

GLOBALITY . TECHNOLOGY . GROWTH .

To consistently utilise the opportunities and growth potential of global markets. With careful planning and trendsetting technologies. This is how the future is made. With GILDEMEISTER. Worldwide.

GILDEMEISTER

GROUP OVERVIEW

GILDEMEISTER group		HGB					IFRS	
		1996	1997	1998	1999	2000	2001	2002
Sales	€ M	423.4	444.6	580.3	690.4	923.3	1,145.4	1,032.8
EBITDA	€ M	20.1	28.1	50.1	61.3	88.4	113.1	54.9
EBIT	€ M	10.8	20.7	40.2	46.4	62.9	78.1	17.2
Profit/loss on ordinary activities (EGG)	€ M	0.7	9.4	29.6	34.5	44.2	54.7	-7.5
EBT	€ M	8.0	7.2	17.0	34.5	44.2	54.7	-7.5
Annual net profit/loss	€ M	3.9	6.4	16.1	32.7	38.1	25.8	-18.7
Cash flow from current activities	€ M	-22.5	20.3	18.6	23.9	-5.0	31.5	47.7
Investments ¹⁾	€ M	6.5	13.5	29.8	37.6	39.5	54.9	29.9
Equity ²⁾	€ M	44.1	46.2	81.6	107.2	195.7	231.2	193.8
Balance sheet total	€ M	269.1	288.2	353.8	419.1	700.5	877.4	898.4
Employees (annual average)		2,358	2,239	2,442	3,142	3,936	4,918	4,912
Employees (31 Dec.)		2,232	2,255	2,496	3,175	4,447	5,030	4,821
plus trainees		92	101	121	165	190	204	224
Total Employees		2,324	2,356	2,617	3,340	4,637	5,234	5,045
Ratios								
Percentage return on sales (EBIT)	%	2.6	4.7	6.9	6.7	6.8	6.8	1.7
Sales per employee	€ K	179.6	198.6	237.6	219.7	234.6	232.9	210.3
Value added	€ M	139.9	147.6	173.5	218.1	275.7	352.6	287.5
Value added per employee	€ K	59.3	65.9	71.0	69.4	70.0	71.7	58.5
EBIT per employee	€ K	4.6	9.2	16.5	14.8	16.0	15.9	3.5
Equity return ²⁾	%	6.7	14.6	35.0	40.0	35.5	11.4	-8.1
Return on total capital employed	%	7.0	7.5	8.7	12.1	11.5	9.7	2.2
ROCE – Return on capital employed ²⁾	%	5.7	10.9	16.2	14.8	12.0	12.0	2.6
ROI – Return on investment	%	2.8	2.6	5.3	8.9	7.9	6.6	-0.8
Earnings per share ³⁾	€	-0.46	-0.07	0.46	0.76	0.91	0.85	-0.66
Gearing ²⁾	%	176.7	190.9	148.5	121.0	112.0	104.8	140.6

¹⁾ As of 2001: tangible and intangible asset additions, excluding capitalised development expenses, goodwill additions and finance leases

²⁾ Incl. shares held other company members in acc. w. HGB; excl. shares held other company members in acc. w. IFR

³⁾ Under HGB in accordance with DVFA/SG; the share capital was split 1:10 in 1999; the previous year's figures were adjusted accordingly.

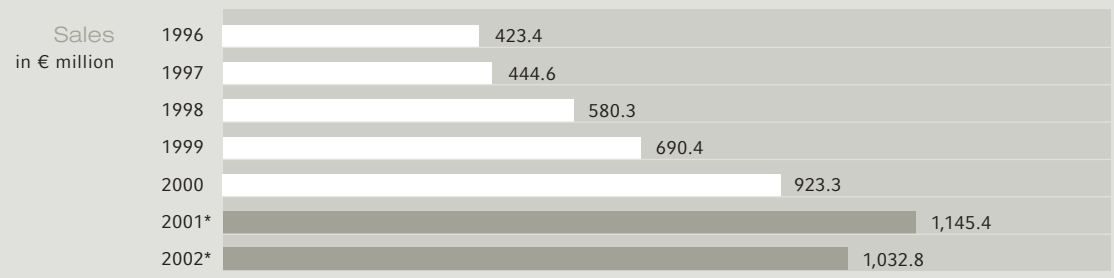
KEY FIGURES

The Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft for the year ended 31 December 2002 were prepared in accordance with applicable International Financial Reporting Standards (IFRS). The previous International Accounting Standards (IAS) are incorporated in the IFRS Accounting Rules and continue to be valid under IFRS. All benchmark figures for the corresponding period of the previous year are also shown in accordance with IFRS. This may result in deviations in some figures in contrast with the previous year's reporting.

GILDEMEISTER group	2002		2001		Changes 2002 against 2001	
	€ M	€ M	€ M	€ M	%	%
Sales						
Total	1,032.8	1,145.4	-112.6	-10		
Domestic	491.7	567.9	-76.2	-13		
International	541.1	577.5	-36.4	-6		
% International	52	50				
Order intake						
Total	981.0	1,103.1	-122.1	-11		
Domestic	455.6	566.1	-110.5	-20		
International	525.4	537.0	-11.6	-2		
% International	54	49				
Orders on hand*						
Total	328.8	380.6	-51.8	-14		
Domestic	141.2	177.3	-36.1	-20		
International	187.6	203.3	-15.7	-8		
% International	57	53				
Investments**	29.9	54.9	-25.0	-46		
Staff costs	270.2	274.2	-4.0	-1		
Employees	4,821	5,030	-209	-4		
plus trainees	224	204	20	10		
Total employees*	5,045	5,234	-189	-4		

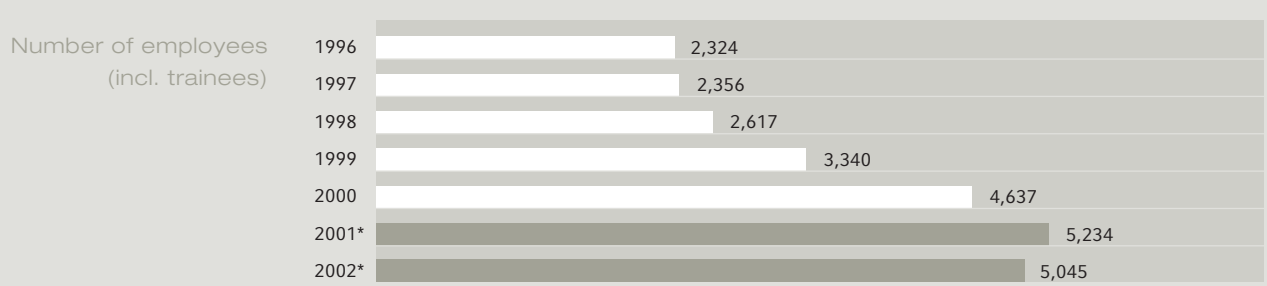
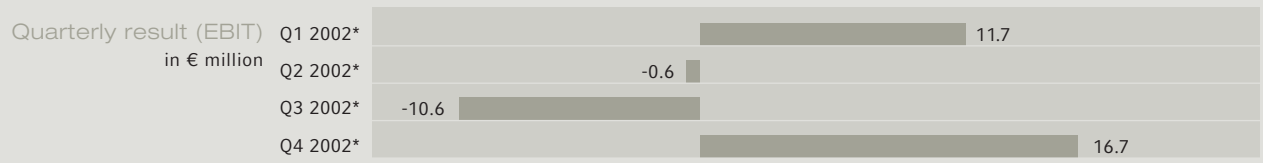
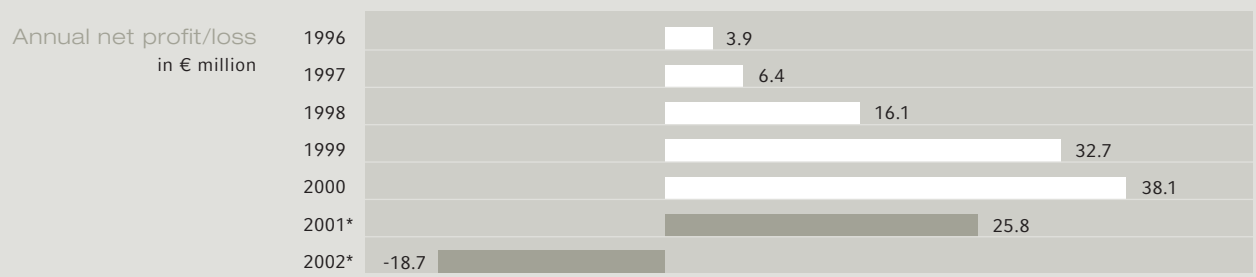
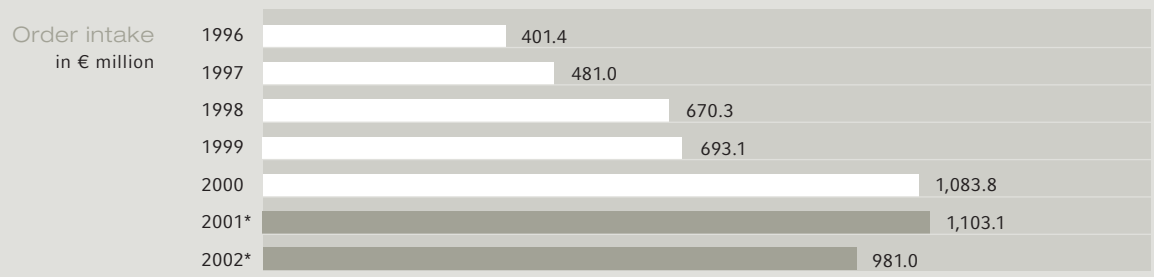
* Reporting date 31 Dec.

