumables by 7.5% so that at 62 days it remains at a good level.

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



* acc. to IFRS

Production, Logistics, Products and Services

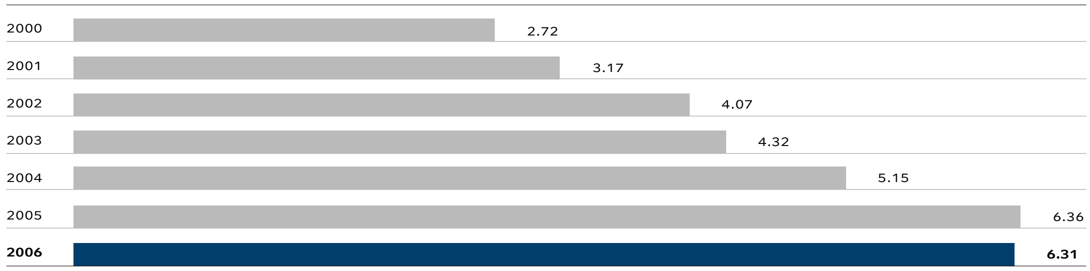
In the reporting year we intensified our activities to improve, simplify and standardise the processes and sequences in **Production and Logistics.** An integral part of these measures are the investments to optimise the logistics and space concepts at the Bielefeld, Pfronten and Pleszew facilities, which are detailed starting on page 40. Building on this we were able to further strengthen cooperation between the product and production plants and as a result were able to organise a more effective use of resources. Our production plants in Shanghai and Pleszew, which serve both the milling and turning divisions, have especially benefited from this development. With the aid of a highly-synchronised series start-up management, these plants are quickly able to adapt standardised production processes. Thus the DMC 635V is produced simultaneously at locations in Germany, Poland and China. This puts us in a position of being able to make optimum use of our local advantages and regional proximity to sales markets and allows us to react quickly and flexibly to changes in demand. The overriding objective of these activities is the maintenance of our **customer capital,** for example by increasing customer satisfaction through the fast, reliable and flexible processing of individual customer orders.

We increasingly use local sites

Our integrated value added system, **PULLplus**, which we presented last year, provides the methodical framework for optimisation methods the whole length of the value added chain. PULLplus enables further considerable increases in our **process capital,** for example through an increase in efficiency as a result of improved consistency of processes across all departments and areas or through a reduction in production processing times. With PULLplus our employees have numerous practical tools, materials and guidelines available by which they can promote further improvement measures themselves. Our employees are supported by PULLplus managers who not only coordinate individual actions, they also carry out PULLplus audits or promote the transfer of know-how across all company facilities. The expansion and intensification of the PULLplus system through a transfer of know-how, audits, employee qualification or more directed project controlling, was the focus of optimisation processes in production and logistics throughout the group. Throughout these processes we centre our attention on our employees and their **suggestions for improvement** thereby safeguarding the long-term success of the value-added system. In the reporting year the number of suggestions for improvement of 21,117 was at the same level as the previous year (21,171 million). At an average of 6.31 suggestions per employee working in the plants, we were able to maintain the previous year's level (previous year: 6.36). The total net benefit (benefit of suggestions minus cost of implementation) reached € 4.5 million. We were able to achieve a 25% increase on the previous year (€ 3.6 million).

SUGGESTIONS FOR IMPROVEMENT AT THE PRODUCTION PLANTS

Number per employee



To safeguard our technological leadership position in the global competition we are continuing to pursue our innovation-oriented strategy. The structure in the product and production plants supports this strategy as it allows the individual locations to concentrate on their core expertise.

The technological lead at the **Turning division** is taken by the product plants at GILDEMEISTER Drehmaschinen GmbH in Bielefeld and at GILDEMEISTER Italiana S.p.A. in Bergamo. We offer our customers a worldwide unique production programme for lathes, ranging from universal turning machines through to CNC multi-spindle automatic lathes.

The main focus is on customer benefit and economic efficiency

At the start of the reporting year GILDEMEISTER Drehmaschinen GmbH was able to finalise the production ramp-up of series production of the NEF 600, the three new types in the CTX line and the CTV 400 *linear*. During the course of the year production began of the products presented at the METAV in Düsseldorf and at the AMB in Stuttgart, namely the production turning and milling centres GMX 200 S *linear* and GMX 250 S *linear* as well as the vertical lathe CTV 400 *linear* with twin turrets. This was completed by work for the series start-up of the CTV 250 *linear* DUO. This twin spindle machine further increases customer benefits and economic efficiency through simultaneous machining with a reduction in idle time. At the same time we intensified the synchronisation of production processes at the Bielefeld and Tortona sites. We are primarily expecting synergy effects to result from this in the areas of procurement, production, and logistics and in research and development.

As the second production plant in the Turning division, GILDEMEISTER Italiana S.p.A. is concentrating on the CNC automatic turning and the CNC Swisstype automatic turning machines. The trend away from mechanical and towards CNC automatic turning machines continues and is also reflected in the reporting period in a reduced vertical range of manufacture at this site. The crucial optimisation of the production process that started last year, primarily in manufacturing, has been continued and intensified with the extended PULLplus methods. The integration of the assembly areas gained through the restructuring measures could be coordinated and adapted for series start-up measures for the newly presented SPEED 32-10 *linear* and SPEED 20-8 *linear* from the range of highly-productive and technically sophisticated CNC automatic turning machines. Our activities in this area were concluded with the commencement of production of the SPRING 65 *linear* with twin turret.

Following production expansion to final machines, FAMOT Pleszew S.A. focused on improvements in production processes and conditions. The focus of activities in production and logistics was placed on accompanying measures to the building extension project, including the modernisation of existing processing centres and the integration of three milling machines that were acquired GILDEMEISTER Italiana S.p.A., and also on the construction measures themselves and on-going optimisation processes within the scope of PULLplus.

The Pfronten and Seebach product plants shape the **Milling division** to a significant extent through their products and services. Our product portfolio ranges from small CNC universal milling machines to highly productive machining centers and milling and turning centers through to the large universal machining centers for 5-axis/5-sided simultaneous machining, in respect of which DECKEL MAHO is the technological leader.

Flexible assembly line optimises flow of material

In the reporting year DECKEL MAHO Seebach GmbH continued its optimisation measures in production ramp-up for the new vertical milling machines. The high demand in this area expedited activities to ensure efficient procurement of materials and logistics as well as capacity adjustments, leading to the construction of a new assembly production line. Once this project has been concluded, machines from the current DMU and DMU eVolution lines will be produced for the first time on a clocked, flexible assembly line in a model mix with five variants. We have thereby noticeably increased both process reliability and flexibility

Die DECKEL MAHO Pfronten GmbH is working continuously to optimise procurement and assembly processes in machine and subassembly production. As an example, the work preparation, material provision and range of options for the eight new types started up last year were improved and extended and production efficiency was further increased. As part of these measures the plant intensified employee training in the PULLplus value added system methods. In addition, capacity in the motor spindle production was extended to achieve a further increase in security of supply and stock turnover. The growing importance of these key elements was strengthened additionally through the success of standardisation measures throughout the group. Both the Bielefeld and Seebach sites also benefited from these measures.

In our Shanghai production plant internal processes and local procurement in production and logistics were further improved in the reporting year. A focal point of this was the manufacture of the prototype and the preparations for series start-up of the CTX 310 eco. Alongside this, procurement and assembly processes as well as cooperation with other group sites were continuously improved. For example, the specifics of the system-based integration with the group infrastructure were optimised to further intensify and expedite cooperation with European production plants and training of the users continued. Through this we have created the pre-conditions to extend the technologically and, in terms of production, logistically demanding and closely connected processes between the plant and the European group sites.

We expand the Advanced Technologies to six types

At its sites in Idar-Oberstein and Kempten, SAUER GmbH produces products in the **Ultrasonic/ Lasertec division** equipped with features that are unique throughout the world. In the ultrasonic technology area the HSC 20 *linear* and the ULTRASONIC 100-5 extended and completed the product line to the current six types. The vibration-aided drilling, grinding and milling of the hardest and most demanding materials, so-called “advanced materials”, on these machines allows the highest precision and surface quality plus flexible combination with conventional milling machining. With noticeably longer tool service lives, the rate of removal increases fivefold. The user also benefits from SAUER's technological advance and leading applications know-how worldwide that makes use of intelligent rule-based algorithms and databases with materials-based parameter databases.

SAUER GmbH’s product line, which is developed and produced at the Kempten site, includes machines for 3D-removal via laser, laser fine-cutting and laser precision drilling. The LASERTEC 80 *PowerDrill*, which was presented in the reporting year and has now gone into series production, reflects SAUER's technological advance with a new shape technology for the manufacture of complex cooling air bores with precisely formed exit funnels (shaped holes).

Employees

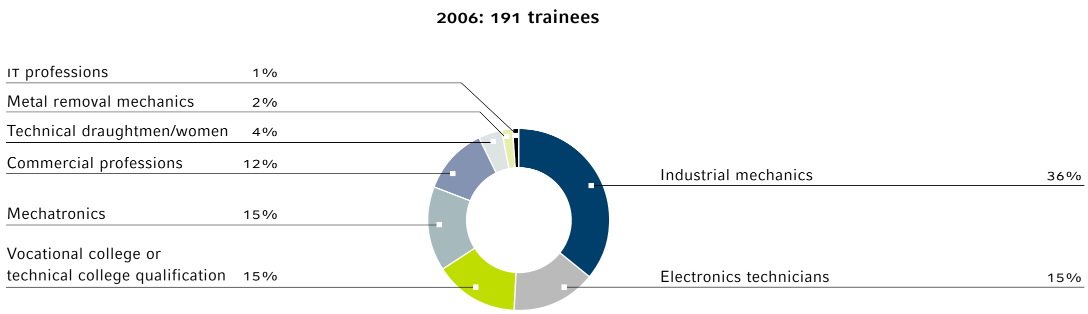
As at 13 December 2006 GILDEMEISTER had 5,558 employees (previous year: 5,272), of whom 191 were trainees. The increased personnel requirement of 286 employees arose in both the “Services” and in the “Machine Tools” segments. In order to meet the increased service requirements of our customers, we have especially increased our companies in Asia and Europe. Due to higher capacity utilisation, the Pfronten and Shanghai production sites took on additional employees. The number of employees was 3% above the forecasted 5,377 employees. As planned, the majority of additional staff was employed overseas.

At year-end 3,329 employees (60%) were working at the domestic companies and 2,229 at the companies abroad, which corresponds to 40% of the workforce, as in the previous year.

We offer future prospects to young people

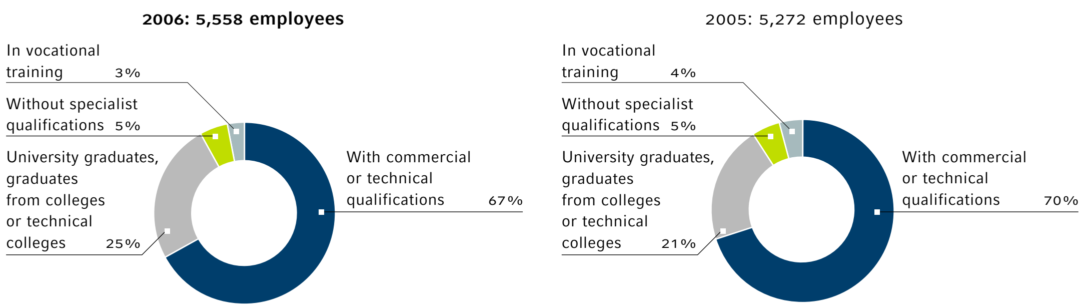
Our vocational training standard remains at a high level with 191 trainees, enabling us to recruit a large number of our skilled and executive personnel from our own ranks. Professional vocational training plays a decisive role in providing young people with an excellent and attractive opportunity to enter our world of work. In the reporting year 68 new trainees were taken on (previous year: 64). The vocational training share was 8.4% at the domestic companies in the “Machines Tools” segment (previous year: 8.7%). 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 technical colleges. This collaboration is constantly being improved and developed further.

TRAINING IN THE GILDEMEISTER GROUP
Allocation by fields
in %



The qualification structure of our employees shows that professional vocational training enjoys a very high status in the GILDEMEISTER group :

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 qualification of our employees represents a core element of the **human capital**.

The number of employees taking part in further training has increased further ince the previous year and at 3,250 employees represents 58% of the workforce (previous year: 2,518 employees or 48%). One of the most extensive training measures in the reporting year was the qualifying of our domestic and foreign sales and service personnel for the new machine generations and the familiarisation and qualifying of newly appointed staff. Further emphasis is placed on training measures in information technology and in languages. A total of € 3.5 million was spent on further training (previous year: € 2.7 million).

Employee motivation by performance-based salary components

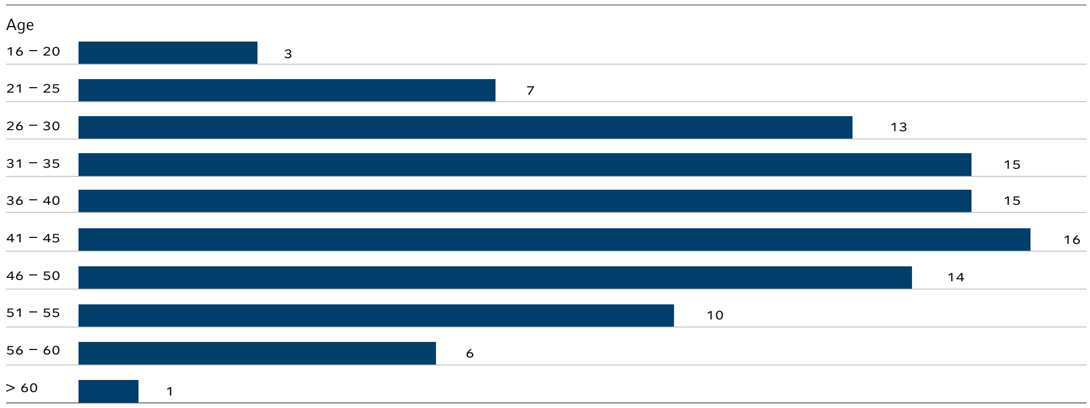
Employee motivation is promoted through an incentive and remuneration arrangement which rewards individual target achievements through variable, performance-based salary components.

The personnel expenditure quota decreased to 24.1% (previous year: 25.8%). In the reporting year personnel costs amounted to € 320.2 million (previous year: € 295.9 million). Of this, wages and salaries accounted for € 267.1 million (previous year: € 246.9 million), social insurance contributions for € 47.7 million (previous year: € 45.7 million) and pension plan expenses for € 5.4 million (previous year: € 3.3 million). The € 24.3 million increase was due primarily to increases in standard rates of pay, to bonus payments and to the increased number of employees.

Within the scope of the part-time retirement plan GILDEMEISTER has entered into 136 part-time retirement agreements (previous year: 123), where the so-called "block model" is applied. Participation in the part-time retirement plan has increased by 11% in comparison with the previous year. During the plan the entire period of part-time retirement is divided into active and passive phases of equal length. 54 employees were in the active phase and 82 in the passive phase.

Our staff's age structure is balanced and has changed as follows: 38% of our employees are 35 and younger (previous year: 37%), 83% are 50 and younger (previous year: 82%).

AGE STRUCTURE OF EMPLOYEES IN THE GILDEMEISTER GROUP
in %



In the reporting year there were 161 traffic and operational accidents (previous year: 131). In relation to the total number of staff this represents an increase of 2.9% (previous year: 2,5%). The level of sickness of an average 3.1% was higher than the previous year (2.7%) but still below the average for the industry of 3.5%. At 7.9% (previous year: 7.4%) the rate of staff turnover was higher than the industry average of 7.1% and was affected by the increasing internationalisation of the workforce.

During the reporting period 21 employees celebrated 40 years' service at GILDEMEISTER and 44 employees 25-years' service. In addition 131 employees were honoured for their 10-year service with 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 extend our thanks to all our employees for their exemplary motivation. Our thanks are also due to our works councils. Their knowledgeable and constructive work has contributed to the implementation of many decisions.

Corporate Communication

In the reporting year both internal and external corporate communications maintained their usual high standard. Our corporate communications complement our model of market and value-oriented corporate governance and ensured a strong international market image. We use a wide variety of measures such as trade fairs, exhibitions, printed information, advertising, our website, investor relations activities and public relations work. Our innovations and the completion of our product lines remained in the foreground. Activities in corporate design, sales, pricing and innovation policy were closely linked to our marketing actions. Overall we were able to take even better advantage of the existing market potential. Spending in the field of corporate communication (marketing) amounted to € 26.2 million (2005: € 25.6 million).

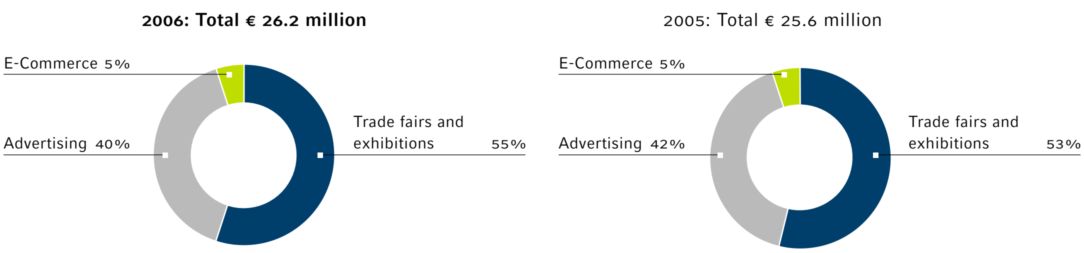
Trade fairs and exhibitions continue to play a key role for GILDEMEISTER as marketing instruments. In the reporting year DMG was present at 67 events at home and abroad. Over a total exhibition area of more than 23,000 square metres, we presented 552 turning, milling and ultrasonic/laser machines in production. To compare: this is the surface area of three-and-a-half football fields. 55,248 visitors representing 42,359 companies generated a direct order intake of € 344.4 million. In the reporting year we spent € 14.3 million (2005: € 13.6 million) on trade fairs and exhibitions. This corresponds to 55% of total marketing expenses (previous year: 53%).

Our website continuously registers more users

At GILDEMEISTER **advertising** primarily concerns the marketing of our products. In the reporting year two issues of our high-quality customer journal were published in 21 languages for 46 countries. For the first time our latest service news was enclosed with each issue. Total circulation amounted to 1.2 million, although the online versions were also increasingly accessed. In general our website enjoys a very high level of acceptance: in the reporting year a total of 4.1 million visitors registered on our website, which is 36% more than in the previous year. The total volume of brochures was 680,000 (420,000 for the milling, ultrasonic, lasertec area and 260,000 for the turning area). Put end-to-end these would reach a length of approximately 200 kilometres. We have also intensified our customer information activities with the aid of product and technology mailing actions. The total volume reached 2.3 million worldwide. This was spread across 19 mailing actions with a daily average of 6,344 items in 21 different language versions for a total of 46 countries.

The CTX and DMC V mailing, for example, had a total circulation of 341,500 (33 versions in 19 languages). The DMU mailing was sent to 341,000 addressees (33 versions in 18 languages) and the year-end mailing to 126,200 in 10 versions and 6 languages. Specialist publications were another focal point. 137 advertisements in 68 trade magazines informed readers in 25 countries of DMG products. GILDEMEISTER invested a total of € 10.6 million (2005: € 10.8 million) in marketing its products. This represents 40% of marketing and corporate communication expenses (previous year: 42%).

MARKETING COSTS DISTRIBUTION OF THE GILDEMEISTER GROUP
in %



Aerospace
Toys
Electronics
Medicine
Sport

How can we maintain mobility at older ages?

By always staying one step ahead of social change.

IMPLANTS FROM TITANIUM BASE ALLOYS FOR ARTIFICIAL KNEE JOINTS: completely manufactured in 110 minutes on the DMC 75 V *linear* vertical machining centrewith 5-axis precision machining linear drive technology in all axes and rigid bridge type design.

Supplementary Report

Overall economic development was again positive in the first months of the year. The economic situation of the German machine tool industry also showed positive development at the start of the year.

Economic Development 2007

Overall economic development showed an upwards trend in the initial months of the current year. However, the Organisation for Economic Cooperation and Development (OECD) is of the opinion that the economic upturn will lose momentum over the year. China and the USA remain the driving motors of worldwide economic development.

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

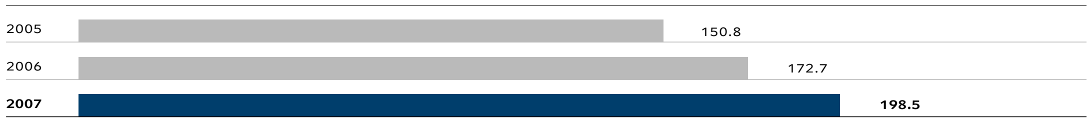
At the start of the current year the economic situation of the **German machine tool industry** was also positive. Accordingly sales revenues in the industry developed positively. The German machine tool builders' association (VDW) estimates order backlog to be 6.8 months. However, the figures currently available do not yet permit any valid statements on further trends.

Source: VDW (German Machine tool builders' association)

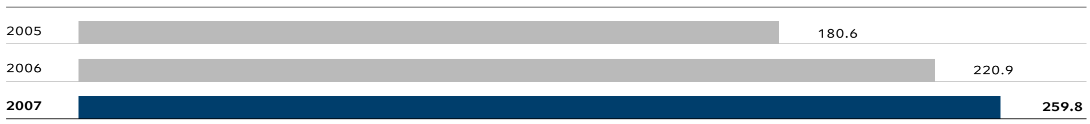
Corporate situation at the end of the reporting year

GILDEMEISTER made a successful start to the new business year. Once again the **course of business** in January and February was stronger than in the previous year. In this period sales revenues of € 198.5 million were 15% above the comparable figure for the comparable months of the previous year (€ 172.7 million). Order intake of € 259.8 million or +18% exceeded that of the first two months of the previous year (previous year: € 220.9 million). On 28 February order backlog amounted to € 508.0 million (figure for the previous year: € 395.0 million). The results for January and February also improved compared to the previous year. At this moment in time it is not yet possible to issue a more detailed statement in this regard.

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



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



The DMC 55 H world innovation was presented in Pfronten

The highlight of our **marketing activities** was the traditional in-house exhibition at our Pfronten site at the start of the year. The DMC 55 H world innovation was one of 37 machines presented at DECKEL MAHO in the Allgäu. A total of 3,086 trade visitors were informed about our DMG products. We achieved a record order intake and thus made a successful start to the new financial year. At the IMTEX in Bangalore, the important trade fair for the emerging Indian market, GILDEMEISTER also presented its range of products to a broad spectrum of trade visitors.

The in-house exhibition in Pfronten provided the context for the GILDEMEISTER **Suppliers' Day** on 8 February 2007. For the seventh time the "Supplier of the Year Award" was presented before the invited guests in the categories quality, supply performance, innovation and overall winner.

In the first two months **selling prices** were raised by approximately 1 to 4% depending on market conditions and each particular product.

In the first two months of 2007 there were no changes to the **organisational structure** nor to the **legal corporate structure.** Neither were there any **acquisitions of interests** or business units.

As of 20 January 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 now 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 reached. The following thresholds trigger a duty of notification: 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50% and 75%.

Changes to the shareholder structure: On 1 March 2007 the Governance for Owners LLP, London, Great Britain, informed us pursuant to Section 21 paragraph 1 of the WpHG that their share of voting rights in GILDEMEISTER Aktiengesellschaft of 3.02% (1,308,873 shares) had exceeded the 3% threshold on 28 February 2007.

On 2 March 2007 JPMorgan Chase & Co., New York, United States of America, informed us pursuant to Section 21 paragraph 1 of the WpHG that their share of voting rights in GILDEMEISTER Aktiengesellschaft of 3.51% (1,519,443 voting rights), assigned from their subsidiary JPMorgan Asset Management UK Limited, London, Great Britain, had exceeded the 3% threshold on 27 February 2007.

Within the scope of the annual assessment of **corporate ratings** the rating agency Moody's improved the rating of GILDEMEISTER Aktiengesellschaft on 1 March 2007 and the rating agency Standard & Poor's also improved the rating on 2 March 2007. Moody's raised the rating forecast from "negative" to "stable". Moody's considers a further upgrade in the rating possible if the group's improved key figures stabilise within the next 12 to 18 months. Standard & Poor's raised us one rating class from "B+" to "BB-" with a stable outlook.

General statement: The positive development of the last financial year continued unabated at the start of 2007. In January and February both order intake and sales revenues, as well as the result, were higher than the previous year's figures. We have thereby laid the foundation 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 a policy and are reinforced by control measures.

Opportunities and Risk Management System: The capability to identify, analyse and control risks is an important factor in our corporate governance. In combination with our internal monitoring system we are able to identify and counteract any developments that could critically affect the continuity of the business. In principle, our risk management system uses the group's organisational, reporting and management structures and supplements these with specific elements required to secure the proper management of risks. The core of 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 overall reporting structure within each area and across all areas
5. the risk reporting system at group and at company level.

We have a comprehensive risk management

Within this risk management system significant risks to GILDEMEISTER are regularly identified, monitored and continuously reported. Risks are quantified wherever possible on the basis of reliable methods. If it is possible to offset a risk reliably using effective countermeasures, only the residual risk is presented. This quantified residual risk is assessed on a probability of occurrence basis and presented in the Risk Management Report.

Special attention is paid to risks that endanger the future of each company or the group as a going concern. GILDEMEISTER has defined that the continuity of the business is endangered if the sum of the weighted risks consumes 50% or more of the equity. If any risks are identified that endanger the continuity of the business, these must be reported immediately to the respective company management and to the Executive Board.

The illustration of the overall risk situation of the group requires the identification of local and central risks and their affect 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 can – at least in part – only be assessed centrally. These include risks arising from the group's financing.
_ Group effects usually arise from consolidation requirements. These include the impairment test of goodwill.

In order to recognise opportunities at an early stage, all customer data, as well as market and competition data, is stored and analysed in our extensive marketing information system (MIS). Using the requirement needs stored in MIS we can draw up short and medium term forecasts on expected customer orders per machine type and sales region. The MIS data provides us with a variety of **early operational indicators** that advise us early of future developments. They provide the basis for business policy decisions and for using our opportunities.

Corporate strategic opportunities: A sustained leadership in technology and innovations together with market leadership in product quality offer opportunities to further expand our position on numerous markets. Through intensifying market development in the sales markets in the USA, China, Japan, South Korea, India, Taiwan and the Asian Pacific region, we see further potential to increase market leverage. 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 future. In the traditional industrial markets, market share can only be achieved through squeezing out competition.

Economic performance opportunities: Opportunities may arise from internal and external positive effects, such as purchase prices, successful development projects or improved quality of returns, which we will take advantage of.

Other Opportunities: We will further expand our service orientation as a full-service supplier and extend our "advanced technologies". In addition to ultrasonic and laser technology, we intend to strengthen our market presence as a supplier of alternative energy solutions.

There are no risks jeopardising the continuity of business in the group

General economic risks: Major potential risks for the GILDEMEISTER group result primarily from cyclical influences in those markets that are relevant to the company. Risk-reducing measures include the ongoing adaptation of the production schedule and capacity to the development of order intake. Potential risks also include external events, rising energy costs or delays in deliveries of supplies. In general, and from today's perspective, there are no risks arising from overall economic development that could jeopardise the continuity of business at GILDEMEISTER.

Sector risks: GILDEMEISTER counteracts risks arising out of cyclical trends with technological superiority, which we were once again able to demonstrate in the third quarter at the world's major trade fairs for the industry, and with an attractive product range and broad customer base. From today's perspective we do not expect any major adverse effects to our income, financial and net worth position. Through a trend towards rising costs 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 this risk with market and product-related innovations.

Risks from operative tasks: Our products continue to be subjected to constant price competition in the international markets, which we are counteracting through cost reductions, improved manufacturing and procurement processes, and by optimising production start-ups. The intrinsic value on loss carry forward of deferred taxes on the assets side may be adversely affected by changes in the rate of tax as well as by the results of operations at the corresponding companies. We currently estimate the necessity to carry out value adjustments of € 2 million as low risk.

Derivate financial instruments limit currency-related risks

Risks from financing and evaluation: Limiting financial and valuation risks is one of the core operational tasks of the GILDEMEISTER Aktiengesellschaft. We do not expect any substantial restrictions on business development from the current development of capital markets and interest rates. Currency-related risks may arise due to the international orientation of our business activities. We limit these risks through the use of derivative financial instruments, among others. GILDEMEISTER has stipulated permissible hedging instruments in a currency policy. We use these exclusively to safeguard underlying transactions but not for trading or speculative purposes. More detailed information in this respect is given in the Notes starting on page 133. According to our evaluations, currency-related risks are low. In the reporting year the balance of currency gains and losses amounted to € -2.1 million. In order to control and monitor liquidity we use financial planning and analysis instruments, which we are developing continually. 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 a syndicated loan facility with a total volume of € 175 million with a term until June 2011. For this purpose indices (covenants) were agreed based on our corporate planning. If any of the covenants is breached, creditors are entitled to terminate the agreement. At the balance sheet date all covenants were observed. We consider the risk of a termination of the agreement to be low. An improvement in the indices will reduce the credit margin agreed with the banking consortium. About three-quarters of our outside financing volume 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 the interest rates pertaining to the non-hedged portfolio on the balance sheet date would result in an increase in interest expenditure of about € 0.4 million.

Corporate strategic risks arise mainly from erroneous interpretations of future market developments and from misguided technological developments. GILDEMEISTER pursues a strategy of profitable growth through continuous improvements in market leverage and further expanding the successful service business. We counteract these risks through intensive monitoring of the market and competition, regular strategy discussions with customers and suppliers, a comprehensive trade fair presence in all important markets and also through our MIS (Marketing Information System) early warning system, which allows us to monitor requirement behaviour and market offers worldwide. Furthermore, in the area of technology we counteract risks by forming development partnerships with customers, suppliers and technical colleges, as well as with an institutionalised development organisations across all specialist areas.

Regular investment in hardware and software

IT risks may arise from network failure or from data being falsified or destroyed through user and programme errors or through external influences. We counteract these IT risks through regular investment in our hardware and software, by the use of virus scanning programs, firewall systems, and controlling access and authorisations, as well as through regular back-up of the data. Continuous control of these measures is carried out by the data protection representative and by IT Security, which is an area newly-established in the reporting year. Risks from this area amount to about € 1 million and are controllable. According to our evaluations, the probability of their occurrence is low.

Personnel risks arise primarily from the fluctuation of employees in key positions but also in connection with the recruitment, development and layoff of staff. GILDEMEISTER limits these risks through intense further training and junior staff training programmes, appropriate remuneration, personnel standby plans and early successor planning. In our view the probability of occurrence of estimated damage of about € 6 million is low due to the measures described above.

Legal risks: The operational business of GILDEMEISTER entails legal risks, particularly with respect to the sale of machine tools and with respect to our services. Faulty deliveries and services may result in warranty and third party liability claims by our customers. Although we strive to monitor these risks through efficient quality management, such claims by our customers cannot always be avoided. To maintain the resulting risks at a manageable and calculable level, we pursue a stringent policy of limiting our warranties and liabilities. This is achieved by our general terms and conditions, which we continuously verify and adapt according to requirements. Moreover, depending on the situation, we enter into individual arrangements that take into account the specific contractual circumstances. Through consistent warranty and liability policies we are able to reduce risks from the operational business to a large extent. For this purpose we operate an up-to-date contract management system. In addition, we carry out regular employee training in the area of effective forms of contract and minimisation of risks.

Procurement and purchasing risks may arise through supplier shortfalls, quality problems and price increases. We regard the main risks to lie in price increases of raw materials and energy, and, given the increase in capacity utilisation, in the supply readiness of key suppliers. We counteract these risks through close collaboration with our suppliers and joint optimisation of the supply chain. Further risk reduction measures include the standardisation of structural parts and components, the expansion of production in components and entry-level machines in Poland and China, and through our international sourcing. We estimate the purchasing and procurement risk at about € 8 million, whilst the probability of occurrence is low.

Production risks are subject to continuous control at GILDEMEISTER through key data on assembly and manufacturing progress, process time and processing continuity. In addition, numerous other quality and product-related indicators are employed to monitor potential risks. These include the contribution margin per machine type and the turnover rate of raw materials, consumables and inventories. Budget overspending, misguided developments and increased start-up costs for new products may lead to risks in the area of research and development, which may amount to as much as € 3 million per development project. Through constant improvements to our development controlling we are able to minimise these risks at an early stage. We strive to counteract the risk of imitation through our innovations-oriented product strategy by which our speed of development ensures a technological lead. We have calculated production risks at about € 12 million with a low probability of occurrence.

Overall risk: No major changes have occurred in the risk situation since the publication of the last report. The overall risk for individual group companies as assessed by the risk management system was about 7% of total equity in the fourth quarter of 2006.

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

SWOT ANALYSIS OF THE GILDEMEISTER GROUP

	Strengths	**Weaknesses**
company-specific	_ modern supply programme 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 flexibility _ large and diverse customer base, _ modular products / standard parts concept, _ worldwide direct sales and service system, _ profitable service business _ (full-service supplier), _ long-term financing measures	_ 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 bonds, _ 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 _ leveraging market potential, _ new area of alternative energy, _ 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

Forecast Report

In the current financial year the global economy continues at an overall slower pace but at a high level. Current forecasts for the machine tool construction industry expect further growth in 2007. The German machine tool builders' association expects an increase in worldwide consumption of 5% and in Germany of 8%.

In the current financial year **global economic development** is continuing at an overall slower pace but at a high level. According to estimates of the Organisation for Economic Cooperation and Development (OECD) once again there will be a clear upwards trend. The Institute for the World Economies (IfW) predicts an increase in global gross domestic product (GDP) of 4.7% for 2007 and of 4.6% for 2008. Nevertheless, gross domestic product in the **USA** will not rise as much. Consumer demand is expected to slow down due to rising interest rates. Corporate investment is also expected to be less intense. The American economy is expected to grow 2.6% in 2007 and 3.0% in the following year. In **Japan** the increase in production is also expected to be somewhat subdued as consumers become more cautious. Growth forecasts for the current financial year expect 2.4% and 2.2% for 2008. In **China** the lively activity of the Chinese economy is expected to continue. Public measures to protect the economy from overheating will have hardly any negative impact. An increase in gross domestic product of 9.8% (2007) is expected and 10.0% in 2008. In **Europe** the speed of growth may slow down given the revaluation of the euro and an overall restrictive financial policy. Economic researchers predict an increase in gross domestic product for the euro countries of 2.7% in 2007 and 2.3% in 2008. For the European Union as a whole the forecasts are for 2.8% or 2.4%.

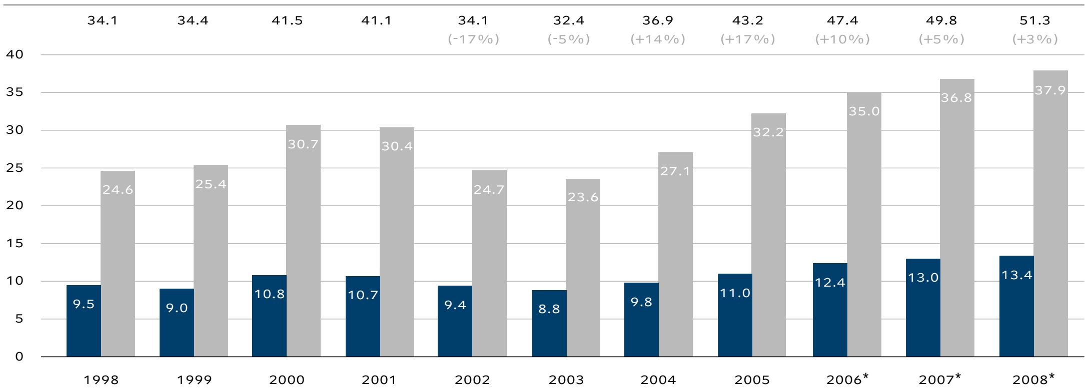
In **Germany** the upturn will continue at a slightly curbed pace. Any negative effects will be due to the higher value added tax. The Institute for the World Economies (IfW) is expecting gross domestic product to grow 2.8% (2007) and 2.4% (2008). The latest forecasts from the Institute for Economic Growth, ifo, are 1.9% (2007) and 2.3% (2008). The federal government is assuming GDP growth of 2.0% this year. More long-term forecasts have not yet been published. In their autumn survey for 2006/2007 the German Council of Economic Experts on the Assessment of Economic Trends stated foreseeable growth of 1.8% for this year. Following the positive effects already felt in the job market in 2006, the job market situation may ease further in the coming year albeit not at the previous high level. With regard to public debt, it is expected that the deficit quota will be met.