** Tangible and intangible asset additions, excluding capitalised development expenses, goodwill additions and financial leases



<< GILDEMEISTER group
key figures

<< Sales
Order intake
Annual net profit/loss
Quarterly result (EBIT)
Employees



*in accordance with IFRS

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GILDEMEISTER IN BRIEF_ GILDEMEISTER is

one of the world's leading maker of lathes and milling machines and, in addition to "lathes" and "milling" technologies, supplies state-of-the-art equipment in "lasering" and "ultrasonic". Our customers can be sure to buy top quality and competent technical service from a single source. Innovative drive and a global distribution and service network are ensured by 5.045 motivated employees in eleven production facilities and 48 national and international service locations. Our primary target is to further improve goodwill by innovation and growth.

THE BUSINESS SEGMENTS OF THE GILDEMEISTER GROUP

GILDEMEISTER group	MACHINE TOOLS	SERVICES	CORPORATE SERVICES
	8 Product lines turning	Decentralised service	Holding functions
	8 Product lines milling	Replacement parts logistics	Financing
	Product line Lasertec	Powertools	
	Product line Ultrasonic	Training Academy	
		Second-hand machines	



GLOBALITY. TECHNOLOGY. GROWTH_ “BESIDE THE IMPORTANT CONTROL FUNCTION, THE SUPERVISORY BOARD’S TASK IS TO ASSIST THE GROUP IN THE IMPLEMENTATION OF ITS STRATEGIES.”

DR.-ING. MANFRED LENNINGS _Chair of the Supervisory Board

Dr.-Ing. Manfred Lennings has been chairman of the Supervisory Board since January 1985. After graduation in Munich and from the Clausthal mining academy, his professional career started with the Gutehoffnungshütte (GHH) machine building group in Oberhausen. Already in 1969 he became deputy member of the Executive Board of GHH and took over as chairman of Howaldtswerke-Deutsche Werft AG in Hamburg in 1970. He was the Number One person at GHH from 1975 till the end of 1983. In the years after that, Dr. Lennings worked as consultant and member of many supervisory boards. For example, he was appointed member of Berliner Treuhandanstalt in 1990 and chaired it from 1993 until its end.

The work of the Supervisory Board was once again dominated by a continuous exchange with the Executive Board – particularly in the face of the difficult economic environment. The Supervisory Board was preoccupied with the company's economic development, strategy and planning. The German Corporate Governance Code and its implementation at GILDEMEISTER was discussed in several meetings. The following report sets out the Supervisory Board's key activities with the openness and transparency required.

In the financial year 2002, the Supervisory Board carried out the duties incumbent on it in accordance with the law and the Articles of Association. It regularly advised the Executive Board on the management of the company and supervised the conduct of business. The Executive Board informed the Supervisory Board regularly with up-to-date and comprehensive written reports on all relevant issues of corporate planning and strategic development, the course of business, the group's state of affairs, including the risk status, and on risk management. Deviations from anticipated plans and targets in the course of business were explained in detail. The company's strategic direction was co-ordinated with the Supervisory Board. All business transactions of importance were discussed in detail by the Supervisory Board on the basis of the reports produced by the Executive Board. Additionally, comprehensive information was supplied at all times through regular written and verbal reports by the Executive Board. The Executive Board informed the Supervisory Board directly regarding projects and events of particular importance separately from the regular meetings. The Chair of the Supervisory Board in particular remained in touch with the Executive Board on a regular basis, even outside Supervisory Board meetings, so as to be kept up-to-date on current business conditions and important external transactions. Resolutions of the Executive Board, which required the agreement of the Supervisory Board, were laid before it as resolution papers. Five Supervisory Board meetings were held in all. The members of the Supervisory Board were all present at four of the five meetings. One meeting only was short of one member of the Supervisory Board.

The first meeting of the Supervisory Board of the year took place on 22 March, 2002. The members of the Supervisory Board were all present at this meeting. The main items on the agenda were the Annual Financial Statements and Consolidated Financial Statements. Also discussed were the condensed Management Report of GILDEMEISTER Aktiengesellschaft and the preparations for the general meeting of the shareholders. The Executive Board reported on a planned production site in Shanghai. The Supervisory Board unanimously agreed to this project and also to the increased participation quota in a & f Stahl- und Maschinenbau GmbH.

During the meeting held on 16 May, 2002, the Supervisory Board discussed in detail the key issues of Corporate Governance and the Corporate Governance strategy at GILDEMEISTER. The implementation of the Code was agreed to in principle, and the Executive Board was asked to prepare for the incorporation of the Code into the company's rules. In addition, the Executive Board informed the members of the Supervisory Board on the current course of business and various projects. All members of the Supervisory Board were present at this meeting.

Key issues at the meeting on 13 September, 2002 were the group's business development, particularly in view of the difficult economic situation, and the intended co-operation with ThyssenKrupp in the cutting machine tools area. The Executive Board explained in detail to the Supervisory Board the industrial project and its planning. This meeting was attended by eleven Supervisory Board members.

At its meeting on 28 November, 2002, which was fully attended by all members, the Supervisory Board adopted the corporate planning 2003 to 2005, following the detailed discussion of the sales, earnings, investment and personnel planning with the Executive Board. The implementation of the German Corporate Governance Code and co-operation with ThyssenKrupp was also reviewed during this meeting. Due to the significance of these subjects, the Supervisory Board decided to call a special Supervisory Board meeting to discuss these matters. Further items on the agenda were changes affecting company law, such as the conclusion of control agreements and profit and loss transfer agreements. Mr. Michael Welt was appointed Head of Controlling, Procurement and Information Technologies with effect of 1 January, 2003.

A special meeting of the Supervisory Board took place on 19 December, 2002. All Supervisory Board members were present at this meeting. The Supervisory Board concluded the debates on the ThyssenKrupp project. The implementation of the German Corporate Governance Code was agreed to in principle and the rules of internal procedure of the GILDEMEISTER Supervisory and Executive Boards, which had been adjusted to the Code, were adopted.

One of the duties that was incorporated into the rules of internal procedures of the Supervisory Board was as follows: each member of the Supervisory Board shall promptly disclose to the Supervisory Board any conflicts of interest that may arise from his/her appointment as an advisor or officer at customers, suppliers, lenders or other parties to a business transaction, and the Supervisory Board shall include in its report to the general meeting of shareholders any conflicts of interests and their treatment. Such conflicts of interest did not occur during the reporting period. When implementing the German Corporate Governance Code, the Supervisory Board also agreed to the annual inspection of the efficiency of their activities. Detailed explanatory notes on the subject "Corporate Governance" and the company's comments in this respect are included in this Annual Report 2002 on pages 86 to 90.

The Personnel Committee of the Supervisory Board met on 17 May, 13 September and 29 November, 2002. This Committee is responsible for staff matters concerning the Board members. A Committee meeting in accordance with Section 27 para. 3 of the German co-determination law (Mitbestimmungsgesetz) was not called.

A Finance and Auditing Committee was established during the process of adaptation to the German Corporate Governance Code. This Committee prepares negotiations and resolutions of the Supervisory Board on accounting and risk management issues and matters concerning the required independence of the auditor, the audit assignment, establishing key items of the audit and negotiating the fee. The Committee met on 27 March, 2003. During this meeting it debated the issues that appeared relevant to the Committee with the auditor, who had also attended at the meeting, and recommended to the Supervisory Board the approval of the Annual and Consolidated Financial Statements.

For the meeting of the Supervisory Board on Financial Statements that took place on 27 March, 2003, the Annual Financial Statements, Consolidated Financial Statements, Management Report and Consolidated Management Report of GILDEMEISTER Aktiengesellschaft were all available, as were the Audit Reports issued by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, auditing company, Berlin/Frankfurt am Main. The auditor was present at the Supervisory Board's deliberations on the Accounts and reported in detail on the course and the results of the audit and was available to provide supplementary information. The papers were discussed in depth. In relation to the existing early risk recognition system, the auditor stated that the Executive Board had met the measures required by Sect. 91 para. 2 AktG (German Companies Act), particularly in respect of the establishment of a monitoring system, and that the system is suitable for the early recognition of developments that put the ongoing existence of the company at risk.

The Annual Financial Statements for the year ended 31 December, 2002, prepared by the Executive Board in compliance with applicable HGB rules, and the Management Report of GILDEMEISTER Aktiengesellschaft were audited in accordance with the resolution passed at the shareholders' meeting of 17 May, 2002 and in line with the subsequent assignment of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, auditing company, Berlin/Frankfurt am Main, by the Supervisory Board. The accounts auditor issued the unqualified audit certificate.

The Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft were prepared in accordance with International Financial Reporting Standards (IFRS, previously IAS). In accordance with the exemption provision in Section 292a HGB, Consolidated Financial Statements in accordance with HGB were not prepared. The auditor issued the unqualified audit certificate to the Consolidated Financial Statements prepared in accordance with IFRS, and to the Group Management Report.