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

The **worldwide market for machine tools** will continue to develop positively in 2007. Current forecasts of the ifo Institute and of the German machine tool builders' association (VDW) expect an increase in **productive capacity** and **market volume** of 5%. We are therefore expecting a growth in **sales revenues in the industry** of 5%. This estimate is based on the positive outlook for major Asian markets such as China and India, as well as for the European markets. In 2008 the VDW expects worldwide growth 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. Nor are there any available on the development of the industry's **profitability** nor on **price** and **wages** development .

WORLDWIDE CONSUMPTION OF MACHINE TOOLS (1998 - 2008)
in € billion

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



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

In contrast to the global market, **economic activity** in the **German machine tool industry** will develop somewhat better in 2007. In view of the EMO taking place in autumn in Hanover, the VDW and the ifo Institute expect a growth in production of 7% and an increase of 8% in consumption. On a medium-term basis, forecasts for 2008 to 2010 anticipate average growth in consumption of over 1% annually. Risks affecting this forecast are seen primarily in further price increases for raw materials and energy, the exchange rate development and the prevailing political conditions.

Source: "The German Machine Tool Industry in 2006" VDW (German Machine tool builders' association)

The **consolidation process** (mergers and acquisitions) in the machine tool industry are expected to continue in the current year. As a result of consolidation, an increasing number of producers are operating in the global markets. The market entry of significant competitors and the introduction of fundamentally new **replacement products and services** are not expected.

GILDEMEISTER will continue to pursue the measures it has introduced for an increased presence in the major markets. In the current year preparations are underway for a technology centre in the fast-growing Indian market and for a new spare parts centre in Shanghai. In particular, we will significantly increase our service capacity in the Asian-Pacific region, which in turn will lead to more customer loyalty. We have also planned similar measures for the United States of America. The technology centre in Houston will be modernised and an extensive spare parts centre will be set up in Charlotte. In the future GILDEMEISTER customers should receive 24/7 service from DMG Service, that is, 24 hours a day, seven days a week.

Worldwide we expand our service

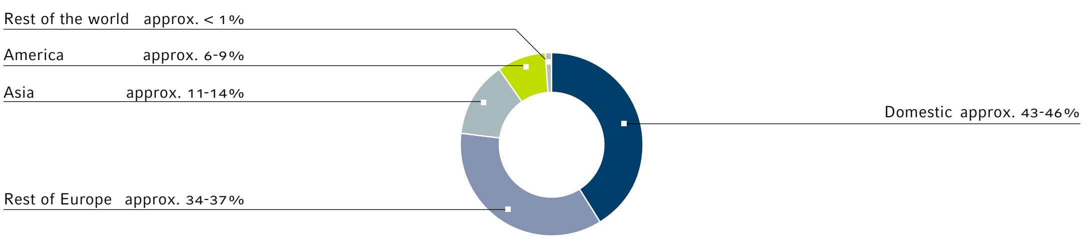
We see **future sales markets** in the growing eastern European national economies such as Hungary, Bulgaria and Rumania. In the short and medium-term GILDEMEISTER will tap into further sales markets by expanding its direct sales in Scandinavia. By applying the measures described we will further expand our global presence, bind our customers to us even more firmly and thereby cement our leading competitive position.

In the first quarter of 2007 we are expecting **order intake** of more than € 375 million (previous year's quarter: € 339.2 million). Based on the positive development of the first two month we are now aiming at an order intake of about € 1.5 billion. The present planning anticipates that the positive cyclical development will also continue in this year. The regional distribution of orders will continue to shift towards Asia. This assumption is based on the assessments of the VDW and of the ifo Institute on the development of consumption in the machine tool industry. Factors that will influence **selling prices** include changes in exchange rates and in particular competitive pressure from Asia.

We are expecting specific stimuli to come from the international trade fairs. The most important machine trade fair in Asia is the CIMT in Beijing, where GILDEMEISTER will present 19 product exhibits from 9 to 15 April. The most important trade fair for machine tools worldwide, the EMO, will take place from 17-22 September. GILDEMEISTER will present more than 60 exhibits, 12 of which will have their world premiere. 2,000 exhibitors from 39 countries have already registered and have taken exhibition space of 160,000 square metres.

In the first quarter of 2007 we are expecting **sales revenues** of more than € 300 million (previous year's quarter: € 274.1 million). Taking the order backlog into account, we aim to achieve sales of more than € 1,370 million. The distribution of sales revenues depicted in the graph is based on current order intake and expectations of the individual regions.

EXPECTED SALES REVENUES DISTRIBUTION 2007 OF THE GILDEMEISTER GROUP BY REGIONS
in %



In the first quarter **order backlog** will surpass that of the previous year. As of 28 February 2007 it amounted to € 508.0 million.

In the first quarter we expect **EBT** to be positive. In the financial year 2007 we anticipate a double-digit percentage increase in EBT and in the **annual profit.** In this respect gross profit will increase compared to the previous year. We aim to further improve the financial results. Moreover we are planning a further increase in the **dividend** for the current financial year. In the medium-term we are also aiming to reduce the tax load ratio to below 40%.

Our **financial structure** is also to be optimised further this year. In the medium-term we are aiming for an increase in the equity ratio to more than 35%. In the current financial year we are anticipating a reduction in the credit margin as this reduces successively with an improvement in the covenants (indices). We will complete the **ABS** (Asset Backed Securities) programme in the course of the year and completely achieve our financial leeway. Our activities continue to be focused on further reducing working capital and further reducing our dependency on traditional bank financing. Our decisions and measures in this respect have been confirmed by the results achieved so far.

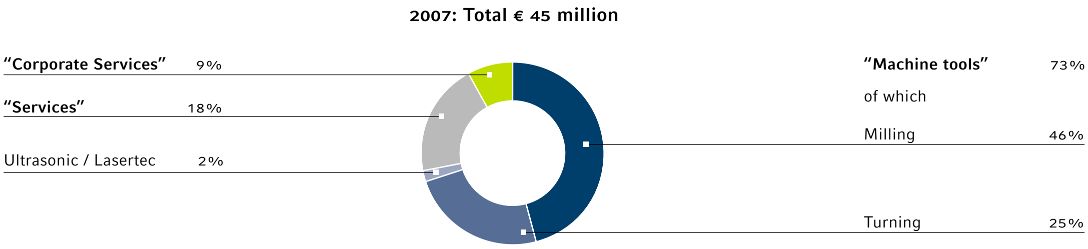
In the current financial year we will intensify our **value reporting.** Following our orientation towards returns, in addition to EBT we will use the return on capital employed (ROCE) and the relative value added, that is, the difference between ROCE and the cost of capital. Following the planned improvement in results, we are anticipating an ROCE of at least 12% for 2007. This will allow us to achieve a relative value added that will exceed the cost of capital by more than 2%.

We will continue to expand our **opportunities and risk management.** In the future risks to GILDEMEISTER might arise from cyclical effects and exogenous factors in particular. Opportunities may arise through the continuing positive development of overseas markets, through a further stabilisation of material and energy prices as well as through positive acceptance of our solar technology solutions.

We are further investing into our sites

In the current financial year we are planning to make **investments** of about € 45 million. The investment volume will be higher than the level of planned depreciation. This includes about € 7 million for capitalised development costs. In the “Machine Tools” segment we are planning investments in tangible fixed assets and intangible assets to an extent of about € 26 million. The investments are intended primarily for the modernisation of production facilities, the further expansion of capacity, and for the provision of tools, fixtures and measuring equipment for new types of machine. This will continue and complete the investments in optimum, customer-focused logistics and space concepts at the Pleszew, Bielefeld and Pfronten locations. In the “Services” segment investments are focused on tools, measuring equipment and office equipment for our sales and service companies. We plan to invest about € 8 million in fixed assets and intangible assets. We are planning to make investments of about € 4 million in the "Corporate Services" segment. The focus of our investments is on buildings and furnishings, such as the new technology center in Bielefeld. Several group companies will benefit from this new site concept. The **structure of investments** is well balanced between the varying requirements of the production sites and markets. According to current assessments, no risks are involved in the planned investments.

CONTRIBUTION BY EACH SEGMENT TO THE PLANNED INVESTMENTS IN INTANGIBLE AND TANGIBLE ASSETS
in %



In the area of **procurement** we will expand and reinforce the three pillars of our integrated procurement concept. The interaction between **coSupply®** supplier management, materials group management and integrated international sourcing facilitates further development for our suppliers through clearly defined targets, methods and processes. At the same time we are concentrating worldwide on our most efficient partners and will further increase their contribution to the purchasing volume. Similarly, a high level of innovative power, excellent delivery quality and availability are the standards by which we measure our supply partners. Together with our suppliers, we continuously identify further cost potential in our products and processes, which we both consistently implement. In our international sourcing we promote procurement from globally operating suppliers, who can utilise local advantages with regard to quality, costs and efficiency. As an example of this, GILDEMEISTER will further increase the local content of the machines at the Shanghai plant.

We increasingly take advantage of our regional sites

The worldwide coordination of our procurement activities is the core task of our materials group management, which follows and implements our value added optimisation strategy. To increase the mechanical features of new start-up machine types, we are making more use of high-quality spheroidal graphite iron. Thus a focal point in this respect is the procurement of medium and high complexity cast parts of high duty materials. Achieving these high technological and quality requirements of the cast iron in the countries of central and eastern Europe will remain a challenge in 2007, not only for our procurement staff but also for our supply partners. We will therefore continue and intensify the systematic and comprehensive development of suppliers in our coSupply® supplier management programme. Our materials group management enables us to sustain reduced **procurement costs** through a pooling of volumes. Projects for a reduction in inventory tie-up and an increase in the group's **liquidity** will be continued with selected suppliers. A stable and reliable supply of our production is safeguarded through basic agreements that are coordinated throughout the group, as for the "A" component range of aggregates, modules and subassemblies, for example. We expect the **costs of basic commodities** to remain at a high level and we anticipate price increases for raw materials such as cast iron and steel to cause a rate of price increase of 2-3% in relation to the group's entire purchasing volume in 2007. In order to identify the potential for standardisation and integration early in the product development process and to implement these together with our suppliers, we will continue and strengthen the efficient collaboration between Central Development Coordination and Purchasing. Standardisation, such as for components like motor spindles, leads to a reduction in the number of suppliers and variants. The early involvement of our supply partners (Early Supplier Involvement) facilitates the implementation of this strategy and allows us to exploit the potential identified. In this way we are able to benefit from the innovative power of our suppliers and lessen any follow-up costs of development.

Basic agreements safeguard stable and reliable supply

In the current financial year our activities in **Production and Logistics** will be marked predominantly by increases in capacity and construction projects at the Pleszew, Bielefeld and Pfronten locations. Moreover, the continued simplification and standardisation of processes and sequences must continually allow for the changing peripheral conditions. Alongside this we will explore the potential of shift operation, which is possible, for example, at the new production line at DECKEL MAHO Seebach. We will have completed these processes to the largest extent by mid-2007. Our PULLplus value added system provides the framework and the basis for this continuous increase in efficiency. In this way **new procedures** increase our process capital by enabling us to reduce stocks and processing times in the process chain. An example of this is the electronic supplier cockpit, which reduces stocks and optimises processes by way of an improved exchange of data and order processes based on the Kanban system. In addition, PULLplus stands for the net benefit of improvement suggestions as well as the number of suggestions for improvement per employee. The worldwide introduction and the expansion of our modular workflow management system, Front Office, supports and optimises technical processes within the entire order processing chain. Front Office uses existing IT systems, such as the group standardised BaaN ERP system, and supports the handling of tasks process-oriented. This allows us to concentrate on our core expertise and to achieve an increase in **production flexibility** and in **capacity utilisation** at the production sites. Currently there are no generally accepted formulae that can be intelligently applied to determine the capacity utilisation of assembly operations, thus we are unable to provide any quantitative information on capacity utilisation.

We present 17 new developments

We will extend our **"Machine Tools" segment** by 17 new developments and prove our innovative strength once again. In the **Milling division** DECKEL MAHO Pfronten is extending the scope of application of the DMC H and the DMU lines. DECKEL MAHO Seebach will complete the range of its DMU eVolution line with one new machine, which, like the new vertical machining centre in the DMC V line, is based on the platform principle and thus safeguards a high level of reusability of the parts selection.

In the **Turning division** GILDEMEISTER Drehmaschinen GmbH will launch the fifth generation of the CTX line and further strengthen its position in the universal CNC lathes area. The GMX line of production milling and turning centres will likewise be strengthened.

The **Ultrasonic/Lasertec division** rounds off its range of products in the new processes of lasertec and ultrasonic technology with new products from both the high-speed cutting (HSC) area and the larger machines from the Lasertec line. The extension and enhancement of our range of options will allow us to keep pace with market development and changing customer requirements in the future. Furthermore, we are anticipating a growth in customised solutions in the automated business. Over the course of the year we will present our new developments at international trade fairs as well as at our in-house exhibitions at our production sites.

We will strengthen the **"Services" Segment** by increasing our service products. These include innovative software solutions, tool management to increase productivity, individual upgrade packages and original spare parts, forming the main elements of efficient, precise and flexible product solutions. We are hereby keeping pace with the market trend towards product-associated services covering all aspects of the machine tool. We will continually enhance our accompanying offer of training and user-oriented services.

In the financial year 2007 we will maintain our adherence to our innovations-oriented strategy in **Research and Development** and will continuously optimise and upgrade the product lines in all divisions. The planned spending volume on R&D amounts to some € 45 million. Our activities continue to be directed towards innovative technologies which will enable us to continue setting future trends. Our focus is on the steady improvement in the performance of our products and on technological integration, for example by combining milling and laser processes, and also in the turning and milling machine area. Intelligent and flexible software products increase the performance capability of our products through offering improved usability or more in-depth simulation. In the area of system integration, in particular, we work closely with our suppliers and research organisations in the field 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. We continually develop the expertise of our employees in this area through training measures and thus ensure the preconditions for building up our lead in technological superiority.

In the financial year 2007, the group's **legal corporate structure** will change with the setting up of more sales and service companies in Scandinavia and Hungary.

We will continue to compete for good **personnel** In line with current plans, we expect a 5% increase in the number of employees, including trainees, in 2007. The increasing trend towards globalisation will continue and 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. We aim to recruit a large number of our future skilled and executive personnel from our own ranks. In addition, the "exchange of best practices" amongst trainees and other staff at the group companies will be promoted further. This gives both young and experienced employees the opportunity to work in other countries of the world.

We want to grow in a profit-oriented way

General statement for the financial year 2007: GILDEMEISTER expects the positive business and earnings development to continue throughout the year. The measures introduced in recent years to optimise performance and costs have paid off. The group is well-placed to realise its income-directed growth within the scope of the "GILDEMEISTER 2010 Strategy". In the first quarter of 2007 we have already been able to seamlessly follow on from the success of the previous year. In 2007 we plan to increase sales revenues and income, provided that our relevant markets continue to develop steadily and the demand for machine tools continues as expected. We plan to achieve an order intake of about € 1.5 billion. Taking the order backlog into account, we aim to achieve sales revenues of more than € 1,370 million. For the financial year 2007 we expect a double-digit percentage increase in EBT and in the annual profit. We plan a further increase in the dividend for the current financial year.

We also expect the trend of the last few years to continue into the **financial year 2008.** We are planning a comparable level of order intake. We anticipate being able to achieve sales revenues in the region of more than € 1.4 billion. Our target for EBT and the annual profit remains the further strengthening of our income. We will continue our value and growth-focused strategy and continually improve the quality of our results.

We intend for our growth to be organic and to be strongly driven by our own innovative power. Innovative ideas and breaking ground in machine technology, services and software products provide the important key to ensuring the future of GILDEMEISTER as a technology group. Our success in the coming years will be determined by the ability of our developers to solve our customers' problems better than ever before. We employ more than 400 developers and have been investing about € 40 to € 50 million annually for ten years in innovations in order to ensure our technological lead. We are represented worldwide at all the important trade fairs for the industry and use these forums not only to publicise our lead but also to build upon it even more.

Innovation is our advantage

Our customers know that by using GILDEMEISTER machine tools and services they in turn can offer their customers added value. That is why they choose GILDEMEISTER – and not just recently but for more than 137 years.

This is based on trust. Trust in the capabilities of the company and in the people who shape it. The role of GILDEMEISTER in the world and the role of GILDEMEISTER in Germany are inextricably linked together. Our technical know-how combined with our many years' experience provide the basis for our growth. GILDEMEISTER is to remain the permanent market and innovations leader of all globally active suppliers of metal-cutting machine tools and technical service.

Aerospace
Toys
Electronics
Medicine
Sport

How can we make movement safer?

By having solutions ready to avoid future risks.

DEEP DRAWING SHAPE FROM ALUMINIUM FOR CYCLE HELMETS: Completely manufactured in 150 minutes on the DMU 80 MONOBLOCK® universal milling machine in 5-axis machining with high speed swivel head.