On the basis of its own audit of the Annual Financial Statements, the Consolidated Financial Statements, the Management Report, the Group Management Report and of the proposal for the appropriation of the net profit for the year, the Supervisory Board agreed to the results of the audit. The Financial Statements and the Consolidated Financial Statements were approved. The Annual Financial Statements have therefore been certified in accordance with Section 172 AktG (German Stock Corporation Law). The Supervisory Board endorses the Executive Board's proposal for the appropriation of the GILDEMEISTER Aktiengesellschaft net profit for the year.

During this meeting the members also adopted proposals for amendments to the articles of association that were submitted for resolution to the ordinary shareholders' meeting with regard to the continuing implementation of the German Corporate Governance Code. The proposals for amendments to the articles of association include the adaptation of the Supervisory Board fee to the Code. In future, the Supervisory Board fee will include elements that are geared towards economic success. Serving on the committees of the Supervisory Board will also be compensated for.

The members of the Supervisory Board would like to thank the Executive Board, the managements as well as all employees in the group companies for their continuing commitment. They would like to extend their thanks to the employee-elected representatives for their objective and constructive collaboration in the interest of our company.

Bielefeld, 27 March, 2003

THE SUPERVISORY BOARD



Dr.-Ing. Manfred Lennings

Chair

THE SUPERVISORY BOARD

Dr.-Ing. Manfred Lennings,
Essen,
Chair,
Independent Industry Consultant

Harry Domnik,
Bielefeld,
Deputy Chair,
1st Secretary of the IG Metall (engineering
workers' union) headquarters

Gerhard Dirr,
Vils/Österreich,
Chair of the Works Council of
DECKEL MAHO Pfronten GmbH

Alfred Geißler,
Pfronten,
Senior Executives' representative

Prof. Dr.-Ing. Peter-Jürgen Kreher,
Grünwald,
Senior Advisor Droege & Comp.,
Düsseldorf

Arno Kruck,
Bielefeld, (to 31 Jan. 2003)
Chair of the Works Council of
DMG Vertriebs und Service GmbH
DECKEL MAHO GILDEMEISTER

Heinz-Dethlef Rother,
Bielefeld, (since 1 Feb. 2003)
Chair of the Works Council
DMG Vertriebs und Service GmbH
DECKEL MAHO GILDEMEISTER

Prof. Dr.-Ing. Walter Kunerth,
Zeitlarn,
Independent Industry Consultant

Hans Henning Offen,
Großhansdorf,
Former Deputy Chair of the Executive Board
of Westdeutsche Landesbank Girozentrale

Peter Oxfart,
Creuzburg,
Chair of the Works Council of
DECKEL MAHO Seebach GmbH

Dr. jur. Rupert Pfeffer,
Geretsried,
Chair of the Executive Board of
LfA Förderbank Bayern i. R.

Günther Johann Schachner,
Peiting,
Executive Board member at IG Metall Frankfurt
1st Secretary of the IG Metall headquarters

Hans Peter Schreib,
Legal counsel, Düsseldorf,
Member of the Executive Board of
the Deutsche Schutzvereinigung für
Wertpapierbesitz e.V. (DSW)

GLOBALITY. TECHNOLOGY. GROWTH. „AS WE ARE ALREADY TODAY DEVELOPING THE TECHNOLOGIES FOR TOMORROW, WE WILL SUCCESSFULLY BE PRESENT IN THE INDUSTRIAL COUNTRIES OF THE WORLD IN THE FUTURE, TOO.“

DR. RÜDIGER KAPITZA _Chair

Dr. Rüdiger Kapitza (48)

Chair of the Executive Board since April 1996 and co-founder of the current DMG Vertriebs und Service GmbH. Trained as machinist and industrial clerk at GILDEMEISTER, Bielefeld. The economic scientist, who holds a PhD, is responsible for Corporate Strategy and Product Development, Sales and Marketing, Services and Personnel as well as Public Relations. Dr. Rüdiger Kapitza was appointed to the Executive Board of GILDEMEISTER Aktiengesellschaft in 1992.

Dr.-Ing. Raimund Klinkner (38)

Studied Mechanical Engineering at the Munich University of Technology and has been a member of the Executive Board since May 1998; from 1 January, 2003 as Deputy Chair of the Executive Board. His areas of responsibility include Production and Logistics as well as projects covering various areas, such as the development of the production site in Shanghai. Before he joined GILDEMEISTER, Dr. Raimund Klinkner worked in the car industry.



Dieter Schäfer (50)

Has been a member of the Executive Board since May 1997 and is responsible for the Finances department. The economic scientist joined GILDEMEISTER Aktiengesellschaft in 1991 as Head of Central Controlling. He then held various management posts in the group. Dieter Schäfer also participated in the formation of the current DMG Vertriebs und Service GmbH.

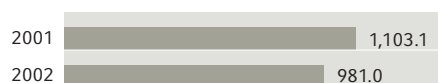
Michael Welt (48)

Has been a member of the Executive Board since January 2003 and is responsible for Controlling, Procurement and Information Technology (IT). Michael Welt (Dipl.-Kaufmann) holds a degree in business administration and has been Commercial Director at BECKEL MAHO Pfronten GmbH since 1996. He will hold his appointment temporarily in addition to his other responsibilities. Before he joined GILDEMEISTER, Michael Welt was a Manager in the mechanical and plant engineering area.

TO OUR SHAREHOLDERS

_In the financial year 2002 GILDEMEISTER was able to maintain its current position even under extremely difficult market conditions! Our turning and milling machines and laser and ultrasonic technology convinced customers around the world thanks to user-orientated, trend-setting innovations. The economic environment in 2003 will again be dominated by intensive competition, but we will continue to expand our international market presence. _

Order intake
in € million



Sales
in € million



EBIT
in € million



Employees
(incl. trainees)



Dear shareholders,

Wherever you looked, the previous year did not see any rise of economic activity. Even if most of us at the beginning of 2002 were looking at the year ahead with cautious optimism, there was at least some optimism. It turned out that gradually this optimism had to put into perspective from quarter to quarter. Many aspects contributed to this, but yet again it was events outside the economy that were instrumental in creating the negative influences; the Iraq conflict, for example, cast its shadow over the world. Trends on the international stock markets were also negative. We saw one of the worst years on the stock exchange for a long time. During these developments numerous shares were considerably underpriced. The GILDEMEISTER share was one of them.

Despite these adverse circumstances we accomplished our planned sales target of more than € 1 billion in the financial year 2002. At € 1,032.8 million sales were 10% below the high figures of the previous year. In contrast with the industry average, which dropped by 13% we were able to hold our ground. The intake of new orders of € 981.0 million was 11% below the previous record year, therefore corresponding with trends (-10%) in the cutting machine tools industry. However, with respect to the entire year, the group's profitability remained below expectations. Earnings before interest and taxes (EBIT) only reached € 17.2 million; the results from ordinary activities showed a loss of € 7.5 million. The group's net loss for the year was € 18.7 million. In the face of these developments, the Executive and Supervisory Boards will propose to the shareholders' general meeting to be held on 16 May, 2003, not to distribute a dividend for the financial year 2002.

GILDEMEISTER is prepared to weather the storm and continue to strengthen its own position. We all know that our ambitious goals can only be accomplished by intensifying our energies. We must continue to improve the pooling of our key capacities in the four divisions of Turning, Milling, Laser/Ultrasonics and Services, to organise the product portfolio even more efficiently and to tighten business processes in such a way that we can cope at all times with the ever changing challenges of the market. Our strengths are our innovative power, our speed of implementation, our know-how with respect to products and application, our services offered and last, but not least our global net of loyal customers. To be a successful service company, we have to be present, "on site" in all industrial nations, and have a global direct distribution system that is close to the market, covering all relevant areas.

In early 2003, DMG Vertriebs und Service GmbH underwent an organisational and structural shake-up; making it even more effective and more flexible with an even greater customer proximity. In addition, we created three new DMG Training Academies to lend the GILDEMEISTER group's training activities an even stronger international quality. Even the best of strategies will not survive, if not implemented with determination and vigour.

Before us lies another year of overall economical weakness. Forecasts speak of a tentative recovery at best. Political uncertainties increasingly affect economic development. As long as we do not know how the Iraq conflict will progress, forecasts for the year 2003 remain extremely difficult. However: there are signs that demand for machine tools will pick up during the second half of the year. Accordingly, we are planning with caution. Our intake of new orders may reach a total of € 1 billion for the entire year; sales, too, might be above € 1 billion. Based on our strong level of orders this assessment is reasonably realistic even if economic trends will initially develop unfavourably.

We rely more and more on international transactions, particularly with Asia and America. It is our aim, on a medium-term basis, to obtain 20% of sales in each of the two continents. Thanks to the restructuring measures at DMG, we will achieve an adequate level of market shares, whilst in Asia we have now reached 12% – and this is rising. Here the new production plant in Shanghai will surely provide us with an extra thrust. Shanghai is our first production site outside Europe. Here we primarily produce line machines that are geared to the growing market segment of Chinese small and medium-sized private enterprises. Specialists agree that in the next few years China will continue to be one of the world's major buyers of machine tools. Our local production is therefore a milestone in the group's globalisation strategy.

Despite these rather gloomy prospects, we are, in all, facing the new financial year with a fair level of confidence. We are planning to show a much better result for the group. According to our plans, EBIT will rise significantly and, on a medium-term basis, will reach around € 100 million. We will embark on a reduction of the group's indebtedness with new solutions and will strive, on a medium-term basis, for an equity ratio of more than 30%. We will consider distribution of a dividend, as soon as the group has obtained another net profit for the year.