Consolidated Income Statement
for the period 1 January to 31 December 2006
of GILDEMEISTER Aktiengesellschaft

	NOTES	2006 € K	2005 [1] € K
Sales revenues	6	1,328,971	1,125,897
Changes in stocks of finished goods and work in progress		-5,131	11,195
Capitalised payments	7	6,276	9,141
Total work done		**1,330.116**	**1,146,233**
Other operating income	8	23,430	34,606
		1,353,546	1,180,839
Cost of materials	9		
Cost of raw materials, consumables and goods for resale		580,239	506,784
Cost of purchased services		117,914	101,757
		698,153	608,541
Personnel costs	10		
Wages and salaries		267,146	246,942
Social security contributions, pensions and other benefits		53,055	48,984
		320,201	295,926
Depreciation of fixed assets	11	32,600	31,369
Other operating expenses [1]	12	220,121	186,171
Operating result		82,471	58,832
Financial income	13		
Interest receivable		1,406	1,711
Other income		226	358
		1,632	2,069
Financial expenses [1]	14		
Interest expenses		31,514	31,500
Interest expense from pension provisions		1,490	1,638
Other financial expenses		3,681	2,398
		36,685	35,536
Financial result		-35,053	-33,467
Profit on ordinary activities		47,418	25,365
Taxes on profit	15	20,318	11,835
Annual profit		27,100	13,530
Profit share to other shareholders	16	-143	-189
Profit share of shareholders of GILDEMEISTER Aktiengesellschaft		27,243	13,719
Earnings per share in accordance with IAS 33 in €	**17**	**0,63**	**0,32**

[1] Previous year's figures adjusted for statement of transaction costs

Consolidated Balance Sheet as at 31 December 2006 of GILDEMEISTER Aktiengesellschaft

ASSETS	NOTES	31 DEC. 2006 € K	31 DEC. 2005 € K
Long-term assets			
Intangible assets	18	97,387	100,928
of which Goodwill		70,551	67,929
Tangible assets	19	167,850	161,191
Financial assets	20	183	234
Trade debtors	21	840	1,276
Other long-term assets	21	18,545	10,900
Deferred taxes	26	31,396	27,669
		316,201	**302,198**
Short-term assets			
Inventories	22	292,964	288,777
Trade debtors	23	252,530	286,822
Other short-term assets	23	49,927	61,600
Cash and securities	24	42,181	22,019
Long-term assets held for disposal	25	1,054	0
		638,656	**659,218**
		954,857	**961,416**

EQUITY AND LIABILITIES	NOTES	31 DEC. 2006 € K	31 DEC. 2005 € K
Equity			
Subscribed capital	27	112,587	112,587
Capital provisions		68,319	68,319
Revenue provisions		108,070	85,014
Shares to other shareholders		-402	-138
		288,574	**265,782**
Long-term liabilities			
Long-term financial liabilities	30	226,649	266,509
Pension provisions	28	27,971	27,479
Other long-term provisions	29	23,558	22,317
Trade creditors	32	654	1,787
Other long-term liabilities	32	8,912	8,128
Deferred taxes	26	9,655	7,988
		297,399	**334,208**
Short-term liabilities			
Short-term liabilities	30	32,189	43,809
Short-term provisions	29	114,677	75,611
Payments received on account		54,983	32,486
Trade creditors	33	130,221	143,106
Bills of exchange payable	31	78	16,773
Other short-term liabilities	33	36,736	49,641
		368,884	**361,426**
		954,857	**961,416**

Consolidated Cash Flow of GILDEMEISTER Aktiengesellschaft

CASH FLOW FROM CURRENT OPERATIONS	2006 € K	2005 € K	CHANGES AGAINST PREVIOUS YEAR € K
Earnings before taxes (EBT)	47,418	25,365	22,053
Depreciation of assets	32,600	31,262	1,338
Net interest expenses	35,053	33,467	1,586
Change in long-term provisions	243	1,238	-995
Other expense/income not affecting payments	-210	-1,636	1,426
Change in short-term provisions	34,605	-1,729	36,334
Income from the disposal of fixed assets	-507	-899	392
Income tax refunds	278	565	-287
Income taxes paid	-18,836	-8,930	-9,906
Interest received	1,346	1,448	-102
Interest paid	-29,341	-30,978	1,637
Changes in current assets			
Inventories	-5,991	-17,244	11,253
Trade debtors	32,084	-3,399	35,483
Other assets not from investments or financing activity	2,354	-14,605	16,959
Trade creditors	-13,743	4,118	-17,861
Other liabilities not from investment or financing activity	-9,220	9,150	-18,370
	108,133	**27,193**	**80,940**
CASH FLOW FROM INVESTMENT ACTIVITY			
Amounts received from the disposal of tangible assets and intagible assets	1,592	2,610	-1,018
Amounts paid out for investments in tangible assets	-27,156	-17,645	-9,511
Amounts paid out for investments in intangible assets	-7,736	-8,969	1,233
Amounts paid out for investments in financial assets	-1,787	-425	-1,362
	-35,087	**-24,429**	**-10,658**
CASH FLOW FROM FINANCING ACTIVITY			
Dividends paid	-4,330	-	-4,330
Amounts paid out for repayments of (financing) credits	-48,141	-41,546	-6,595
Amounts received from investment allowance/grant	-	89	-89
Amounts paid to other sharholders	-	-258	258
	-52,471	**-41,715**	**-10,756**
Changes affecting payments	20,575	-38,951	59,526
Consolidation and exchange rate related changes not affecting payments	-314	574	-888
Cash and cash equivalent fund as at 1 January	21,920	60,297	-38,377
Cash and cash equivalent fund as at 31 December	**42,181**	**21,920**	**20,261**

See explanatory notes included to the Consolidated Financial Statements

Development of Group Equity
GILDEMEISTER Aktiengesellschaft for the period
1 January 2006 to 31 December 2006

			Revenue provisions				
	Subscribed capital € K	Capital provisions € K	Revenue provisions € K	Difference from current translation € K	Market valuation of derivate financial € K	Shares to other share-holders € K	**Total € K**
As at 1 Jan. 2005	112,587	68,319	73,668	-5,009	-62	1,037	250,540
Change in market valuation of derivative financial instrument					-1,891		-1,891
Consolidation transactions / other changes						-986	-986
Changes in currency				4,589			4,589
Net income recognised directly in equity				4,589	-1,891	-986	**1,712**
Annual profit			13,719			-189	13,530
Total recognised income and expense			13,719	4,589	-1,891	-1,175	**15,242**
Dividend							0
As at 31 Dec. 2005	112,587	68,319	87,387	-420	-1,953	-138	**265,782**

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

See explanatory notes in the Consolidated Financial Statements page 34 et sqq.

Fixed Asset Movement Schedule
as at 31 December 2006 of GILDEMEISTER Aktiengesellschaft

ACQUISITION AND PRODUCTION COSTS

Intangible assets	
Goodwill	
Development costs	
Industrial property and similar rights	
Payments on account	
Tangible assets	
Land and buldings	
Technical equipment and machinery	
Other equipment, factory and office equipment	
Payments on account and construction in progress	
Financial assets	
Shares in affiliated companies	
Securities	
Total fixed assets	

DEPRECIATION

	AS AT 01 JAN. 2006 € K	OTHER CHANGES € K
Intangible assets		
Goodwill	0	0
Development costs	21,077	-32
Industrial property and similar rights	40,792	8
Payments on account	607	0
	62,476	**-24**
Tangible assets		
Land and buldings	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		
Shares in affiliated companies	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 € K
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**

				NET BOOK VALUE	
ADDITIONS € K	DISPOSALS € K	BOOK TRANSFERS € K	AS AT 31 DEC. 2006 € K	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**

Consolidated Fixed Asset Movement Schedule as at 31 December 2005 of GILDEMEISTER Aktiengesellschaft

ACQUISITION AND PRODUCTION COSTS

Intangible assets	
Goodwill	
Development costs	
Industrial property and similar rights	
Payments on account	
Tangible assets	
Land and buldings	
Technical equipment and machinery	
Other equipment, factory and office equipment	
Payments on account and construction in progress	
Financial assets	
Shares in affiliated companies	
Securities	
Total fixed assets	

DEPRECIATION

	AS AT 01 JAN. 2005 € K	OTHER CHANGES € K
Intangible assets		
Goodwill	0	0
Development costs	12,607	2
Industrial property and similar rights	38,458	-628
Payments on account	607	0
	51,672	**-626**
Tangible assets		
Land and buldings	49,399	203
Technical equipment and machinery	45,252	379
Other equipment, factory and office equipment	65,600	310
Payments on account and construction in progress	61	17
	160,312	**909**
Financial assets		
Shares in affiliated companies	0	0
Securities	0	0
	0	**0**
Total fixed assets	**211,984**	**283**

AS AT 01 JAN. 2005 € K	OTHER CHANGES € K	ADDITIONS € K	DISPOSALS € K	BOOK TRANSFERS € K	AS AT 31 DEC. 2005 € K
67,929	0	0	0	0	67,929
36,852	6	7,695	107	4,574	49,020
44,963	-592	897	35	238	45,471
840	0	377	0	-233	984
150,584	**-586**	**8,969**	**142**	**4,579**	**163,404**
174,615	858	2,304	1,381	-252	176,144
60,871	587	2,564	2,645	665	62,042
87,336	718	10,704	3,960	150	94,948
838	123	2,272	56	-568	2,609
323,660	**2,286**	**17,844**	**8,042**	**-5**	**335,743**
208	1	0	0	0	209
32	0	25	11	0	46
240	**1**	**25**	**11**	**0**	**255**
474,484	**1,701**	**26,838**	**8,195**	**4,574**	**499,402**

				NET BOOK VALUE	
ADDITIONS € K	DISPOSALS € K	BOOK TRANSFERS € K	AS AT 31 DEC. 2005 € K	AS AT 31 DEC. 2005 € K	AS AT 31 DEC. 2004 € K
0	0	0	0	67,929	67,929
8,468	0	0	21,077	27,943	24,245
2,996	34	0	40,792	4,679	6,505
0	0	0	607	377	233
11,464	**34**	**0**	**62,476**	**100,928**	**98,912**
5,860	128	-178	55,156	120,988	125,216
4,120	2,542	360	47,569	14,473	15,619
9,366	3,738	-182	71,356	23,592	21,736
431	38	0	471	2,138	777
19,777	**6,446**	**0**	**174,552**	**161,191**	**163,348**
21	0	0	21	188	208
0	0	0	0	46	32
21	**0**	**0**	**21**	**234**	**240**
31,262	**6,480**	**0**	**237,049**	**262,353**	**262,500**

Segmental Reporting in the Consolidated Financial Statements as at 31 December 2006 for GILDEMEISTER Aktiengesellschaft

SEGMENTATION BY BUSINESS SEGMENTS	"MACHINE TOOLS" 2006 € K	2005 € K	CHANGES AGAINST PREVIOUS YEAR € K	%	"SERVICES" 2006 € K	2005 € K
Sales revenues with third parties	922,422	788,042	134,380	17.1	406,281	337,356
EBITDA [1]	70,463	54,477	15,986	29.3	61,529	46,738
EBIT [1]	46,048	30,303	15,745	52.0	55,965	41,622
Net interest income [1]	-11,258	-12,113	855	-7.1	-12,381	-13,627
Profit/loss on ordinary activities	34,790	18,190	16,600	91.3	43,584	27,995
Segment assets	685,540	652,064	32,476	5.0	504,290	460,012
Segment liabilities	435,551	458,555	-23,004	-5.0	386,537	411,713
Investments	25,377	18,930	6,447	34.1	7,652	6,668
Depreciation	24,415	24,174	241	1.0	5,564	5,116
Employees	3,357	3,270	87	2.7	2,126	1,935

[1] Previous year's figures adjusted for statement of transaction costs

SEGMENTATION BY GEOGRAPHICAL REGIONS	GERMANY 2006 € K	2005 € K	CHANGES AGAINST PREVIOUS YEAR € K	%	REST OF EUROPE 2006 € K	2005 € K	CHANGES AGAINST PREVIOUS YEAR € K	%	NORTH AMERICA 2006 € K	2005 € K
Sales revenues with group companies	326,180	275,982	50,198	18.2	114,481	96,006	18,475	19.2	2,509	2,813
Sales revenues with third parties	740,764	641,670	99,094	15.4	425,840	344,923	80,917	23.5	76,742	78,472
Segment assets	796,861	826,056	-29,195	-3.5	402,858	420,987	-18,129	-4.3	49,187	50,538
Investments	25,140	18,029	7,111	39.4	10,441	7,353	3,088	42.0	170	129

Changes against previous year		"Corporate Services"		Changes against previous year		Transition		Group		Changes against previous year	
		2006	2005			2006	2005	2006	2005		
€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	€ K	€ K	%
68,925	20.4	268	499	-231	-46.3	0	0	1,328,971	1,125,897	203,074	18.0
14,791	31.6	-16,523	-10,708	-5,815	54.3	-398	-306	115,071	90,201	24,870	27.6
14,343	34.5	-19,144	-12,787	-6,357	49.7	-398	-306	82,471	58,832	23,639	40.2
1,246	-9.1	-11,361	-7,642	-3,719	48.7	-53	-85	-35,053	-33,467	-1,586	4.7
15,589	55.7	-30,505	-20,429	-10,076	49.3	-451	-391	47,418	25,365	22,053	86.9
44,278	9.6	681,891	588,862	93,029	15.8	-915,864	-739,522	954,857	961,416	-6,559	-0.7
-25,176	-6.1	343,680	286,155	57,525	20.1	-518,982	-475,690	646,786	680,733	-33,947	-5.0
984	14.8	4,163	1,240	2,923	235.7	0	0	37,192	26,838	10,354	38.6
448	8.8	2,621	2,079	542	26.1	0	0	32,600	31,369	1,231	3.9
191	9.9	75	67	8	11.9	0	0	5,558	5,272	286	5.4

Changes against previous year		Asia		Changes against previous year		Other		Changes against previous year		Transition		Group		Changes against previous year	
		2006	2005			2006	2005			2006	2005	2006	2005		
€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	€ K	€ K	%
-304	-10.8	11,370	10,721	649	6.1	1,062	756	306	40.5	-455,602	-386,278	0	0	0	0.0
-1,730	-2.2	77,188	51,548	25,640	49.7	8,437	9,284	-847	-9.1	0	0	1,328,971	1,125,897	203,074	18.0
-1,351	-2.7	99,185	92,082	7,103	7.7	7,840	7,245	595	8.2	-401,074	-435,492	954,857	961,416	-6,559	-0.7
41	31.8	1,382	1,196	186	15.6	59	131	-72	-55.0	0	0	37,192	26,838	10,354	38.6

Notes to the Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft

1 APPLICATION OF REGULATIONS

The Consolidated Annual Financial Statements for GILDEMEISTER Aktiengesellschaft as at 31 December 2006 were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, Great Britain, applicable on the reporting date. All mandatory International Accounting Standards (IAS) and interpretations by the International Financial Reporting Interpretations Committee/Standing Interpretations Committee (IFRIC/SIC) required for the financial year 2006 were applied. The Notes to the Consolidated Financial Statements include further explanatory notes 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 Income Statement, the Balance Sheet, 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 for the year ending 31 December 2006 are available in the Electronic Bundesanzeiger and the Commercial Register as well as on our website www.gildemeister.com.

The Executive Board of GILDEMEISTER Aktiengesellschaft released the Consolidated Financial Statements and the Group Management Report on 7 March 2007 for submission to the Supervisory Board. The Supervisory Board is responsible for reviewing the Consolidated Financial Statements and for declaring whether it approves of the Consolidated Financial Statements.

2 CONSOLIDATED GROUP

NUMBER OF FULLY CONSOLIDATED COMPANIES

	31 DEC. 2006	31 DEC. 2005
Domestic	24	25
International	40	38
Total	**64**	63

At the reporting date the GILDEMEISTER group comprised 65 companies (previous year: 64), including GILDEMEISTER Aktiengesellschaft, 64 of which (previous year: 63) 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 2006:

- DMG Asia Pte. Ltd., Singapore,
- DMG Scandinavia Sverige AB, Sollentuna.

Compared to the previous year the following company is no longer included in the consolidated group:

- DECKEL MAHO Geretsried GmbH, Geretsried.

On 5 July 2006, DMG Vertriebs und Service GmbH founded DMG Asia Pte Ltd., with its headquarters in Singapore, to bundle its sales activities in Asia. The share capital of € 6,000 K is fully paid up. DMG Scandinavia Sverige AB, Sollentuna, Sweden, was founded on 28 September 2006 as a subsidiary of DMG Europe Holding GmbH, Klaus, Austria, to strengthen sales activities in Scandinavia. The share capital of SEK 9,000 K (€ 992 K) is fully paid up. Both companies were fully consolidated as of the date of their formation.

On 30 June 2006, DECKEL MAHO Geretsried GmbH merged with DECKEL MAHO Pfronten GmbH with retroactive effect as of 1 January 2006. GILDEMEISTER Beteiligungen AG now holds 89.38% of the shares and GILDEMEISTER Aktiengesellschaft 10.62% of the shares in DECKEL MAHO Pfronten GmbH.

As part of the restructuring activities carried out at the Italian subsidiaries, on 4 August 2006 GILDEMEISTER Italiana S.p.A. disposed of its interest in GRAZIANO Immobiliare S.r.l. to GILDEMEISTER Beteiligungen AG at book value and spun off its 100% interest in each of DMG Italia S.r.l., GRAZIANO Tortona S.r.l. and SACO S.p.A. to GRAZIANO Immobiliare S.r.l. Finally, GILDEMEISTER Beteiligungen AG transferred its interest in GILDEMEISTER Italiana S.p.A. as a non-cash contribution at book value to GRAZIANO Immobiliare S.r.l. GRAZIANO Immobiliare S.r.l. now holds 100% of all shares in the Italian subsidiaries and was renamed GILDEMEISTER Partecipazioni S.r.l.

Effective as of 1 January 2006, GILDEMEISTER Aktiengesellschaft transferred its interests in GILDEMEISTER Drehmaschinen GmbH, GILDEMEISTER Italiana S.p.A, FAMOT Pleszew S.A. and DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co. Ltd. as a non-cash contribution at book value to GILDEMEISTER Beteiligungen AG. Effective as of 1 December 2006, GILDEMEISTER Aktiengesellschaft transferred 94.9% of its shares in DECKEL MAHO Seebach GmbH as a non-cash contribution at the tax book value to GILDEMEISTER Beteiligungen AG. As a result, GILDEMEISTER Beteiligungen AG now holds the majority of shares in the GILDEMEISTER group production plants.

Effective as of 6 April 2006, GILDEMEISTER Aktiengesellschaft acquired the remaining 1.2% of the shares in SAUER GmbH for a purchase price of € 1,447 K and now holds 100% of the shares. No undisclosed reserves or encumbrances were identified in the company's assets and liabilities, nor were any identifiable intangible assets present, the fair value of which can be determined with sufficient reliability. Goodwill resulted from the purchase of shares in an amount of € 1,354 K.