Dear shareholders, the old financial year was difficult and the new one will, in all probability, not be much easier. GILDEMEISTER, however, has both the strength and the virtues required to utilise opportunities. Above all, GILDEMEISTER has committed and talented employees. The company's innovative power is based on their inventiveness. We can all be proud of this, and I would therefore like to thank all our employees with all my heart – as would my fellow members of the Executive Board. And I would like to thank you, dear shareholders, for your loyalty. You can rely on our loyalty in return!

Yours truly,

A handwritten signature in blue ink that reads "Rüdiger Kapitza". The signature is written in a cursive style with a diagonal slash separating the first and last names.

Dr. Rüdiger Kapitza
Chair of the Executive Board
Bielefeld, 27 March, 2003

THE YEAR 2002

JANUARY

At the traditional DECKEL MAHO internal exhibition in Pfronten, the group showed the first of 22 planned developments for the year 2002: the innovative DMC 64 linear high-tech vertical machining centre. The € 15 million intake of new orders obtained were a good start for the new financial year.

FEBRUARY

The newly combined laser and high-speed milling machine, DML 60 HSC, and the innovative CNC multi-spindle generation, GMC ISM, have met with great interest from a specialist audience. During the first quarter of the year, GILDEMEISTER exports every other machine.

APRIL

MAY

The historical 100th general meeting of shareholders takes place on 17 May, 2002 in Bielefeld town hall; approximately 1,100 shareholders are present. The group distributes another dividend of € 0.60 per share for the past financial year. This is a dividend total of € 17.3 million.

JUNE



26 February 2002 sees another highlight: With a grand opening, DECKEL MAHO opens up its new modern production plant in Thuringian Seebach. At the internal exhibition held afterwards, the group sells 50 machines worth € 10 million.

GILDEMEISTER secures two major orders from the motor industry worth more than € 8 million and one from the packaging industry worth more than € 11 million.

At the "Best Factory - Industrial Excellence Award 2002" competition DECKEL MAHO Seebach is voted overall winner for Germany and France by the jury of the renowned French School of Management, Insead, and the German Wissenschaftliche Hochschule für Unternehmensführung (WHU).

The METAV in Düsseldorf has again proved successful for GILDEMEISTER. 170 machines totalling almost € 30 million are sold. The DECKEL MAHO GILDEMEISTER stall was visited by more than 3,000 firms on five trade fair days. The group presents 35 exhibits in production; seven innovations are premiered to the world.

JULY

At a grand opening, DMG Stuttgart celebrates the opening of its new trend-setting centre of technical know-how on 2 July 2002. Of 39 national and international technology and service centres in the GILDEMEISTER group, DMG Stuttgart is the most successful: More than 11% of sales are attributed to Baden-Württemberg.



GILDEMEISTER revitalises its Internet presence. The group can now be visited on the World Wide Web (www.GILDEMEISTER.com) in five languages. The website is now even more interactive, more modern and, above all, more customer-orientated.

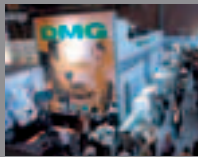
AUGUST



Once more GILDEMEISTER has demonstrated a good information policy. The business magazine "manager magazin" chooses the Annual Report 2001 as the best of all 70 MDAX companies. In the overall ranking of all stock market tiers judged, GILDEMEISTER comes second.

SEPTEMBER

With an intake of new orders worth € 25.2 million GILDEMEISTER draws positive results from the two autumn trade fairs, the IMTS (Chicago) and AMB (Stuttgart). 20 of the 22 innovations planned for the year 2002 have already been put before a specialist audience.



GILDEMEISTER secures another major order from the Malayan government. This time it is for 60 turning and milling machines and 179 third-party products. Institutes for vocational training and further education throughout the country will be equipped with these high-tech machines.

OCTOBER



GILDEMEISTER is the 2002 winner of the German Logistics Award. With this award the jury of the Bundesvereinigung Logistik (German Logistics Association) appreciated, since 1984, enterprises from industry, trade and the service sector, which have successfully implemented a trend-setting, integrated logistical strategy.

NOVEMBER

GILDEMEISTER expands its Executive team: Dipl.-Kfm. Michael Welt, Manager at DECKEL MAHO in Pfronten, takes over the Controlling, Procurement and Information Technology units of the group's Executive Board with effect of 1 January,



DECEMBER



2003. The preparations for the new production plant in Shanghai – the first outside Europe – reach their final stage of development. The new site represents another milestone in the group's globalisation strategy.

Despite the weak world-wide demand for machine tools GILDEMEISTER has reached the planned sales target of over € 1 billion and is well prepared for the challenges of 2003.

ECONOMIC REPORT // General Situation _In the year 2002, world-wide overall development did not meet expectations. The uncertainties over economic trends increased over the course of the year. This was mainly due to the Iraq conflict and the related increase in oil prices. Stock markets reacted accordingly. In the United States, the expected recovery failed to materialise. The situation in the Japanese economy did not change either. Development in the European Union (EU) did not see any major thrust. The weak period in Germany was extreme. Only the PR of China was able to achieve above average growth rates.

Global demand for machine tools continued to decline in 2002; both production and consumption were considerably below figures for the previous year. German manufacturers of machine tools also experienced a slow-down in business. They suffered considerable drops both in the intake of new orders and in production._

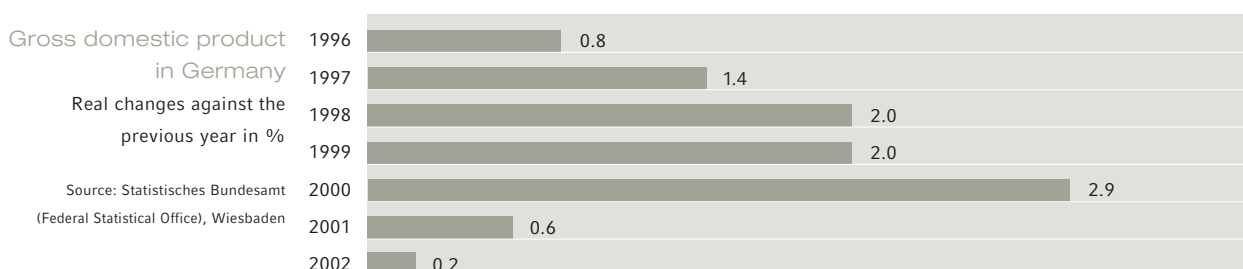
Overall Economic Development

In summer 2002, the **global economy** suffered another downturn after it had initially been able to stabilise under the influence of the USA. Economic pressure was primarily caused by the Iraq conflict, the outcome of which cannot be foreseen, and which directly affects oil prices. The situation in Japan also remains difficult. In most European Union member states, growth remained below the figures pertaining to the previous year. German economic activity stagnated. According to provisional calculations by the Institute for World Economics (IfW) based at Kiel University, aggregate output rose globally by 2.8% (2001: 2.2%).

In the **USA**, economic activity lost its thrust following initial signs of recovery during the winter months of 2001/2002. Growth rates, which had initially been at around 4%, dropped to 2% during the summer months. Price losses on the financial markets and uncertainties due to the Iraq conflict affected the positive effects of the expansive American monetary and fiscal policy. Private consumption remained the most important pillar. Public debts, already at a high level, continued to increase due to spending on weapons and the fight against terrorism. Unemployment, too, increased noticeably. During the course of the entire year, the gross domestic product rose by 2.4% (2001: 1.1%).

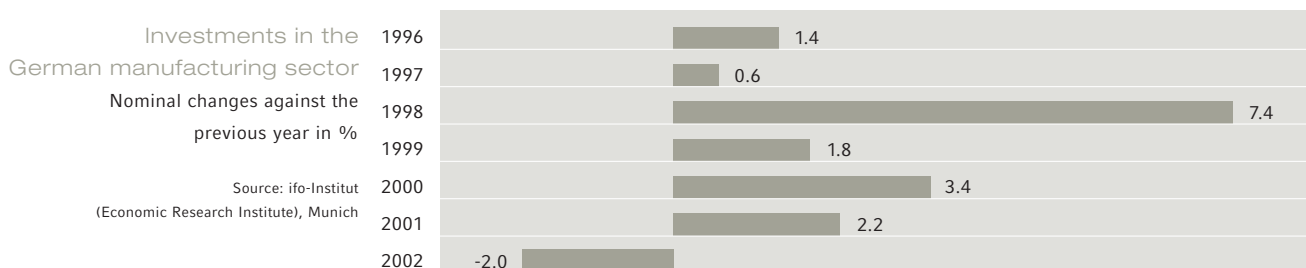
In **Japan**, no drastic improvements were seen. However, according to experts the economic downturn bottomed out during the first half of 2002. The situation gradually stabilised and private consumption rose slightly. Investments, however, scarcely picked up. There was a deflation, and due to the high level of public debts, fiscal policy was not able to act. The gross domestic product shrank by 0.3% (2001: 0.3%).

In **Europe**, economic development remained below expectations. France, England and Spain reached growth rates of between one and two percent, whilst Italy and Austria were even below these figures. Germany, the Netherlands and Luxembourg came last. In 2002, the introduction of the common currency, the Euro, undermined many consumers' sense of security. In the reporting year, the gross domestic product in the Euro zone dropped, in all, by 0.8% (2001: 1.4%).

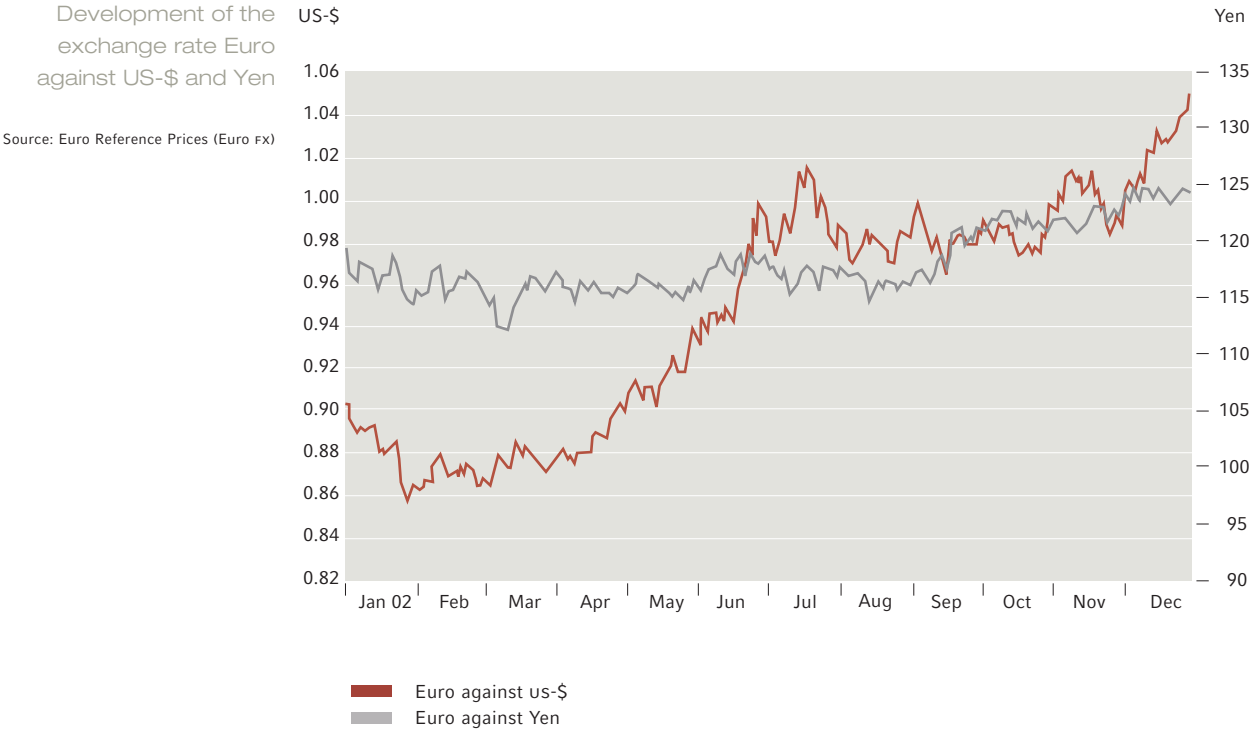


In **Germany**, economic activity came to a halt. Consumers were less willing to buy and companies' outside financing became more difficult. The Iraq conflict and increases in oil prices were additional inhibitors. According to provisional calculations by the Statistische Bundesamt (Federal Statistical Office), the gross domestic product rose by only 0.2% (2001: 0.6%). With the exception of the year of recession, 1993 (-1.1%), this was the weakest growth since reunification. Germany therefore came bottom among the major industrial nations. The fact that growth was still positive was primarily due to external trade, although the price of the Euro rose by 16% against the us Dollar during the course of the year, thus aggravating export business. Exports rose by 2.9% in real terms, reaching a new record level, whilst imports declined by 3.4%. In 2002, with a 9.3% loss, plant and equipment expenditure fell noticeably below the previous year's level. By the end of the year, the number of unemployed went beyond the 4 million mark. In December, 4.23 million people were unemployed, and this is rising. The number of insolvencies rose sharply and public debts also increased. At 1.3% the rate of inflation was very low. Spending by the Federal Government, the Bundesländer and the local authorities exceeded income by € 77.2 billion. This means, that, according to initial calculations, the deficit quota reached 3.7%, therefore missing the 3% reference value provided in the Maastricht Treaty.

Sources: Statistisches Bundesamt, Wiesbaden; Institut für Weltwirtschaft (IfW), Kiel; ifo-Institut, München



In relation to industry trends, GILDEMEISTER was able to maintain its position. As a predominantly European company and manufacturer of machinery and equipment we were able, despite the difficult situation in the global market, to achieve our planned sales target. However, the currency relations of the Euro against the Dollar and the Yen affected the group's competitive position in major customer states. More detailed explanatory notes on the development of the Euro in comparison with selected currencies are set out on page 44. In America we were able to increase our market shares slightly, however, the intake of new orders did not reach the level of the previous year. In Asia we have reinforced our position despite the continuing weakness of the market. In the PR of China and other Asian countries relevant to us (Taiwan, Korea and Malaysia) the intake of new orders increased noticeably against the previous year.



Development of the Machine Tool Building Industry

International Development

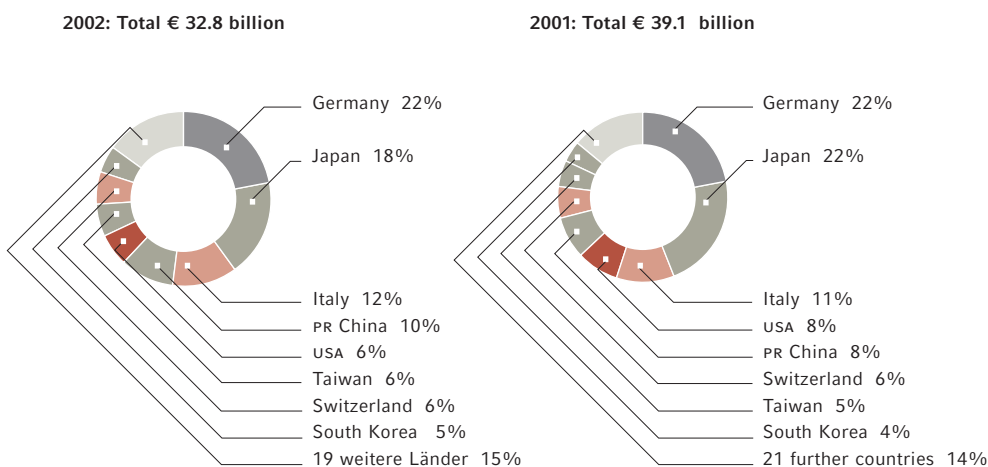
In the year 2002 global demand for machine tools continued to decline. According to its latest figures, the German Association of Machine Tool Factories (VDW) expects a **global output** of € 32.8 billion for 2002. Production has therefore dropped by 16% and has again reached the level of 1999. At € 7.2 billion, and with a 22% production share in the global market, Germany was the largest producer. With € 5.9 billion (18 %) Japan fell behind and was placed second. With € 4.0 billion (12%) Italy was able to maintain its place from the previous year and for the first time China pushed the USA into fifth place with € 3.2 billion (10%). Germany, Japan, Italy, the PR of China and the USA represent 68% of the world-wide machine tool production (previous year: 71%).

The individual world regions' shares in international production:

Shares in world-wide production	2002 in %	2001* in %
Europe	53	52
(of which Germany)	(22)	(22)
Pazifischer Raum	39	38
(of which Japan)	(18)	(22)
America	8	10

* Benchmark figures for 2001 are based on figures revised since last report

World-wide production of machine tools



In the reporting year 60% of global production was exported. In **exports**, there was further confirmation of leading roles for Japan with an export share of 86% (previous year: 73%) and Germany with an export share of 58% (previous year: 56%): as last year, Japan and Germany together accounted for 47% by value of world exports. Some distance behind followed Italy, Switzerland, Taiwan and the USA. Their shares – like those of the remaining countries – were below 10%.

The world-wide **consumption** of machine tools, also stated at € 32.8 billion, was distributed among the three major markets and the rest of the world as follows:

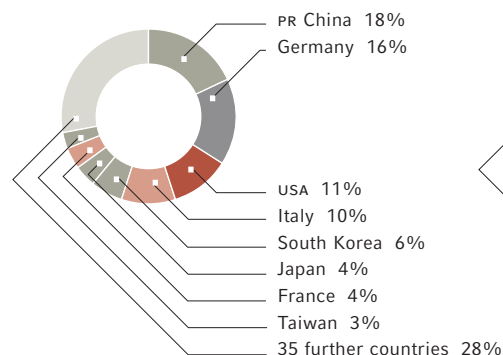
World-wide consumption of machine tools:

Shares in consumption world-wide	2002 in %	2001* in %
Europe	43	44
(of which Germany)	(16)	(16)
Pazifischer Raum	32	30
(of which Japan)	(4)	(8)
America	16	20
Rest of the world	9	6

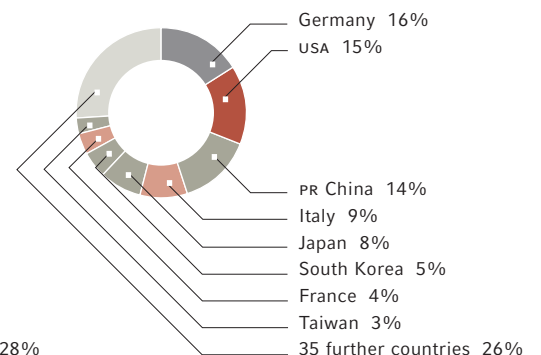
* Benchmark figures for 2001 are based on figures revised since last report

World-wide consumption of machine tools:

2002: Total € 32.8 billion



2001: Total € 39.1 billion



In the year 2002, the PR of China, for the first time, became the world's largest sales market for machine tools. Consumption amounted to € 6.0 billion with an 18% share in consumption of all countries. Germany, with € 5.1 billion (16%), came second; Place three was occupied by the USA with € 3.5 billion (11%). Further important machine tool markets were Italy (10%), South Korea (6%) and Japan (4%).