The consolidated group has not changed significantly since the previous year so that comparison with the Consolidated Financial Statements of the previous year 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 2006 nor in the previous year.

An overview of all affiliated companies is included at the end of the Notes on page 162 et seq.

3 Consolidation principles

Consolidation of investments is carried out in accordance with the purchase 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, 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.

The IFRS 3 "Business Combinations" and the 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 a separate item 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 are 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 those companies that were included in the Consolidated Financial Statements were prepared at the reporting date of the Consolidated Financial Statements and in accordance with 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.

In the interests of a more precise presentation of costs, GILDEMEISTER has made a change to the information presented in the Income Statement. Expenses from the amortisation of transaction costs for the corporate bond issue and the syndicated loan facility that were previously reported in other operational expenses are now accounted for in the financial results. The figures for the previous year have been adjusted correspondingly. The adjustment has the following impact on the statements in the 2005 Income Statement:

	31 DEC. 2005 € K	ADJUSTED € K
Other operating expenses	**188,569**	**186,171**
Financial income		
Interest receivable	1,711	1,711
Other income	358	358
	2,069	**2,069**
Financial expenses		
Interest expenses	31,500	31,500
Interest expenses from pension provisions	1,638	1,638
Other financial expenses	0	2,398
	33,138	**35,536**
Financial result	**-31,069**	**-33,467**

Changes to accounting and evaluation methods due to new standards

In the financial year 2006, the following new and adapted standards, as well as IASB/IFRIC interpretations, had to be applied mandatorily for the first time, however they had no major impact on the Consolidated Financial Statements of GILDEMEISTER:

IAS 19	Amendment to IAS 19, Employee Benefits
IAS 39	Financial instruments: Recognition and Measurement
IAS 39	Financial instruments: Recognition and Measurement including the provisions on the use of the "fair value option"
IFRS 6	Exploration and Evaluation of Mineral Resources
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

New accounting principles

The following standards and interpretations, which have been issued and adopted by the European Union by 31 December 2006 and have not yet entered into force, have not been observed in these financial statements:

_ Amendments to IAS 1 Presentation of Financial Statements – Capital Disclosures
_ IFRS 7: Financial Instruments: Information
_ IFRS 8: Segment Reporting
_ IFRIC 7: Applying the Restatement Approach under IAS 29: Financial Reporting in Hyperinflationary Economies

- IFRIC 8: Scope of IFRS 2
- IFRIC 9: Reassessment of Embedded Derivatives
- IFRIC 10: Interim Financial Reporting and Impairment
- IFRIC 11: Group and Treasury Share Transactions
- 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:

Amendments to IAS 1 Presentation of Financial Statements – Capital Disclosures

Following the amendment to IAS 1, information must be disclosed in the Financial Statements that enables the recipient of the Financial Statements to assess the objectives, methods and processes employed in managing the capital. The application of the amendment is compulsory for financial years that start on or after 1 January 2007. The first-time application will lead to more extensive information in the Notes to the Consolidated Financial Statements.

IFRS 7 – Financial Instruments: Disclosures

This standard contains all the disclosure information on financial instruments that were previously regulated in IAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions" and IAS 32 "Financial instruments: disclosure and presentation". At the same time several duties of disclosure have been amended or extended. The application of IFRS 7 is compulsory for financial years that start on or after 1 January 2007. The first-time application will lead to more extensive information in the Notes to the Consolidated Financial Statements.

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". The application of IFRS 8 is compulsory for financial years that start on or after 1 January 2009. Earlier application is also permissible. The first application of IFRS 8 by GILDEMEISTER Aktiengesellschaft in the financial year 2009 will lead to a change in information provided in the segment reporting.

IFRIC 11 – Group and Treasury Share Transactions

IFRIC 11 is not expected to have an effect on future Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft.

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, income and expenses and contingent liabilities shown in the balance sheet. These assumptions and estimates relate primarily to the definition of useful economic life, the valuation of the net realisable values of inventories, the accounting and valuation of reserves and the feasibility of future tax relief. Moreover, assumptions and estimates made on the intrinsic value of goodwill will be dealt with within the scope of the audit. 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. 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 policies have been applied:

Intangible and tangible assets

USEFUL ECONOMIC LIFE OF ASSETS

Software and other intangible assets	1 to 5 years
Development costs	3 to 5 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 out of development for machine tool projects, service products and specific software solutions were capitalised at their production costs, insofar as the definite charging to expense requirement pursuant to IAS 38 "Intangible Assets" was possible, the technical feasibility and marketing established and the anticipated generation of future economic benefit demonstrated. The 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 stated net of impairment losses.

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. Low value items were fully written off in the year of their addition. 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 tangible assets leased by way of Sale-and-Lease-Back arrangements, were recognised as finance leases, if the entire risks and rewards incidental to ownership are substantially transferred to the lessee. Leasing agreements for leased tangible assets that 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 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 30 September 2006. 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 € 39,072 K (previous year: € 38,258 K) and the "Services" segment goodwill to the value of € 31,479 K (previous year: € 29,671 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 2009. 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 6.15%. This represents a pre-tax percentage of 9.89%.

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 to an amount equal to the remaining balance.

Financial assets

The financial assets are classified as "available for sale". They are always shown at their respective acquisition costs since there is no active market for these companies and their fair value cannot be reasonably determined.

Inventories

Valuation of inventories was carried out at the acquisition or production costs or the lower net realisable value. 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 lower prices in the sales markets 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. All identifiable risks were taken into account by adjusting their relating accounts accordingly. Liquid funds are assessed at face value.

Deferred taxes

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 reclassification 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 offset these against revenue reserves was not used. The service cost is reported under personnel expenses and the interest component in proportion to pension provisions is reported in the financial result.

Pursuant to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", other provisions will only be 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. 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 as 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.

Derivative financial instruments
The hedging of risk items from currency and interest rate fluctuations is often carried out through the use of derivative financial instruments such as forward exchange dealings 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.

Currency risks
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 dealings are used primarily. The conclusion and processing of derivative financial instruments is based on binding internal regulations defining scope, responsibilities, reporting and accounting.

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

Default risks
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 superb financial standing.

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 relation – 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 consideration effects from deferred taxes. The ineffective portion of the change in fair value is recognised in the Income Statement. Amounts reported in equity are recycled to the income statement as soon as the hedged underlying transaction affects the income statement.

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. Derivative financial instruments are evaluated in the same way as for trading purposes provided that the preconditions for a cash flow hedge are not given.

Sales revenues

Pursuant to the criteria laid down in IAS 18 "Revenue", 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 case of revenue arising from the sale of goods, this is always the time of delivery. Before delivery sales revenues are recognised if the product has not been delivered at the request of the customer, legal ownership has been transferred to the customer and the customer has accepted the invoicing. Sales revenues arising from services are recognised after the services are rendered.

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 expense at the average annual market price of the euro. 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 the 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 follow:

CURRENCIES

		Current price on reporting date = € 1		Average price = € 1	
	ISO-Code	31 Dec. 2006	31 Dec. 2005	2006	2005
British pound	GBP	0.67140	0.68700	0.68227	0.68504
Swiss Francs	CHF	1.60800	1.55550	1.57514	1.54732
Polish Zloty	PLN	3.84130	3.86860	3.90443	4.03712
Czech Koruna	CZK	27.43500	28.99000	28.29000	29.80615
US Dollar	USD	1.31810	1.18340	1.25695	1.24771
Canadian Dollar	CAD	1.52940	1.37690	1.42210	1.50992
Mexican Pesos	MXN	14.32000	12.61000	13.69462	13.61308
Brazilian Real	BRL	2.81380	2.75670	2.74638	3.04968
Japanese Yen	JPY	156.65000	139.13000	146.16538	137.14308
Singapore Dollar	SGD	2.02130	1.96880	1.99498	2.07418
Malaysian Ringgit	MYR	4.64180	4.48230	4.60724	4.71004
Indian Rupee	INR	58.32000	53.28000	56.91769	54.97308
Chinese Renminbi	CNY	10.29150	9.55150	10.01160	10.22318
Taiwan Dollar	TWD	42.90100	38.95000	40.89238	40.11885
Korean Won	KRW	1,226.00000	1,191.00000	1,199.69231	1,277.08769
Australian Dollar	AUD	1.66810	1.61450	1.66378	1.63556

Notes to individual items in the Income Statement

6 SALES REVENUES

Sales revenues are broken down by distribution areas are as follows:

	2006 € K	2005 € K
Germany	612,758	501,946
EU (excl. Germany)	395,359	344,012
USA	77,920	81,343
Asia	149,641	113,253
Other countries	93,293	85,343
	1,328,971	**1,125,897**

The sales revenues are explained in the "Segmental Reporting" chapter of the Group Management Report.

Sales revenues of € 51,998 K (previous year: € 63,380 K) were recognised for which the product had not been delivered at the request of the customer, legal ownership had transferred to the customer and the customer had accepted the invoice.

7 OWN WORK CPAITALISED

Own work capitalised arises primarily from the capitalisation of development costs of machine tool projects pursuant to IAS 38 "Intangible Assets".

8 OTHER OPERATING INCOME

OTHER OPERATING INCOME	2006 € K	2005 € K
Retransfer of provisions	2,735	9,120
Retransfer of value adjustments	1,671	1,248
Profit on asset disposals	749	1,287
Receipt of payment for written off delinquent accounts	27	44
Other income unrelated to accounting period	2,034	2,793
	7,216	14,492
OTHER OPERATING INCOME		
Changes in exchange rates	7,912	9,112
Refund of expenses and on-debiting	3,856	5,142
Compensation for damages	977	1,887
Letting and leasing	694	398
Bonuses and allowances	349	719
Use of provisions	0	1,089
Other	2,426	1,767
	16,214	20,114
Total	**23,430**	**34,606**

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

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

Income from the refund of expenses and on-debiting mainly includes income from the on-debiting of advertising charges of € 988 K (previous year: € 1,000 K) and refunds of charges from the German Employment Office for part-time retirement agreements of € 619 K.

Other income includes € 537 K of accrued earnings from financial lease arrangements.

9 COST OF MATERIALS

Payments received pertain primarily to expenses for external products.

10 PERSONNEL COSTS

In the financial year 2006 pension plan expenses in the group amounted to € 21,241 K (previous year: € 17,817 K), including employer's contributions to the statutory pension insurance.

In the financial year 2006, direct remuneration of the members of the Executive Board amounted to € 3,974 K (previous year: € 2,489 K). Of this, € 1,236 K were attributed to fixed remuneration (previous year: € 1,090 K), € 2,643 K to management bonus (previous year € 1,014 K) and € 95 K to payment in kind (previous year: € 85 K). In addition € 323 K (previous year: € 177 K) were spent on pension commitments. Former members of the Executive Board and their surviving dependants were paid € 591 K (previous year: € 586 K). Pension provisions for former members of the Executive Board and their surviving dependants amounted to € 7,612 K (previous year: € 8,151 K).

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

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

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

	AVERAGE NUMBER OF EMPLOYEES		AT THE BALANCE SHEET DATE	
	2006	2005	31 DEC. 2006	31 DEC. 2005
Wage earners	1,630	1,628	1,657	1,631
Salary earners	3,572	3,462	3,710	3,452
Trainees	160	166	191	189
	5,362	5,256	**5,558**	5,272

11 DEPRECIATION

A distribution of depreciation on intangible assets, fixed assets and financial assets is illustrated in the asset movement schedule on page 116.

In the financial year 2006, total depreciation amounted to € 32,600 K (previous year: € 31,369 K). Depreciation includes reductions in value of capitalised development costs of € 2,651 K (previous year. € 0 K), as no further economic benefit is to be expected from the use of these assets.

12 OTHER OPERATING EXPENSES

EXPENSES UNRELATED TO ACCOUNTING PERIOD	2006 € K	2005 € K
Losses from fixed asset disposal	242	388
Other taxes	0	123
Other expenses unrelated to accounting period	2,577	2,535
	2,819	**3,046**
OTHER OPERATING EXPENSES		
Marketing, trade fairs and other advertising expenses	26,160	25,571
Rental and leases	25,076	21,918
Travelling and entertainment expenses	23,105	20,678
Freight out, packaging	24,822	21,441
Other external services	22,900	16,511
Sales commissions	20,407	10,546
Cost of preparation of accounts, legal and consultancy fees	10,158	8.877
Stationery, post and telecommunication expenses	9,258	8.561
Exchange rate and currency losses	10,030	7,677
Transfer to provisions	8,512	7,607
Other personnel costs	6,602	5,773
Monetary transactions and capital procurement [1]	3,328	2,239
Losses from the decline in value of assets/receivables	5,416	5,085
Insurance	3,672	3,659
Other taxes	1,524	1,362
Investor and Public Relations	1,885	2,130
Licences and trademarks	958	967
Other	13,489	12,523
	217,302	183,125
Total	**220,121**	**186,171**

[1] Adjusted: 2005 figures reduced by transaction costs (€ 2,398 K), which are presented in the financial result from 2006

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 fuel surcharges and toll fees have accrued. Overall, costs for outward freight and packaging did not rise proportionately to sales revenues due to the bundling of transport services and increasing standardisation.

The increase in expenses for rentals and leases was incurred as to € 2,688 K by software leasing expenses at GILDEMEISTER Aktiengesellschaft within the scope of an IT framework agreement.

Other external services includes expenses for temporary and freelance workers of € 10,659 K (previous year: € 8.086 K), which have mainly 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 2006, € 462 K (previous year: € 175 K) were transferred to provisions for Supervisory Board members' remuneration. Further information on the remuneration of the Supervisory Board is given in the Group Annual Report. An individual and detailed break down of the Supervisory Board members' remuneration in the financial year is set out in the Corporate Governance Report starting on page 65.

13 FINANCIAL INCOME

Interest receivable and other income of the whole group amounted to € 1,632 K (previous year: € 2,069 K).

14 FINANCIAL EXPENSES

Financial expenses of € 31,514 K (previous year: € 31,500 K) primarily involve interest expenses for group financial liabilities.

Financial expenses include the interest component of € 1,490 K (previous year: € 1,638 K) from the transfer to company pension provisions.

The 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 € 3,595 K (previous year: € 2,398 K). The change compared to the previous year results primarily from a one-time expense of € 1,548 K, which arose in connection with the discharge of the former syndicated loan facility in June 2006. The previous year's amount of € 2,398 K concerns the amortisation of transaction costs for the former credit facility. For the change made in the statement we refer to our explanatory notes starting on page 125.

15 TAXES ON PROFIT

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

	2006 € K	2005 € K
Current taxes	24,783	9,532
Deferred taxes	-4,465	2,303
	20,318	**11,835**

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 financial year 2006, an amount of € 671 K (previous year: € 1,018 K) resulted from tax income for previous years. An amount of € 2,349 K (previous year: € 940 K) is included for tax expenses for previous years.

Deferred tax income unrelated to the accounting period of € 4,720 K (previous year: € 4,335 K) is set off against deferred tax expenditure unrelated to the accounting period of € 918 K (previous year: € 3,066 K).

Tax income of € 561 K (previous year: € 1,368 K) was used from tax loss credits for which no taxes have accrued so far.

Current income tax expenditure was reduced by € 3,195 K (previous year: € 1,368 K) due to the use of tax loss credits not yet recognised from previous accounting periods. Another tax reduction in deferred tax expenditure due to tax loss not yet recognised from previous periods in the amount of € 561 K (previous year: € 1,362 K) and due to deferred tax assets from temporary differences not yet recognised in an amount of € 1,525 K (previous year: € 2,974 K) was carried out.

Writedowns of previous years' deferred tax assets arise from writedowns of tax loss credits of € 847 K (previous year: € 3,066 K) and writedowns of temporary differences amounting to € 72 K (previous year: € 1,082 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 38% (previous year: 38%) for domestic companies. International tax rates are between 19% and 41%.

Deferred tax assets and liabilities were recognised directly in equity and at the balance sheet date amounted to € 2,155 K (previous year: € 1,810 K). In the financial year 2006, the recognised income tax expenditure of € 20,318 K (previous year: € 11,835 K) increased by € 2,394 K (previous year: € 2,247 K) when compared with the expected income tax expenditure of € 17,924 K (previous year: € 9,588 K), which would arise in theory if the national tax rate of 38% (previous year: 38%) applicable for the financial year 2006 had been applied at group level. The difference between current and expected income tax expenditure is due to the following:

	2006 € K	2005 € K
Results of ordinary activities before taxes	47,418	25,365
GILDEMEISTER Aktiengesellschaft tax rate in percent	38	38
Theoretical tax income/expenditure	17,924	9,588
Tax consequences on the following influences		
Adjustment due to differing tax rate	-1,655	-534
Effects from changes in tax rate	-37	6
Tax reduction due to revenues exempt from taxation	-1,381	-1,212
Deferred taxable losses	358	634
Temporary differences	-1,453	-1,892
Tax increase due to non-deductible expenses	5,271	6,028
Tax income or expenditure for prior years	1,679	-78
Other adjustments	-388	-705
Taxes on corporate income and revenue	**20,318**	**11,835**

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

16 PROFIT SHARE OF OTHER SHAREHOLDERS

An annual loss of € 143 K (previous year: annual loss of € 189 K) is attributed to other shareholders.

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:

		2006	2005
Group result excluding profit share to other shareholders	€ K	27,243	13,719
Average weighted number of shares		43,302,503	43,302,503
Earnings per share	€	0.63	0.32

Earnings resulted exclusively from continued business. There were no diluted earnings per share in the financial year 2006 nor in the previous year.

Notes to individual balance sheet items

18 INTANGIBLE ASSETS

The goodwill stated relates as to € 68,211 K (previous year: € 66,857 K) to the asset-side difference from the consolidation of investments and as to € 2,340 K (previous year: € 1,072 K) to goodwill from the individual financial statements. The addition to the asset-side difference from the consolidation of investments resulted from the purchase of the remaining 1.2% of SAUER GmbH. This means that GILDEMEISTER is now the sole shareholder. No undisclosed reserves or encumbrances were identified in the company's assets and liabilities, nor were any identifiable intangible assets present, the fair value of which can be determined with sufficient reliability.