With respect to **imports** of metal cutting machines, the PR of China with a 17% increase against the previous year ousted the USA from first place for the first time. 52% of total consumption in China was imported. In the USA, total imports in the reporting year were 35% less than in 2001. Based on the total consumption in the USA, the import share, which last year amounted to 65%, rose to 70% in the reporting year. German imports dropped by 18% and occupied third place, followed by Italy, who imported 26% less than in the previous year. With a 56% drop in domestic consumption, amounting to € 1.3 billion, imports in Japan in 2002 declined by 30% to € 0.5 billion, therefore falling back to tenth place.

Source: The basis for the world machine tool statistics is the data published by the vdw (Association of German Machine Tool Factories) (excluding parts and accessories). These data are requested by the national producers' associations of the individual countries and are based on the current actual values or, for the remainder of the year, on careful estimations based on the updated values of the preceding year.

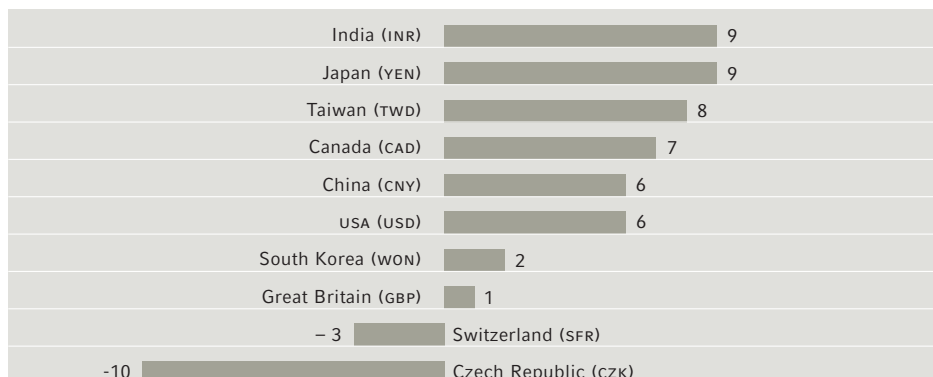
Explanatory notes on the problem of exchange rates

World machine tools statistics

With the introduction of the common currency, possible exchange rate distortions ceased to play a role within the Euro states, but remain relevant with regard to third currencies, such as the us Dollar or the Yen. There were no major changes in Western Europe, with the exception of the moderate increase in purchasing power of the Swiss Franc. In Central Europe, the Czech Koruna gained one tenth in purchasing power. For us American and Canadian customers prices for the Euro have risen noticeably. Striking upward revaluations of the Euro have also been noted on the markets of India, Japan, Taiwan and China.

Changes to the Euro 2002 compared with 2001 against the individual national currencies in %

Source: Deutsche Bundesbank

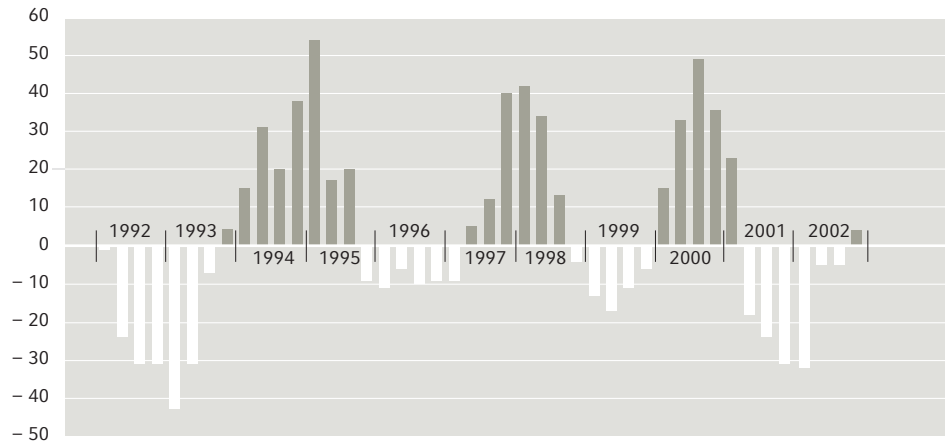


German Machine Tool Industry

In line with the international section trend, the year 2002 brought a 17% decrease in German machine tool production. This drop in production was mainly due to the fact that, despite the previous year's high level of order backlogs that had to be worked off, it was not possible to achieve an adequate level of follow-up orders to utilise existing production capacities. Whilst the intake of new orders decreased by just 5% against the previous year, there was a 22% drop in domestic sales and a 14% drop in exports. Exports reached € 5.0 billion in the reporting year.

Compared with the previous year, **order intake** decreased by 5% to € 8.9 billion in total (previous year € 9.4 billion). These changes are due to the fact that domestic orders decreased by 12%, whilst international orders rose by 2%. Compared with the previous year, which saw a 13% drop, this means that the declining trend in incoming orders is slowing down.

Incoming orders pertaining to machine tools in Germany
Real changes against the previous year in %



According to figures from the Munich-based Economic Research Institute (IFO), the business climate in the principal purchaser industries – the mechanical engineering, road vehicle construction and electrical engineering industries – did not develop evenly over the course of the year. Mechanical and electrical engineering showed negative figures, whilst road vehicle construction recorded a positive balance of account – even if fluctuating.

In 2002, for the first time in a long time, the machine tool industry was not able to achieve any growth in **production**; it dropped to a total of € 8.4 billion, which was 17% below the figure for 2001 (€ 10.1 billion). Whilst sales dropped by 10% during the first half of the year, this development was further aggravated during the second half of the year, resulting, with respect to machine tools, in a total drop of 12% seen over the entire year.

Of the metal cutting machines produced in Germany, 60% were exported in the reporting year (2001: 56%). Compared with the previous year, **exports** dropped by 14 % to € 5.0 billion. As in previous years, the United States remained the most important market for German machine tools. Based on the available figures for the first three quarters of the year 2002, 14% of the proceeds from exports were attributed to this market (2001: 16% for the whole year). The subsequent places in the ranking of the major purchasing countries were occupied by France with an 8% share (2001: also 8%), China with a 7% share (2001: 5%), Italy with a good 6% share (2001: 7%) and Switzerland with a share of almost 6% (2001: 5%).



The 18% drop in **imports** to € 2.8 billion in the reporting year (2001: € 3.4 billion) together with the 22% drop in domestic sales, now worth € 3.4 billion (2001: € 4.3 billion) led to a 20% reduction in **domestic consumption**, amounting to € 6.2 billion. Approximately 40% (2001: 41%) of the German machine tool imports originated from the European Union. As previously, Switzerland remained by a substantial margin the largest supplier country. Other countries with substantial supply volumes were Japan, Italy, the Czech Republic, France, the USA, Austria and Spain.

At the end of 2001, **capacity utilisation** was 93.4%, which no longer represents a full use of capacity. During the course of 2002 this figure dropped to 86.1%. A slightly higher capacity utilisation of 87.8% was achieved for metal cutting machines, whilst utilisation for non-cutting machines was noticeably lower, at 82.1%. The demand trend is also reflected in **orders on hand**. The volume of existing orders, shown in production months, decreased from 7.3 at the beginning of the year to 6.7 months in October 2002. This computed average value for the industry can only be a rough indicator of the extent of order volumes due to its compilation, which includes – apart from standard machines with extremely short delivery times – special machines and large cutting machine tools with long delivery times.

Employment in the German machine tool building companies decreased by 3% in the reporting year. During the first six months of 2002 the number of employees dropped to 67,400 and decreased further to 67,000 during the second half of the year.

According to estimates by the Association of German Machine Tool Manufacturers, **profitability** for most companies in the German machine tool industry has further deteriorated when compared with the previous year. A statement on this matter is difficult as only a few companies publish their figures. Reliable statements are only available in some cases so that the Association has to rely on estimates. For the machine tool building industry the vdw, according to provisional information, expects figures to halve and estimates the average annual after-tax rate of return to be 1.8% (previous year: 3.0%). The industry's annual rates of return are, on the whole, unsatisfactory. The industry is not only affected by the cyclical effects and structural changes of the previous years, but also by the high product development costs on, and investments in future developments.

Source: vdw; vDMA – Fachverband Werkzeugmaschinen und Fertigungssysteme (Trade Association Machine Tools and Production Systems)
(Figures pertaining to the previous year were partly updated)

GLOBALITY. TECHNOLOGY. GROWTH_ “THE MARKETING INFORMATION SYSTEM IS THE TOOL FOR OUR MARKET-ORIENTED MANAGEMENT – IT IS USED FOR MARKET SEGMENTATION AND DISTRIBUTION STEERING.”

RALPH SOCK _Marketing Information System – B2B Communication

MARKETING INFORMATION SYSTEM – MIS: The world changes every day; nothing remains the way it is. Our target group, however, is finite and segmentable – we know 210,000 firms as customers or interested parties, with 350,000 contacts, whom we know personally, throughout the world. MIS is our basis for interactive marketing. It helps us penetrate the market deeper and guarantees optimal deployment of our field staff. The target: Even better information for our customers.