Intangible assets arising out of 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 amounted to € 22,260 K (previous year: € 27,943 K) at the end of the financial year. Research and development costs are immediately shown as an expense and amounted to € 33.9 million in the financial year 2006 (previous year: € 32.9 million).

The amount stated for industrial property rights and similar rights includes acquired patents, design patents and trademarks as well as data processing software. Rights and software are amortised by scheduled method over a useful economic life of one to five years.

Changes and a break down 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 Annual Report starting on page 46.

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 Annual Report starting on page 46.

The change in currency between the balance sheet dates is shown in the consolidated fixed-asset movement scheduled 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 € 3,190 K (previous year: € 4,035 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. 2006 € K	31 DEC. 2005 € K
Land and buildings	1,214	1,243
Technical equipment and machinery	399	1,394
Other fixed assets, factory and office equipment	1,577	1,398
	3,190	**4,035**

20 FINANCIAL ASSETS

Changes in the group's financial assets are illustrated in the consolidated fixed-asset movement schedule.

No impairments of financial assets were carried out in the reporting year (previous year: € 21 K).

An overview of the affiliated companies and information on principal places of business, equity capital, capital shares and results for the financial year 2006 are set out in a separate summary starting on page 162.

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

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

DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER has entered into management and profit and loss 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 Stahl- und Maschinenbau GmbH.

DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER has entered into management and profit and loss 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 (with effect from 1 Jan. 2006).

In addition a management and profit and loss transfer agreement was entered into between DECKEL MAHO Pfronten GmbH and SAUER GmbH. A further management and profit and loss transfer agreement was entered into between DECKEL MAHO Pfronten GmbH and GILDEMEISTER Beteiligungen AG (with effect from 1 Jan. 2006).

21 LONG-TERM RECEIVABLES AND OTHER ASSETS

	31 DEC. 2006 € K	31 DEC. 2005 € K
Trade debtors	840	1,276
Other long-term assets	18,545	10,900
	19,385	**12,176**

Other long-term assets include the following items:

	31 DEC. 2006 € K	31 DEC. 2005 € K
Tax refund claims	362	1,832
Creditors with debit balance and advance payments	150	529
Receivables from employees and former employees	41	36
Security deposits and other security payments	386	791
Loans to third parties	274	1
Discounted customers' bills	16,092	6,881
Other	1,240	830
	18,545	**10,900**

22 INVENTORIES

Inventories are made up as follows:

	31 DEC. 2006 € K	31 DEC. 2005 € K
Raw materials and consumables	99,138	92,354
Work in progress	96,458	89,087
Finished goods and goods for resale	94,826	104,889
Payments on account	2,542	2,447
	292,964	**288,777**

Inventories increased by € 4,187 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. Intercompany profits of € 16,925 K arose in inventories from intercompany supplies and deliveries (previous year: € 15,775 K). Any differences against the previous year were consolidated and recognised in the Income Statement.

€ 66,161 K (previous year: € 62,106 K) of inventories recorded on 31 December 2006 were recognised at their net realisable value. In the financial year depreciation of inventories in an amount of € 8,199 K (previous year: € 2,392 K) were recognised as expense in the Income Statement.

23 SHORT-TERM RECEIVABLES AND OTHER ASSETS

	31 DEC. 2006 € K	31 DEC. 2005 € K
Trade debtors	252,530	286,822
Other short-term assets	49,927	61,600
	302,457	**348,422**

Existing individual risks of € 8,327 K (previous year: € 6,579 K) were recognised by direct method of depreciation.

Other short-term assets include the following items:

	31 DEC. 2006 € K	31 DEC. 2005 € K
Tax refund claims	12,770	11,249
Creditors with debit balance and advance payments	6,489	6,386
Factoring settlement account	10,866	10,378
Receivables from employees and former employees	939	1,356
Security deposits and other security payments	2,254	1,659
Market values of derivative financial instruments	1,854	1
Loans to third parties	913	1,012
Receivables from compensation claims	372	765
Prepaid expenses	4,364	4,925
Discounted customers' bills	5,484	18,266
Other	3,622	5,603
	49,927	**61,600**

The accrued prepaid expenses primarily include interest, tenancy and insurance contributions. The remaining other assets include refund claims of € 847 K (previous year: € 1,057 K) with respect to additional compensation paid from part-time retirement agreements against the Federal Labour Office (Bundesanstalt für Arbeit).

24 CASH AND SECURITIES

At the balance sheet date bank credit balances amounted to € 42,181 K (previous year: € 21,920 K). The movement of liquid funds constituting the financial resources pursuant to IAS 7 “Cash Flow Statements” is illustrated in the Cash Flow Statement starting on page 114.

In the previous year the item included securities available for sale of € 99 K that were valued at fair market prices. They were held by GILDEMEISTER Aktiengesellschaft.

25 LONG-TERM ASSETS HELD FOR SALE

The statement of these assets in the amount of € 1,054 K pertains to the intended sale of a plot of land and a building. These are to be disposed of at book value in a sale-and-lease-back transaction in the first half of the financial year 2007. The reclassification as disposal of ”acquisition and production costs” (€ 1,818 K) and as disposal of “depreciation” (€ 764 K) is shown in the changes in tangible assets under the item “Land and buildings”. The statement of these assets is made in segmental reporting in the “Machine Tools” segment.

26 DEFERRED TAXES

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

	31 Dec. 2006		31 Dec. 2005	
	Assets	Liabilities	Assets	Liabilities
	€ K	€ K	€ K	€ K
Fixed assets	2,828	14,807	3,760	12,614
Current assets	2,031	3,870	2,446	2,735
Provisions	3,991	88	3,856	3,479
Liabilities	7,842	3,792	6,133	3,991
Tax losses carried forward	17,120	-	18,280	-
Consolidation	12,359	1,873	10,289	2,264
	46,171	24,430	44,764	25,083
Balancing out	-14,775	-14,775	-17,095	-17,095
Total	**31,396**	**9,655**	**27,669**	**7,988**

The total deferred tax assets shown in the balance sheet of € 31,396 K (previous year: € 27,669 K) include capitalised tax reduction claims of € 17,120 K (previous year: € 18,280 K) arising from the expected future utilisation of existing losses carried forward. The realisation of these losses carried forward is guaranteed with sufficient security.

The valuation of deferred tax assets was adjusted if sufficient future income cannot be expected taking into account all impacting factors. The valuation applied is subject to changes depending on future development.

The tax losses carried forward amount to € 73,115 K (previous year: € 75,997 K), of which € 18,977 K (previous year: € 17,472 K) were not recognised. Deductible temporary differences of € 72 K (previous year: € 1,082 K) are not included.

Deferred taxes are calculated on the basis of income tax rates that at the date of valuation 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 38% (previous year: 38%). Tax rates abroad are between 19% and 41%.

27 EQUITY

The movement of individual components in group equity for the financial years 2006 and 2005 is illustrated in the Development of Group Equity on page 115.

Subscribed capital

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

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital by up to € 56,000,000.00 in nominal terms during the period until 15 May 2010 by issuing new owner shares for contributions in cash and/or in kind (authorised capital). This authority can be exercised on one occasion or, in partial amounts, on more occasions.

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

With respect to a partial amount of € 5,000,000.00 the Executive Board is authorised to issue shares to the employees of the company and of companies affiliated with the company. 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 certain cases that are stipulated in detail in the Articles of Association:

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, and section 186 paragraph 3 sentence 4 of the German Companies Act (AktG), and the prorated amount of the share capital relating to the new shares that are subject to the exclusion of the subscription right in aggregate does not exceed 10% of the share capital at the time the new shares are issued. The limit of 10% of the registered capital includes shares that are sold

during the lifespan of the authorised capital to the exclusion of the shareholders' subscription rights pursuant to section 71 paragraph 1 no. 8 sentence 5 and section 186 paragraph 3 sentence 4 of the German Companies Act (AktG), and shares with respect to which a conversion right or option right or a conversion obligation or option obligation due to option and/or convertible bonds exists and that were issued by virtue of authorisation of the general meeting of shareholders from 14 May 2004 to the exclusion of the subscription right pursuant to section 221 paragraph 4 and Section 186 paragraph 3 sentence 4 of the German Companies Act (AktG). The Executive Board is authorised, with the approval of the Supervisory Board, to lay down further details for the capital increase and its implementation.

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

Capital provisions

The capital reserves include the share premium 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 provision of € 68,319,355 has not changed since the previous year.

Revenue provisions

Statutory provisions

Statutory provisions remain unchanged at € 680,530.

Other revenue provisions

Revenue provisions include prior-period profits generated by the companies included in the Consolidated Financial Statements as far as they were not distributed. Revenue provisions also include the offset of liabilities-side differences from the consolidation of investments of those subsidiaries that were consolidated before 1 January 1995, and the adjustments directly in equity in accordance with the first application of IFRS rules. Finally, they show the differences arising from foreign currency translation not reported in profit or loss in the financial statements of international subsidiaries and the post-tax effects from the valuation of financial instruments in equity. Deferred taxes recognised directly in equity amount to € 345 K (previous year: € 0 K).

A detailed overview on the composition of, or changes in, other revenue provisions in the financial year 2006 and in the previous year is included in the Development of Group Equity.

Proposed appropriation of earnings

In accordance with the German Companies Act (AktG), 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 2006 of GILDEMEISTER Aktiengesellschaft closes with an annual profit of € 14,947,368.59. It will be proposed to the General Meeting of Shareholders on 25 May 2007 that following the transfer of € 7,470,000.00 to other revenue provisions, and taking into account the profit carry forward of the previous year of € 9,108,563.05, the remaining profit of € 16,585,931.64 be appropriated as follows:

- to distribute € 8,660,500.60 to the shareholders by payment of a dividend of € 0.20 per share,
- to carry the remaining profit of € 7,925,431.04 forward to new account.

Shares held by other shareholders

Shares held by other shareholders include minority interests in the consolidated equity of the companies included and, in the financial year 2006, amount to € -402 K (previous year: € -138 K).

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 usually based on either 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 2006, the related expenses amounted to € 19,239 K (previous year: € 17,246 K). The company’s contributions to the statutory pension insurance amounting to € 15,803 K (previous year: € 14,547 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 2006 %	2005 %	OTHER COUNTRIES 2006 %	2005 %
Interest rate	4.35	4.00	3.00 – 3.50	3.00 – 3.50
Salary trend	0.00	0.00	1.00 – 5.00	2.00 – 3.00
Pension trend	1.75	1.75	1.00	0.00

The pension development includes expected future increases in salary that are assessed annually and are subject to, amongst other things, inflation and the duration of employment at the company. Since the pension commitments that were entered into at the national subsidiaries are not subject to future increases in salary, salary development was not taken into account when determining the related 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. 2006 € K	31 DEC. 2005 € K
	Cash value of provisions-financed pension commitments	41,349	43,514
–	Current value of the plan assets	-4,704	-5,008
=	Cash value of pension commitments (following deduction of plan assets)	36,645	38,506
–	Balance of actuarial profits/losses not yet recognised in the balance sheet	-8,674	-11,027
=	Net value of amounts shown in the balance sheet on the reporting date	**27,971**	**27,479**
	Of which pension provisions	**27,971**	**27,479**

The pension plan assets are fully composed of other assets. An expected interest rate of 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. 2006 € K	31 DEC. 2005 € K
	Fair Value of the assets at the start of the accounting period	5,008	5,066
+	Expected earnings from the plan assets	123	123
+	Actuarial profits (-) and losses (+)	-273	149
+	Employer contributions	217	194
+	Plan members' contributions	161	138
–	Benefits paid	-532	-662
=	Fair Value of the assets at the end of the accounting period	4,704	5,008

Of the company pension provisions amounting to € 27,971 K (previous year: € 27,479 K), € 26,915 K (previous year: € 27,160 K) are attributed to domestic group companies, representing about 96% (previous year: about 99%) 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 4.0% to 4.35% and to the change in the number of pensioners included in the calculations.

In the financial year 2006, total expenditure amounted to € 3,492 K (previous year: € 2,209 K), comprising the following components:

		2006 € K	2005 € K
	Current expenditure of service	1,511	165
+	Interest expenditure	1,490	1,638
–	Expected income from plan assets	-123	-123
+	Actuarial profits (-) and losses (+)	614	529
=	Total expenditure of payment-oriented pension plans	3,492	2,209

		2006 € K	2005 € K
	Balance sheet value as at 1 January	27,479	27,723
+	Personnel costs	3,492	2,209
–	Pension payments made	-3,000	-2,453
=	Balance sheet value as at 31 December	27,971	27,479

29 OTHER PROVISIONS

The following lists the major contents of provisions:

	31 DEC. 2006 TOTAL € K	31 DEC. 2006 OF WHICH SHORT-TERM € K	31 DEC. 2005 TOTAL € K	31 DEC. 2005 OF WHICH SHORT-TERM € K
Tax provisions	16,113	16,113	10,035	10,035
Obligations arising from personnel	60,950	41,714	48,726	26,409
Risks from warranties and retrofittings	32,821	28,878	24,765	24,765
Obligations arising from sales	17,687	17,308	8,044	8,044
Legal and consultancy fees and costs of preparation of accounts	3,196	3,196	2,542	2,542
Anticipated losses related to Incomplete contracts	43	43	305	305
Other	7,425	7,425	3,511	3,511
	122,122	98,564	87,893	65,576
Total	**138,235**	**114,677**	**97,928**	**75,611**

The tax provisions include taxes on corporate income and business profits and other company taxes that were set up for previous financial years and for the financial year 2006.

The provisions for personnel costs in the group include € 11,239 K for part-time retirement (previous year: € 8,455 K) and € 4,958 K for anniversary bonuses (previous year: € 4,799 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, 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 31 December 2006 liquid assets of € 2,961 K (previous year: € 3,706 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. 2006 € K	TRANSFERS € K	USED € K	RETRANSFERS € K	OTHER CHANGES € K	31 DEC. 2006 € K
Tax provisions	10,035	16,029	8,580	1,052	-319	16,113
Obligations arising from Personnel	48,726	38,455	24,143	1,311	-777	60,950
Risks arising from warranties and retrofitting	24,765	23,376	15,263	79	22	32,821
Obligations arising from sales	8,044	16,839	6,935	528	267	17,687
Legal and consultancy fees and costs of preparation of accounts	2,542	2,991	2,162	164	-11	3,196
Anticipated losses related to incomplete contracts	350	192	0	0	-454	43
Other	3,511	6,549	2,247	332	-56	7,425
	87,893	88,402	50,750	2,414	-1,009	122,122
Total	**97,928**	**104,431**	**59,330**	**3,466**	**-1,328**	**138,235**

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. 2006 € K	OF WHICH DUE WITHIN 1 YEAR € K	OF WHICH DUE WITHIN 1 TO 5 YEARS € K	OF WHICH DUE WITHIN MORE THAN 5 YEARS € K	31 DEC. 2005 € K
Bond	169,375	0	169,375	0	168,435
Bank loans and overdrafts [1]	67,887	26,705	28,358	12,824	116,736
Discounted customers' bills	21,576	5,484	16,092	0	25,147
	258,838	**32,189**	**213,825**	**12,824**	**310,318**
Outstanding in each maturity period at 31 Dec. 2005		**43,809**	**84,134**	**182,375**	**310,318**

[1] Of which secured by mortgage: € 32,563 K (previous year: € 38,451 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. will mature in June 2011. Pursuant to IAS 39 “Financial Instruments: Recognition and Measurement" all allocable transaction costs of originally € 7,819 K were deducted from the initial costs of the bond and spread over its remaining term. An amount of € 940 K (previous year: € 850 K) was allocated to the financial year 2006.

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 loan agreement. In addition, the shares of the above companies to the nominal value of € 124,712 K (previous year: € 101,195 K) are secondarily pledged in favour of the bond holders.

Set out below are the major liabilities to financial institutions:

	31 DEC. 2006				31 DEC. 2005			
	CURRENCY	CARRYING AMOUNT € K	REMAINING TERM IN YEARS	EFFECTIVE INTEREST RATE %	CURRENCY	CARRYING AMOUNT € K	REMAINING TERM IN YEARS	EFFECTIVE INTEREST RATE %
Loans	EUR	37,055	up to 11	0.885-6.8	EUR	49,800	up to 12	3.05-10.90
Loans	JPY	1,300	up to 6	0.95-2.75	JPY	1,710	up to 7	0.95-2.50
Loans	CZK	584	up to 5	3.66				
Overdraft facilities	various	28,948	up to 5	1.90-8.25	various	65,226	up to 1.5	1.90-6.50
		67,887				116,736		

Open credit lines amount to € 189.6 million (previous year: € 106.5 million). These comprise free cash lines of € 148.6 million (previous year: € 76.6 million) and further free credit lines (guaranteed bills outstanding, bills of exchange, factoring) of € 41.0 million (previous year: € 29.9 million).

The reduction in liabilities to financial institutions of € 48,849 K compared to the previous year is due to the scheduled repayment of long-term loans as well as to a lower availment of overdrafts.

As of 31 December 2006, the international share in liabilities to financial institutions amounts to about 34% (previous year: about 25%).

The short and medium term resource requirements of GILDEMEISTER Aktiengesellschaft and, as part of the intragroup cash management system, of the majority of domestic subsidiaries are covered through a syndicated loan agreement. The syndicated loan concluded on 30 June 2006 has a term until 30 June 2011 and a volume of € 175.0 million. The lending volume contains two tranches, which differ in terms of amounts, usability, maturity, drawing terms and the agreed interest rates. 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: € 101,195 K), were pledged in first place to the domestic banking consortium. The above group companies are also guarantors for the loan agreement. The original credit line up to 30 June 2007 was terminated prematurely.

As further security for loans, fixed and current assets were assigned to the lending banks by DECKEL MAHO Seebach GmbH in an amount of € 4,904 K, by SAUER GmbH in an amount of € 2,501 K and by various DMG sales and service companies.

For liabilities to financial institutions of € 67,887 K (previous year: € 116,736 K), no significant differences between book and market value arise due to the short-term conditions. In other payables, the fair market values of short-term liabilities and of medium and long-term liabilities correspond with the values shown in the balance sheet. Payables that, in legal terms, arise after the balance sheet date, only have a minor impact on the company's financial situation.

The value of the bond shown in the Consolidated Financial Statements falls below the fair market value by € 26,450 K (previous year: € 29,315 K). The fair market value is determined by the price of the bond at the balance sheet date.

31 LIABILITIES FROM BILLS OF EXCHANGE

As of 31 December 2006, liabilities arising from bills of exchange amounted to € 78 K (previous year: € 16,773 K) and had a remaining term of up to one year. They include liabilities arising from the acceptance of drafts and the issue of promissory notes.

32 TRADE CREDITORS AND OTHER LONG-TERM LIABILITIES

Trade creditors include long-term amounts of € 654 K (previous year: € 1,787 K). Other long-term liabilities of € 8,912 K (previous year: € 8,128 K) primarily include liabilities arising from finance leases of € 3,638 K (previous year: € 2,536 K).

Pursuant to IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”, this account also includes investment allowances and investment subsidies totalling € 3,416 K (previous year: € 3,625 K) granted by the joint aid programme “Improvement of the Regional Economic Structure”.

In the financial year 2006, no investment subsidies were received (previous year: € 89 K). This item will be closed in accordance with the depreciation procedure for tax-privileged capital assets and recognised in the Income Statement.

33 TRADE CREDITORS AND OTHER SHORT-TERM LIABILITIES

	31 DEC. 2006 € K	31 DEC. 2005 € K
Payments received on account	54,983	32,486
Trade payables	130,221	143,106
Other short-term liabilities	36,736	49,641
	221,940	**225,233**

Other short-term liabilities include the following items:

	31 DEC. 2006 € K	31 DEC. 2005 € K
Tax liabilities	12,864	16,188
Liabilities relating to social insurance	2,263	7,187
Payroll account liabilities	2,930	3,003
Liabilities arising from finance lease	2,217	2,538
Debtors with credit balance	3,097	3,809
Fair market value of derivative financial instruments	16	2,799
Liabilities from accrued interest paid on the corporate bond	7,631	7,631
Deferred income	2,640	4,407
Other liabilities	3,078	2,079
	36,736	**49,641**

Liabilities arising from short-term finance leases amounted to € 2,217 K (previous year: € 2,538 K). They are recognised without future interest payable under other liabilities.

All future payments arising from finance leases total € 6,609 K (previous year: € 5,457 K).

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

TOTAL FUTURE MINIMUM LEASE PAYMENTS	31 DEC. 2006 € K	31 DEC. 2005 € K
Due within one year	2,533	2,766
Due within one and five years	4,075	2,686
Due in more than five years	1	5
	6,609	**5,457**
INTEREST COMPONENT INCLUDED IN FUTURE MINIMUM LEASE PAYMENTS		
Due within one year	316	288
Due within one and five years	438	155
Due in more than five years	0	0
	754	**383**
NET PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS		
Due within one year	2,217	2,538
Due within one and five years	3,637	2,531
Due in more than five years	1	5
	5,855	**5,074**

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 19 July 2006 to 31 December 2006, which will be paid in January 2007.

Deferred income refers as to € 791 K (previous year: € 782 K) 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.

34 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. 2006 € K	31 DEC. 2005 € K
Guarantees	748	524
Warranties	1,896	3,921
Other contingencies	3,274	623
	5,918	**5,068**

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, who thereby also carries the investment risk.

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 19 years; some include options to extend or purchase options.

TOTAL FACE VALUE OF FUTURE MINIMUM LEASE PAYMENTS	31 DEC. 2006 € K	31 DEC. 2005 € K
Due within one year	23,144	19,827
Due within one and five years	30,194	26,597
Due in more than five years	5,039	3,742
	58,377	**50,166**

Of which operating lease arrangements account for:

TOTAL FACE VALUE OF FUTURE MINIMUM LEASE PAYMENTS	31 DEC. 2006 € K	31 DEC. 2005 € K
Due within one year	20,611	17,061
Due within one and five years	26,119	23,911
Due in more than five years	5,038	3,737
	51,768	**44,709**

Operating lease arrangements of € 6.9 million result from a basic lease agreement for software at GILDEMEISTER Aktiengesellschaft. These agreements have a term of three years.

Further operating lease agreements include an operating lease to the value of € 4.4 million entered into relation to the funding of a building at DMG Europe Holding GmbH in Klaus, Austria, an operating lease for machines to a value € 2.2 million entered into by FAMOT Pleszew S.A., Poland, and operating leases for machines, fleet vehicles and other equipment and factory and office equipment entered into by other group companies. The agreements have minimum terms of between three and 13.5 years and some of them include purchase options upon expiration of the basic lease term.

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

35 DERIVATIVE FINANCIAL INSTRUMENTS

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

	31 DEC. 2006				31 DEC. 2005	
	FACE VALUE	FAIR MARKET VALUE			FACE VALUE	FAIR MARKET VALUE
		ASSETS	LIABILITIES	TOTAL		
	€ K	€ K	€ K	€ K	€ K	€ K
Forward exchange dealings						
of which cash flow hedges	31,804	922	16	906	52,455	-2,199
of which USD	26,152	715	2	713	46,455	-1,542
of which CAD	3,672	207	1	206	6,000	-657
of which other	1,980	0	13	-13	0	0
of which for trading purposes	53,877	932	0	932	43,719	-569
of which USD	45,727	639	0	639	19,456	-568
of which CAD	3,250	232	0	232	0	0
of which other	4,900	61	0	61	24,263	-1
Interest rate swaps	0	0	0	0	10,163	-77
	85,681	**1,854**	**16**	**1,838**	**106,337**	**-2,845**

The face values correspond with the non-balanced total of the currency and interest portfolio. The fair market values shown correspond with the price at which third parties would assume the rights or obligations arising from the financial instruments. The fair market values are the current values of the derivative financial instruments excluding any adverse trends in value from underlying transactions.

On the balance sheet date GILDEMEISTER also held forward exchange dealings 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 dealings, as at the balance sheet date GILDEMEISTER had a deficit risk amounting to € 1,854 K.

All of the forward exchange dealings existing as of the balance sheet date mature in less than one year. In the previous year, forward exchange dealings of a nominal volume of € 1,065 K matured in over one year.

The interest rate swaps recognised in the previous year matured in the financial year 2006. They provided for the payment of fixed interest ranging from 2.48% to 5.42% p.a. against a three-month EURIBOR as a benchmark interest rate. The changes in market value were recognised in the Income Statement in an amount of € -77 K (previous year: € 497 K).

In the financial year 2006, effects of € 912 K (previous year: € 1,891 K) arising from the market valuation of financial instruments allocated to cash flow hedges were recognised directly in equity on an accrual basis. On the other hand € 1,953 K (previous year: € 0 K) have been deducted from equity and included in the period results.

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 current operations and cash flow from investment and financing activity.

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

Investment procedures of € 945 K (previous year: € 200 K) have not resulted in a change in cash flow.

In the financial year 2006, financial investments include the acquisition of the remaining 1.2% share in SAUER GmbH, Stipshausen/Idar-Oberstein, at a purchase price of € 1,447 K The purchase price was paid in 2006. No cash flow was acquired through the purchase. In addition financial liabilities include the remainder of the purchase price of € 340 K of the share acquired in DMG Austria GmbH, Klaus, Austria in the previous year.

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.

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,

ultrasonic and laser machines of

- SAUER GmbH, Idar-Oberstein/Kempten.

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 the products and technical services it offers, represents an independent segment. It substantially includes DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld, and its subsidiaries.

With its service solutions customers are offered worldwide customised service solutions and service products throughout the entire lifespan of the DMG machine tools. The service solutions include services by our highly-qualified service staff, whose worldwide network ensures direct customer contact and rapid availability. Along with introduction and consulting services, this includes traditional maintenance and service activities, installation and initial training, vocational and further training provided by DMG Trainingsakademie GmbH, the retrofitting of machines and the used machines business. The DMG service products – such as spare parts, DMG power tools, components from SACO as well as the MICROSET tool management – enable the user to further increase the productivity of his DMG machine tools. 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 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 infrastructure.

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-orientated corporate governance of the GILDEMEISTER group. Segmental information is in principle based on the same accounting and valuation methods as 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 voting right pursuant to IFRS 3 "Business Combinations", existing goodwill was allocated to the segments as follows: goodwill of € 39,072 K (previous year: € 38,258 K) to the "Machine Tools" segment, € 31,479 K (previous year: € 29,671 K) to the "Services" segment and € 0 K to the "Corporate Services" segment (previous year: € 0 K).

There was no impairment of goodwill 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 "Machine Tools" segment depreciation includes value adjustments of € 2,029 K and of € 622 K in the "Corporate Services" segment, of the intangible assets developed.

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 € 3,261 K (previous year: € 2,398 K). No major non-cash expenses were incurred in the two other segments.

The "Reconciliation" 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 the 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 2006, the fees of the auditor of the Consolidated Financial Statements, KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, amounted to € 834 K (previous year: € 736 K). This includes the fees for the group audit and the audit of the statutory financial statements of GILDEMEISTER Aktiengesellschaft and its domestic subsidiaries. A further charge of € 226 K (previous year: € 403 K) for other services was also charged to expenses.

40 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Material events occurring after the balance sheet date are set out in the Supplementary Report to the Group Annual Report. No other material events occurred before the date of submission to the Supervisory Board on 7 March 2007.

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 AktG was made on 31 December 2006 and has been made permanently accessible to shareholders on our website www.gildemeister.com.

Affiliated companies

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES, PROCUREMENT/COMPONENTS

	EQUITY [1] 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]	CNY K	31,451	3,056	100.0
FAMOT Pleszew S.A., Pleszew, Polen [6]	PLN K	22,669	5,901	100.0
GILDEMEISTER Drehmaschinen GmbH, Bielefeld [2/4/6]			16,650	100.0
GILDEMEISTER Partecipazioni S.r.l., Tortona, Italien [6]			102,504	100.0
GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italien [3]			58,642	100.0
GRAZIANO Tortona S.r.l., Tortona, Italien [3]			5,165	100.0
SACO S.p.A., Castelleone, Italien [3]			7,605	100.0
DMG Italia S.r.l., Brembate di Sopra, Italien [3]			2,873	100.0
DECKEL MAHO Seebach GmbH, Seebach [2/4/6]			8,363	100.0
DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [2/4/5]			92,875	100.0
DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg [4/5/10/11]			45,001	100.0
DMG München Vertriebs und Service GmbH für Werkzeugmaschinen DECKEL MAHO GILDEMEISTER, München [4/5/12/13]			929	100.0
DMG Hilden Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Hilden [4/5/12/13]			935	100.0
DMG Bielefeld Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [4/5/12/13]			957	100.0
DMG Berlin Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Berlin [4/5/11/12]			301	100.0
DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bad Homburg [4/5/12/13]			610	100.0
GILDEMEISTER Italiana Deutschland GmbH, Leonberg [4/5/12/13]			300	100.0
DMG Europe Holding GmbH, Klaus, Österreich [10]			52,459	100.0
DMG Asia Pacific Pte. Ltd., Singapore [14]	SGD K	6,960	3,443	100.0
DMG Australia Pty. Ltd., Clayton Victoria, Australien [15]	AUD K	3,900	2,338	100.0
DMG (Thailand) Co. Ltd., Bangkok, Thailand [15]	THB K	3,648	78	100.0
DMG Austria GmbH, Klaus, Österreich [14]			2,243	100.0
DMG Benelux B.V., Veenendaal, Niederlande [14]			29,792	100.0
DECKEL MAHO GILDEMEISTER Brasil Ltda., São Paulo, Brasilien [16]	BRL K	1,152	409	100.0
DECKEL MAHO GILDEMEISTER Iberica S.L., Berriz, Spanien [16]			708	100.0
DMG America Inc., Schaumburg, USA [16]	USD K	16,864	12,794	100.0
DMG Chicago Inc., Schaumburg, USA [17]	USD K	1,705	1,293	100.0
DMG Houston Inc., Houston, USA [17]	USD K	823	624	100.0
DMG Los Angeles Inc., Los Angeles, USA [17]	USD K	1,047	794	100.0
DMG Asia Pte. Ltd., Singapore [16]			5,854	100.0
DMG Benelux BVBA - SPRL., Zaventem, Belgien [16]			1,765	100.0
DMG France S.a.r.l., Les Ulis, Frankreich [16]			4,073	100.0
DMG Czech s.r.o., Brno, Tschechische Republik [16]	CZK K	98,086	3,575	100.0
DMG Polska Sp.z o.o., Pleszew, Polen [16]	PLN K	11,460	2,983	100.0

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES, PROCUREMENT/COMPONENTS

		EQUITY [1]		PARTICIPATION QUOTA
	NATIONAL CURRENCY		€ K	IN %
DMG (Schweiz) AG DECKEL MAHO GILDEMEISTER, Dübendorf, Schweiz [16]	CHF K	9,996	6,216	100.0
DMG (U.K.) Ltd., Luton, Großbritannien [16]	GBP K	2,331	3,472	100.0
DMG Russland o.o.o., Moskau, Russland [14]	RUB K	46,620	1,362	99.0
DMG Istanbul Makine Tikaret ve Servis Limited Sirketi, Istanbul, Türkei [14]	TRL K	1,763	939	100.0
DMG Malaysia SDN BHD, Puchong/Kuala Lumpur, Malaysia [14]	MYR K	2,860	616	100.0
DMG Nippon K.K., Yokohama, Japan [14]	JPY K	248,622	1,587	100.0
DMG Scandinavia Sverige AB, Sollentuna, Schweden [14]	SEK K	9,932	1,098	100.0
DMG Canada Inc., Toronto, Kanada [10]	CAD K	1,128	738	100.0
DECKEL MAHO GILDEMEISTER México S.A. de C.V., Monterrey, Mexiko [10]	MXN K	3,682	257	100.0
DMG Technology Trading (Shanghai) Co. Ltd., Shanghai, China [10]	CNY K	2,871	279	100.0
DMG DECKEL MAHO GILDEMEISTER (India) Pvt. Ltd., Bangalore, Indien [10]	INR K	57,551	987	100.0
DMG Machinery Taiwan Ltd., Taichung, Taiwan [10]	TWD K	64,055	1,493	100.0
DMG Korea Ltd., Seoul, Korea [10]	KRW K	453,959	370	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]			12,517	100.0
DMG Gebrauchtmaschinen Czech s.r.o., Zlin, Tschechische Republik [18]	CZK K	15,233	555	100.0
DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [4/5/10/11]			271	100.0
DMG MICROSET GmbH, Bielefeld [4/5/10]			668	100.0
a & f Stahl- und Maschinenbau GmbH, Würzburg [4/5/10/11]			3,112	100.0

OTHER

MITIS Grundstücks-Vermietungs Gesellschaft mbH & Co. Objekt Bielefeld KG, Düsseldorf [19]			0	98.0
DMG Marketing & Services SND. BHD., Selangor, Malaysia [10]	MYR K		-	40.0
BIL Leasing GmbH & Co 736 KG, München [20]			0	
BIL Leasing GmbH & Co 748 KG, München [21]			0	
Zarzad Blokow Mieszkalnych Spolka z o.o., Pleszew, Polen [22]	PLN K	315	82	100.0
Chemnitzer Grundbesitz Limited, Birmingham, Großbritannien [23]	GBP K	45	68	94.9

1) The figures correspond with the financial statements prepared in accordance with local regulations they do not show the respective companies' contribution to the Consolidated Financial Statements. Foreign currencies with respect to equity were translated at the market price on reporting date.
2) c´Control and profit and loss transfer agreement with GILDEMEISTER Aktiengesellschaft
3) Investment of GILDEMEISTER Partecipazioni S.r.l.
4) The domestic subsidiary has complied with the conditions required by Section 264 para. 3 German Commercial Code (HGB) 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 para. 3 German Commercial Code (HGB) regarding the application of the exemption regulations and therefore waives of a management report.
6) Investment of GILDEMEISTER Beteiligungen AG
7) Control and profit and loss transfer agreement with GILDEMEISTER Beteiligungen AG
8) Investment of DECKEL MAHO Pfronten GmbH
9) Control and profit and loss transfer agreement with DECKEL MAHO Pfronten GmbH
10) Investment of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
11) Control and profit and loss transfer agreement with DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
12) Investment of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
13) control and profit and loss transfer agreement with DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
14) Investment of DMG Europe Holding GmbH
15) Investment of DMG Asia Pacific Pte. Ltd.
16) Investment of DMG Benelux B.V.
17) Investment of DMG America Inc.
18) Investment of DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER
19) Percentage of voting rights 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 equity share
21) Special Purpose Entity of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg, excluding equity share
22) Investment of FAMOT Pleszew S.A., Pleszew, Polen
23) Investment of DMG Berlin Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Berlin

Corporate Directory

• Supervisory Board seats pursuant to Section 100 AktG
* Membership with comparable national and international control bodies of business enterprises

Supervisory Board

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 Endowment Board
* Heckler & Koch GmbH, Neckarsulm, Chairman of the Advisory Board
* Alpha-Stiftung, Dresden, Endowment Board
* LD-Stiftung, Dresden, Endowment Board

Gerhard Dirr,
Vils/Austria, born 1964, Deputy Chairman
Head of Facility Management at DECKEL MAHO Pfronten GmbH, Pfronten, since 1 Feb. 2006

Wulf Bantelmann,
Bielefeld, born 1947,
Chariman of the Works Council at GILDEMEISTER Drehmaschinen GmbH

Günther Berger,
Munich, born 1948,
Independent Industry Consultant,
• Rathgeber AG, München, member of the Supervisory Board

Harry Domnik,
Bielefeld, born 1953,
1st Secretary of 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, Vienna, Austria Chairman of the Supervisory Board
* ThyssenKrupp Presta AG, Eschen, Liechtenstein, member of the Board of Directors
* Huf Hülsbeck & Furst GmbH & Co. KG, Velbert, Chairman of the Supervisory Board
* Presswerk Krefeld GmbH & Co. KG, Krefeld, Krefeld, member of the Supervisory Board