GLOBALITY. TECHNOLOGY. GROWTH_ In international competition, change is already considered a constant. Those who master dynamic change and adjust their concepts accordingly will be able to translate change into opportunity and opportunity into success. Technological innovation, high product competence and the flexibility of a global actor are GILDEMEISTER's basis for successful presence in the markets of the world.

BUSINESS REPORT // Corporate Situation and Course of Business

_In the financial year 2002, GILDEMEISTER succeeded in reaching its planned sales target of € 1,032.8 billion, despite the difficult situation on the world market. Sales were € 112.6 million or 10% less than the high figures of the preceding year. The intake of new orders reached € 981.0 billion; which is € 122.1 million or 11% less than last year's record figures (€1,103 million).

In relation to the entire year 2002, the group's profitability remained below expectations. Earnings before interest and taxes (EBIT) amounted to € 17.2 million (previous year: € 78.1 million); results from ordinary activities showed a loss of € 7.5 million. Taking into account taxes on income, the group's net loss for the year amounts to € 18.7 million (previous year: annual net profit of € 25.8 million). GILDEMEISTER Aktiengesellschaft closed the financial year with a net profit of € 4.4 million. In face of these developments the Executive and Supervisory Boards of the shareholders' general meeting to be held on 16 May 2003 will not propose the distribution of a dividend for the financial year 2002.

The orders on hand of € 328.8 million (previous year: € 380.6 million) form a good starting point for the new financial year. Thanks to its modern innovative products, GILDEMEISTER is well prepared for the year 2003, despite the difficult global market conditions._



We expect a rather restrained course of demand for the current financial year; looking ahead to a moderate revival in the second half of the year. Thanks to our innovative products and numerous technical advantages together with our customer-orientated services we hope to confirm once again our leading position this year with improved economic results. By being well represented through the group's sales and service organisation in all major industrial markets and with an adequate share in the market, we stand a good chance of maintaining our position against the competition.

Co-operation plans:

In the middle of last year GILDEMEISTER and ThyssenKrupp announced that they would look into the pooling of their activities in the cutting machine tools area. The plan jointly developed between the two companies appeared to be very attractive, particularly in the sales, distribution and service areas especially in America, and with respect to joint production. However, a pooling of the machine tools business could not be implemented. In view of the difficult economic conditions and tight financial markets the required funding could not be arranged. Both parties have agreed to continue discussion in order to develop alternative solutions and, if necessary, to implement the plan in individual stages.

As at 31 December, 2002 the GILDEMEISTER group was composed of

_ GILDEMEISTER Aktiengesellschaft as **parent company** and the following affiliated companies and their subsidiaries:

- _ GILDEMEISTER Drehmaschinen GmbH, Bielefeld,
- _ GILDEMEISTER Italiana S.p.A., Brembate di Sopra,
- _ DECKEL MAHO Pfronten GmbH, Pfronten,
- _ DECKEL MAHO Geretsried GmbH, Geretsried,
- _ DECKEL MAHO Seebach GmbH, Seebach,
- _ FAMOT Pleszew S.A., Pleszew,
- _ SAUER GmbH & Co. KG, Idar-Oberstein,
- _ DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai,
- _ a & f Stahl- und Maschinenbau GmbH, Würzburg,
- _ DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld.

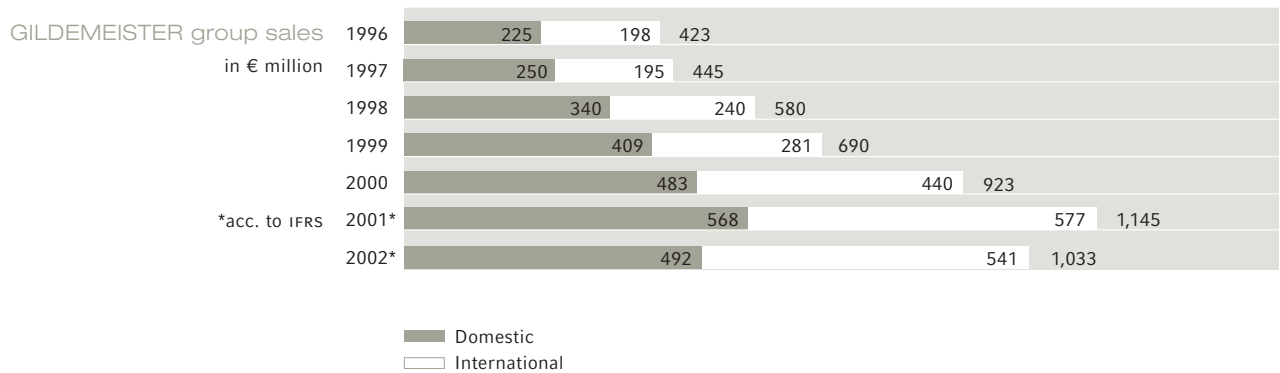
			PROCUREMENT	SALES AND SERVICE ORGANISATION
FAMOT Pleszew S.A. Pleszew 99%	SAUER GmbH & Co. KG Idar-Oberstein 50,5%	DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd. 100%	a & f Stahl- und Maschinenbau GmbH Würzburg 90%	DMG Vertriebs und Service GmbH Bielefeld 100%
				48 sales and service sites world-wide world-wide

The consolidated company report includes all group companies controlled by GILDEMEISTER Aktiengesellschaft. DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., founded on 22 November, 2002, will be included into the consolidation from 2002; the company commenced business operations at the beginning of 2003. GILDEMEISTER Italiana together with its fully owned subsidiaries, GRAZIANO Tortona S.p.A., Tortona, and SACO S.p.A., Castelleone, is a subgroup, as is DECKEL MAHO Pfronten GmbH and DMG Vertriebs und Service GmbH each with its subsidiaries.

GILDEMEISTER operates in the metal-cutting technology field. Business activities include the “Machine Tools”, “Services” and “Corporate Services” **segments**. The group's corporate governance is directed to these business segments. The „**Machine Tools**“ segment is made up of the “turning”, “milling” and “Laser/ultrasonic” technologies. All of our machines are classified as cutting machine tools, and all business segments are concurrent with each other. The „**Services**“ segment is directly related, across all areas, to the machines: our services are offered to all relevant international markets via DMG Vertriebs und Service GmbH. „**Corporate Services**“, the third segment, covers the business operations of GILDEMEISTER Aktiengesellschaft and the holding company Macchine Utensili S.p.A., Milano.

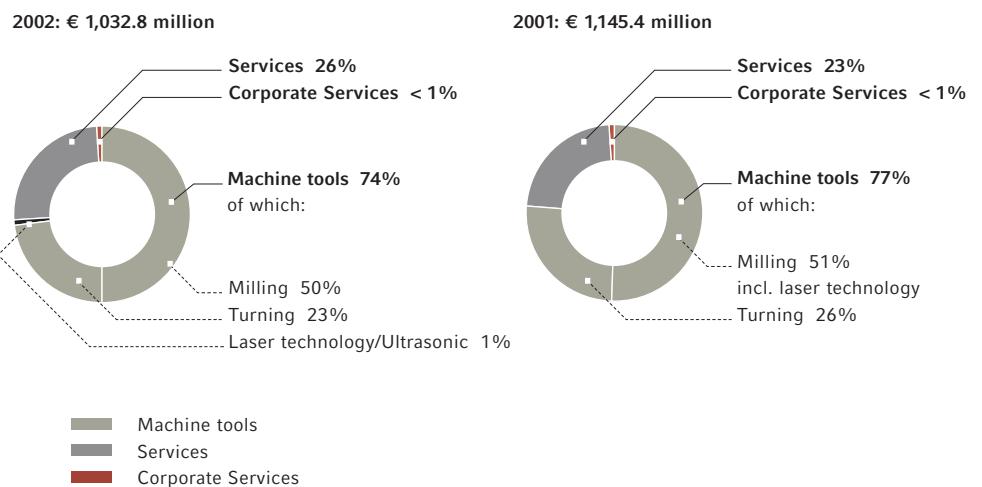
Sales

The world-wide weak demand for machine tools has also affected sales development at GILDEMEISTER. Sales amounted to € 1,032.8 million, therefore falling € 112.6 million or 10% below the high figures for the preceding year. Compared with the industry, which suffered a 13% loss in the cutting machine tools area, GILDEMEISTER was, in all, able to maintain its position relatively well. In comparison with the average of the first three quarters, sales in the fourth quarter 2002, like the corresponding quarter of the preceding year, increased noticeably so that the planned sales target of more than € 1 billion was accomplished. Domestic sales, amounting to € 491.7 million, declined by € 76.2 million or 13%. International sales reached € 541.1 million (€ -36.4 million or 6%). The export share increased to 52% (previous year: 50%). In this respect, the sales contribution gained through **E-Commerce** continued to grow in significance.



The nine production plants of the GILDEMEISTER group represent the “Machine Tools” segment with its six domestic and three international sites. Together they achieved 74% of the sales in the new machines business (previous year: 77%). The DECKEL MAHO milling machines and machining centres were represented by 50% (previous year: 51%), whilst the laser/ultrasonic technology was represented by 1% (previous year: below 1%). 23% of sales (previous year: 26%) were attributed to the turning machines and turning centres of GILDEMEISTER, GRAZIANO and FAMOT. 26% (previous year: 23%) of external sales were attributed to the “Services” of DMG Vertriebs und Service GmbH, a & f Stahl- und Engineering GmbH and SACO S.p.A. with its components business. With both trading on their own account and on a commission basis for the group companies and third-party products, the promising “Services” division is primarily operated by DMG and its subsidiaries in Germany and abroad. a & f operates within the qualified procurement field of mechanical machine parts and assembled structural components. SACO, Castelleone, produces tool equipment, tool holders, collet chucks and motor spindles mainly for automatic lathes.