Ulrich Hocker,
Dusseldorf, born 1950,
Legal counsel, Chief manager
Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (DSW), Düsseldorf,
• Deutsche Telekom AG, Bonn, member of the Supervisory Board since 14 Oct. 2006
• E.ON AG, Dusseldorf, member of the Supervisory Board
• Feri Finance AG, Bad Homburg, Deputy Chairman of the Supervisory Board
• KarstadtQuelle AG, Essen, member of the Supervisory Board
• ThyssenKrupp Stainless AG, Duisburg, member of the Supervisory Board
* Phoenix Mecano AG, Kloten, Switzerland, President of the Administrative Board
* Gartmore SICAV, Luxemburg, member of the Board

Prof. Dr.-Ing. Walter Kunerth,
Zeitlarn, born 1940,
Independent Industry Consultant,
• Götz AG, Regensburg, Chairman of the Supervisory Board
• Paragon AG, Delbrück, Chairman of the Supervisory Board
* Autoliv Inc., Stockholm, Sweden, member of the Board of Directors

Prof. Dr.-Ing. Uwe Loos,
Stuttgart, born 1946,
Independent Industry Consultant,
• Dorma Holding GmbH + Co. KGaA, Ennepetal, member of the Supervisory Board
• EDAG Engineering + Design AG, Fulda, member of the Advisory Board
* Trumpf GmbH + Co. KG, Ditzingen, member of the Supervisory Board, member of the Administrative Board
* Claas KGaA mbH, Harsewinkel, member of the shareholders' committee
* Bharat Forge LTD, Pune, India, Non-executive Independent Director
* SSB Antriebstechnik GmbH, Salzbergen, Chairman of the Advisory Council
* CDP Bharat Forge GmbH, Ennepetal, member of the Advisory Board

Günther-Johann Schachner,
Peiting, born 1952,
member of the Executive Board of
IG Metall Frankfurt,
1st Secretary of
IG Metall headquarters, Weilheim

Rainer Stritzke,
Seebach, born 1957,
design engineer,
member of the Works Council of
DECKEL MAHO Seebach GmbH
until 04.05.2006

Norbert Zweng,
Eisenberg, born 1957,
Head of Logistics at DECKEL MAHO
Pfronten GmbH,
Head of Group Facility Management,
senior management representative

Executive Board

Dipl.-Kfm. Dr. Rüdiger Kapitza,
Bielefeld,
Chairman

Prof. Dr.-Ing. Raimund Klinkner,
Bielefeld,
Deputy Chairman (until 31 Dec. 2006)

Dipl.-Ing. Günter Bachmann,
Wutha-Farnroda (since 1 Oct. 2006)

Dipl.-Kfm. Dr. Thorsten Schmidt,
Bielefeld (since 1 Oct. 2006)

Dipl.-Kfm. Michael Welt,
Pfronten

Bielefeld, 27 March 2007
GILDEMEISTER Aktiengesellschaft

The Executive Board

Dipl.-Kfm. Dr. Rüdiger Kapitza | Dipl.-Ing. Günter Bachmann | Dipl.-Kfm. Dr. Thorsten Schmidt | Dipl.-Kfm. Michael Welt

Audit report

We have audited the consolidated financial statements prepared the 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, 2006 to December 31, 2006. It should be understood that auditing the content of the "Entsprechenserklärung", in particular Section 161 of the German Stock Corporation Act (AktG) in the group management report, is not 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, are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB (Handelsgesetzbuch – "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 management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the Consolidated Financial Statements comply with IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a, paragraph 1, HGB, and give a true and fair view of the net assets. 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 and Frankfurt am Main, 27 March 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rehnen	Dübeler
Auditor	Auditor

Multiple Year Overview / Group Overview

GILDEMEISTER GROUP		HGB			IFRS				CHANGE AGAINST PREV.
		2000	2001	2002	2003	2004	2005	2006	YEAR IN%
Sales revenues	€ K	923,298	1,145,390	1,032,814	977,763	1,051,500	1,125,897	1,328,971	18
Domestic	€ K	483,363	567,900	491,719	475,688	502,892	501,946	612,758	22
International	€ K	439,935	577,490	541,095	502,075	548,608	623,953	716,213	15
% International		48%	50%	52%	51%	52%	55%	54%	-2
Total work done	€ K	912,884	1,198,623	1,046,599	995,709	1,053,143	1,146,233	1,330,116	16
Cost of materials	€ K	485,095	646,981	569,922	525,345	553,715	608,541	698,153	15
Personnel costs	€ K	212,544	274,152	270,156	270,577	282,524	295,926	320,201	8
Depreciation	€ K	25,492	34,952	37,757	36,430	29,339	31,369	32,600	4
Financial result	€ K	-18,681	-23,387	-24,672	-24,414	-29,833	-33,467	-35,053	5
Profit/loss on ordinary activities	€ K	44,192	54,737	-7,496	10,261	12,021	25,365	47,418	87
Annual profit/loss	€ K	38,079	25,785	-18,710	-3,579	5,577	13,530	27,100	100
Adjusted results									
EBITDA	€ K	88,365	113,076	54,933	71,105	71,193	90,201	115,071	28
EBIT	€ K	62,873	78,124	17,176	34,675	41,854	58,832	82,471	40
EBT	€ K	44,192	54,737	-7,496	10,261	12,021	25,365	47,418	87
Result before shares to other shareholders	€ K	39,667	24,672	-19,057	-3,732	5,534	13,719	27,243	99
Fixed assets	€ K	210,486	247,634	276,281	270,569	262,500	262,353	265,420	1
Intangible assets	€ K	80,179	85,099	101,356	99,795	98,912	100,928	97,387	
Tangible assets	€ K	130,300	162,225	170,550	174,482	163,348	161,191	167,850	
Financial assets	€ K	7	310	443	224	239	234	183	
Current assets	€ K	490,050	629,792	622,082	604,343	708,148	699,063	689,437	-1
Inventories	€ K	160,420	249,771	250,768	264,365	276,565	288,777	292,964	
Receivables incl. deferred tax assets + prepaid expenses + securities	€ K	305,534	364,743	353,625	328,553	371,285	388,366	354,292	
Liquid funds	€ K	24,096	15,278	17,689	11,425	60,297	21,920	42,181	
Equity [1]	€ K	195,687	231,177	193,824	187,593	250,540	265,782	288,574	9
Subscribed capital	€ K	75,087	75,087	75,087	75,087	112,587	112,587	112,587	
Capital provisions	€ K	48,734	48,734	48,734	48,734	68,319	68,319	68,319	
Revenue provisions	€ K	39,068	83,055	70,003	63,772	68,597	85,014	108,070	
Accumulated profit/loss	€ K	18,455	24,301	0	0	0	0	0	
Shares to other shareholders	€ K	14.343	10,773	1,193	1,198	1,037	-138	-402	191
Outside capital	€ K	504,849	635,476	703,346	686,121	720,108	695,634	666,283	-4
Special account for investment allowances	€ K	1,219	0	0	0	0	0	0	
Provisions	€ K	113,928	139,302	148,386	133,958	123,456	125,407	166,206	
Payables incl. deferred tax liabilities + deferred income	€ K	389,702	496,174	554,960	552,163	596,652	570,227	500,077	
Balance sheet total	€ K	700,536	877,426	898,363	874,912	970,647	961,416	954,857	-1
Employees (annual average)		3,936	4,918	4,912	4,849	4,932	5,090	5,362	5
Employees (31 Dec.)		4,447	5,030	4,821	4,823	4,984	5,083	5,367	6
Trainees		190	204	224	205	190	189	191	1
Total employees		4,637	5,234	5,045	5,028	5,174	5,272	5,558	5

GILDEMEISTER GROUP		HGB 2000	2001	2002	IFRS 2003	2004	2005	2006	CHANGE AGAINST PREV. YEAR IN%
Efficiency rations									
Profit on sales (EBIT) = EBIT / Sales revenues	%	6.8	6.8	1.7	3.5	4.0	5.2	6.2	19
Profit on sales (EBT) = EBT / Sales revenues	%	4.8	4.8	-0.7	1.0	1.1	2.3	3.6	57
Profit on sales (annual result) = Annual result / sales revenues	%	4.1	2.3	-1.8	-0.4	0.5	1.2	2.0	67
Equity return [1)] = Annual result / equity (as of 01 Jan) [3)]	%	35.5	11.4	-8.1	-1.8	3.0	5.4	10.2	89
Return on total assets = EBT + interest on outside capital / average total capital	%	11.5	9.7	2.2	4.1	4.8	6.3	8.7	38
ROI – Return on Investment = EBT / average total capital	%	7.9	6.6	-0.8	1.2	1.3	2.6	4.9	88
Sales per employee = sales revenue / average number of employees (exc. trainees)	€ K	234.6	232.9	210.3	201.4	213.2	221.2	247.8	12
EBIT per employee = EBIT / average number of employees (exc. trainees)	€ K	16.0	15.9	3.5	7.2	8.5	11.6	15.4	33
ROCE – Return on capital employed [1)] = EBIT / Capital Employed	%	12.0	12.0	2.6	5.2	6.1	8.4	12.3	46
Value added	€ M	275.7	352.6	287.5	305.4	324.5	354.9	403.1	14
Value added per employee	€ K	70.0	71.7	58.5	63.0	65.8	69.7	75.2	8
Balance sheet ratios									
Capitalisation ratio of fixed assets = fixed assets / total assets	%	30.1	28.2	30.8	30.9	27.0	27.3	27.8	2
Working intensity of current assets = current assets / total assets	%	69.3	68.6	65.1	65.2	69.9	69.3	68.5	-1
Equity ratio = equity / total capital	%	27.9	26.3	21.6	21.4	25.8	27.6	30.2	9
Ratio of outside capital to total capital = outside capital / total capital	%	72.1	73.7	78.4	78.6	74.2	72.4	69.8	-4
Assets and liabilities structure = fixed assets / current assets	%	43.4	41.2	47.2	47.5	38.7	39.4	40.6	3
Capital structure = equity / outside capital	%	38.8	35.8	27.5	27.3	34.8	38.2	43.3	13

>> to be continued

GILDEMEISTER GROUP		HGB 2000	2001	2002	IFRS 2003	2004	2005	2006	CHANGE AGAINST PREV. YEAR IN %
Ratios pertaining for financial position									
Cash ratio = liquid funds (from balance sheet) / short-term liabilities (up to 1 year)	%	7.0	3.5	3.6	2.2	19.0	6.3	12.4	97
Ratio of financial current assets to short-term liabilities = (liquid funds + short-term receivables) / short-term liabilities (up to 1 year)	%	91.5	80.7	67.1	59.1	117.1	107.5	106.0	-1
Current ratio = (liquid funds + short-term receivables + inventories) / short-term liabilities (up to 1 year)	%	137.9	130.2	111.4	106.1	195.6	180.5	175.9	-3
Net indebtness = amounts owed to banks + bond + bills payable liquid funds - current investments	€ M	214.9	278.0	319.5	342.1	314.0	305.1	216.7	-29
Gearing [1] = net indebtness / equity before share held by other shareholders	%	109.8	120.3	164.8	182.4	125.9	114.7	75.0	-35
Working Capital = current assets - short-term borrowed capital	€ M	226.4	283.2	176.0	136.7	340.5	305.0	284.8	-7
Net Working Capital = inventories + payments on account - customer prepayments + trade debtors - trade creditors	€ M	318.9	402.1	386.5	377.7	390.2	399.5	360.5	-10
Capital Employed = equity + provisions + net indebtness	€ M	524.5	648.5	661.7	663.7	688.0	696.3	671.5	-4
Structural analysis ratios									
Turnover rate of raw materials and consumables = cost raw materials and consumables / inventories of raw materials and consumables		5.9	6.9	6.8	5.8	5.0	5.5	5.9	7
Turnover rate of stocks = sales revenues / inventories		5.8	4.6	4.1	3.7	3.8	3.9	4.5	15
Turnover rate of receivables = sales revenues (incl. 16% VAT on domestic revenues) average trade debtors		4.7	4.4	3.7	3.8	4.2	4.2	5.3	26
Total capital-sales ratio = sales revenues / total capital (incl. deferred tax + deferred income)		1.3	1.3	1.1	1.1	1.1	1.2	1.4	17
DSO (Days sales outstanding) = average trade debtors / (sales revenues (incl. 16% VAT on domestic revenues)) x 365		77.7	83.6	97.6	96.1	87.3	86.2	68.4	-21

GILDEMEISTER GROUP		HGB 2000	2001	2002	IFRS 2003	2004	2005	2006	CHANGE AGAINST PREV. YEAR IN%
Productivity ratios									
Intensity of materials = cost of materials / total work done	%	53.1	54.0	54.5	52.8	52.6	53.1	52.5	-1
Intensity of staff = staff costs / total work done	%	23.3	22.9	25.8	27.2	26.8	25.8	24.1	-7
Cash flow & investments									
Cash flow from current operations	€ M	-5.0	31.5	47.7	28.7	12.8	27.2	108.1	298
Cash flow from investment activity	€ M	-144.7	-70.7	-71.9	-32.3	-20.1	-24.4	-35.1	44
Cash flow from financing activity	€ M	161.0	31.3	27.6	-1.8	57.0	-41.7	-52.5	26
Free Cash flow = cash flow from current operations + cash flow from investment activiy (exc. cash flow from financial investments)	€ M	-39.4	-29.7	-0.8	-3.7	-6.4	3.2	74.8	2,238
CapEx (Capital Expenditure)	€ M	39.5	80.2	73.2	36.4	21.8	26.8	37.2	39
Share & Valuation									
Market capitalisation	€ M	235.3	269.2	109.2	237.4	225.2	253.8	414.0	63
Company value = Market capitalisation + amounts owed to banks + bond liabilities + bills of exchange + other liabilities + pension provisions - liquid funds	€ M	506.8	619.9	496.1	643.8	609.8	636.0	698.3	10
Earnings per share [2] = result after minority interests / number of share	€	0.91	0.85	-0.66	-0.13	0.15	0.32	0.63	97
Price earnings ratio (PER) = market capitalisation / EBT		5.3	4.9	-14.6	23.1	18.7	10.0	8.7	-13
Company value-EBITDA-ratio = company value / EBITDA		5.7	5.5	9.0	9.1	8.6	7.1	6.1	-14
Company value-EBIT-ratio = company value / EBIT		8.1	7.9	28.9	18.6	14.6	10.8	8.5	-21
Company value-sales ratio = company value / sales		0.5	0.5	0.5	0.7	0.6	0.6	0.5	-17

[1] Under HGB incl. minority interests; under IFRS excl. minority interests, from 2004 onwards 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 transactions
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 receiv-ables'. 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 thepartners may be preserved.

Cash flow
Flow of financial funds from current business activities over a period, adjusted by significant charges and income not affecting payment.

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.

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

EBITDA
Earnings before interest, taxes, depreciation and amortisation.

EBIT
Earnings before interest and taxes (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 the 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.

IFRS/IAS
International **F**inancial **R**eporting **S**tandards. Internationally applicable accounting standards to ensure international comparability of group accounts and to meet information requirements of investors and other readers of annual accounts by providing a higher degree of transparancy. The individual sections of the ifrs are called ias (International Accounting Standards).

Cash flow statement
View of liquidity development/payment flows taking into account the source and application of funds effects.

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.

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

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

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 value added

Difference between ROCE and the cost of capital.

ROCE

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

Hedging Transaction

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

Corporate bond

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

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 3.82%, a market risk premium of 5.0% and a beta coefficient of 1.0. The cost of debt amounted to 3.5% after taxes. The tax rate in the pre-tax approach employed was applied at a flat rate of 38%. The equity/debt ratio is 30:70.

Interest rate derivatives

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 determined to a great extent by the price of the underlying asset. These include, for example, options, swaps and futures. Interest rate deriva-tives include interest rate swaps, floors, collars or caps.

Technical glossary

Advanced Materials

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.

coSupply®

coSupply® represents the comprehensive partnerhip 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 for 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 provides 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 products 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.

E-Commerce
This terms represents the whole range of electronic Internet-supported communication between the company, suppliers and customers. Its essential element is the paperless exchange of business information. Applica-tions range from relaying information through to sales to world-wide simultaneous auctions between partners via the Internet.

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 man-agement or finances.

GMC/GM
The GMC/M 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.

Cavity
A cavity is a small hollow mould.

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 using a spot-beam with a high energy level. With this process it is possible to create filigree contours and the finest cavities, and to perform laser fine cutting or drilling tasks in the 2D and 3D areas.

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 the combined production with high-speed milling machining.

Linear drive technologie

Linear drive technology uses a contactless, electromagnetic driving principle that does not rotate as in traditional methods, but has a linear moving direction. Mechanical intermediate elements are therefore no longer necessary so that the engine itself moves the machine axes with high precision and acceleration with hardly any wear.

NEF

The NEF product line offers an operator-friendly entrylevel CNC universal lathe for 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 Pull stands for **P**roduktions- **u**nd **L**ogistik-**L**eistung (performance of production and logistics) and has represented the 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 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 clockand-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 exam-ple 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.

Work flow

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

29 March 2007	Press conference on financial statements, Bielefeld
29 March 2007	Publication of Annual Report 2006
30 March 2007	DVFA-Analysts' conference, Frankfurt
08 May 2007	First Quarterly Report 2007 (1 January to 31 March)
25 May 2007	General Meeting of shareholders at 10 am in the Town Hall Bielefeld
29 May 2007	Distribution of dividend
02 August 2007	Second Quarterly Report 2007 (1 April to 30 June)
25 September 2007	German Investment Conference, Munich
06 November 2007	Third Quarterly Report 2007 (1 July to 30 September)
12 February 2008	Press release on provisional figures for the financial year 2007
16 May 2008	General Meeting of shareholders at 10 am in the Town Hall Bielefeld

Subject to alteration

Forward-looking statements

The information in this press release includes forward-looking statements that are based on current estimates of the management on future developments. These statements are subject to risks and uncertainties relating to factors that are beyond GILDEMEISTER's ability to control or estimate precisely, such as future market and economic conditions, the behaviour of other market participants, the successful integration of acquisitions, the realisation of expected synergy effects and the actions of governmental regulators. Should one of these factors of uncertainty or other unforeseeable events occur or should the assumptions on which these statements are based prove incorrect, the actual results might differ materially from the results expressed in, or implied by, these statements. GILDEMEISTER disclaims any intention or special obligation to update any forward-looking statement to reflect any change in events or developments occured after the date of this press release. Forward-looking statements should not be construed as guarantor or assurance of future developments or events included therein.

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

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