GILDEMEISTER group sales distribution by segments/divisions

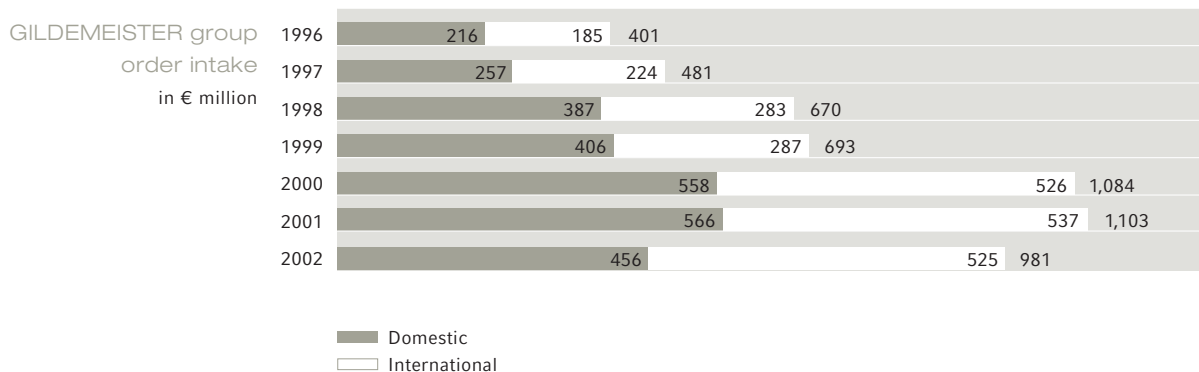


Order intake

In the financial year 2002, GILDEMEISTER had an intake of new orders to the value of € 981.0 million. In line with industry trends (-10%) for cutting machine tools, it dropped below the previous year's record order intake (€ 1,103.1 million) by € 122.1 million or 11%.

During the reporting year our intake of new orders increased slightly from quarter to quarter. Due to the risks in the current economic situation and the uncertainty of implementing postponed and extended orders, we wrote off cancellations worth € 25.7 million in the fourth quarter. Should cyclical trends pick up, these will become a short-term profit potential. Accordingly, our demanding targets and planned intake of new orders of € 1 billion published in the previous Interim Reports were not quite accomplished.

In line with the new orders development of the German machine tool manufacturers, our domestic orders of € 456 million dropped by € 110.5 million or 20%. Export orders, at € 525.4 million (€ -11.6 million or -2%) maintained an almost consistent level. The foreign share therefore rose to 54% (previous year: 49%).

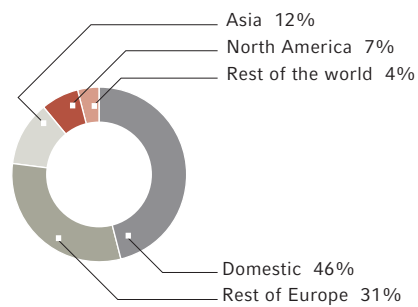


In the year 2002, DMG Vertriebs und Service GmbH with its 38 technology centres operating world-wide, its consistent market proximity, direct selling covering all areas and the extensive range of customer-related services maintained its position against heavy competition. For the first time, the **domestic market** suffered losses. In **Europe** GILDEMEISTER maintained its position despite the continuing weakness of the market. In **America** we succeeded in improving our market shares: however, the intake of new orders did not reach the preceding year's level. The increase in export shares is primarily due to orders from **Asia**. In Taiwan, Korea, Malaysia and particularly in the PR of China, we were able to achieve a considerable increase in our intake of new orders.

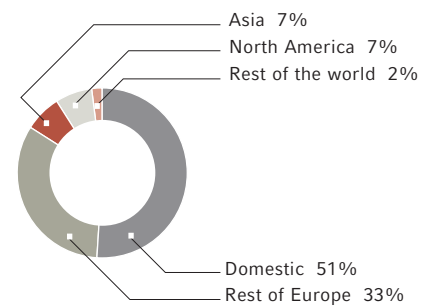
To operate even more efficiently on the international markets, we introduced, around the end of the financial year, drastic measures for structural and organisational change at DMG Vertriebs und Service GmbH: in the year 2003, these will become even more global and more flexible with an even greater customer-proximity. The individual companies with their local technology centres will be managed in the tried and tested way; however, objectives were tightened and adjusted in accordance with the changed conditions in the market. The direction and supervision of the companies was restructured, and overall responsibility grouped according to the German, European, American and Asian market regions. Since the new structure and organisation of DMG was also tied in with changes in personnel, these measures will only begin to take full effect over the next few months.

GILDEMEISTER group
order intake by regions

2002: Total € 981.0 million



2001: Total € 1,103.1 million



In the reporting year, 74% of new orders were attributed to the “Machine Tools” segment (previous year: 76%), 26% to the group's “Services” (previous year: 24%) and less than 0.1% to “Corporate Services”.

With a smaller volume of new orders, in 2002 a total of 5,150 turning, milling, laser/ultrasonic and used machines were sold to 3,465 different customers within Germany and abroad. The **sales volume** is therefore 13% less than in the preceding year. Due to a changed product mix, the average value per machine was 1% below the preceding year's value. During the course of the year **selling prices** were raised slightly within the limited market by between 0% to 2% depending on each specific product. Due to the finished goods inventories in the world markets, pressure on selling prices, particularly from our Japanese competitors, is still great. This has resulted in a deterioration of our sales profits, even though in some markets we accomplished even better sales proceeds than our competitors thanks to the more advanced technology of our products.

Our innovative high-tech products, the global expansion of our DMG Vertriebs- und Servicegesellschaften, our extensive presence at international trade fairs and last, but not least, our increased marketing all contributed to the accomplishment of an

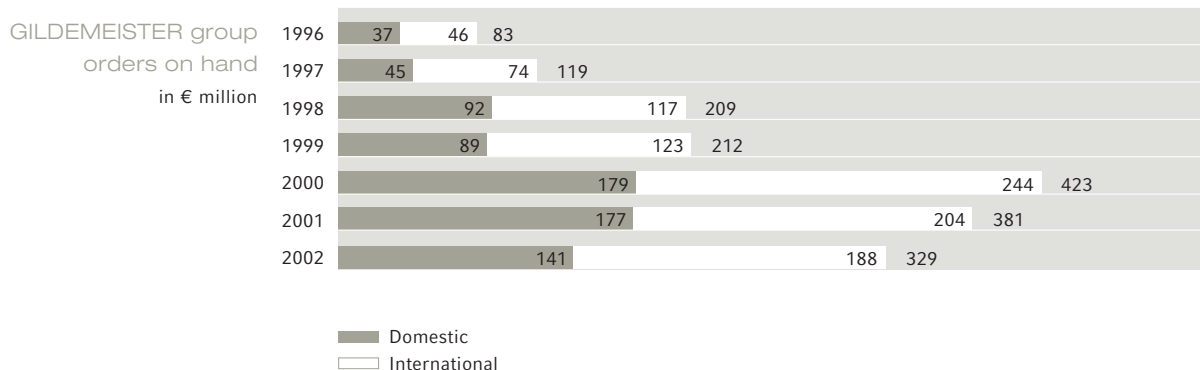
intake of new orders worth € 981.0 million. With 330 machines ordered and an order intake totalling € 62.4 million we achieved an above average trade fair success at the four major trade fairs: the METAV in Düsseldorf, AMB in Stuttgart, BIMU in Milan and IMTS in Chicago. In addition, more than 6,200 new offers were triggered by the above fairs. All innovations, exhibited by us, were met with great interest by the specialist audience.

Apart from current transactions, we secured orders for three major **projects** in Russia and in Malaysia, totalling € 22.1 million. Our key accounting was further expanded to adapt to the increasing globalisation of our international customers. In **key accounting**, which concerns the management of our **major customers** across all areas and products, we achieved an order intake of € 50 million in the current financial year (previous year: € 47 million), therefore again meeting expectations.

Orders on Hand

On 31 December 2002, the group's orders on hand amounted to € 328.8 million. This is a 14% reduction for the entire reporting year compared with the previous year (2001: € 380.6 million), which is due to our capacity adjustment measures, the resulting shorter delivery times and lower order intake. 57% of the existing orders were attributed to international orders (previous year: 53%). The backlog of export orders decreased by € 15.7 million or 8% to € 187.6 million. The backlog of domestic orders dropped by € 36.1 million or 20% to € 141.2 million.

For computing purposes, our orders on hand correspond to a production capacity utilisation of approximately three months; therefore forming a good starting point for the current financial year. The average utilisation value, however, is mainly determined by the technology machines of our production programme with corresponding longer processing times.



The orders on hand for “Machine Tools” amounted to € 269.2 million at the end of the reporting year; this is an 82% share in the group's orders on hand. 51% of these were export orders (previous year: 48%). € 59.6 million or 18% of the group's orders on hand were attributed to “Services”, primarily to DMG Vertriebs und Service GmbH and its subsidiaries. The relating export share was 85% (previous year: 77%).

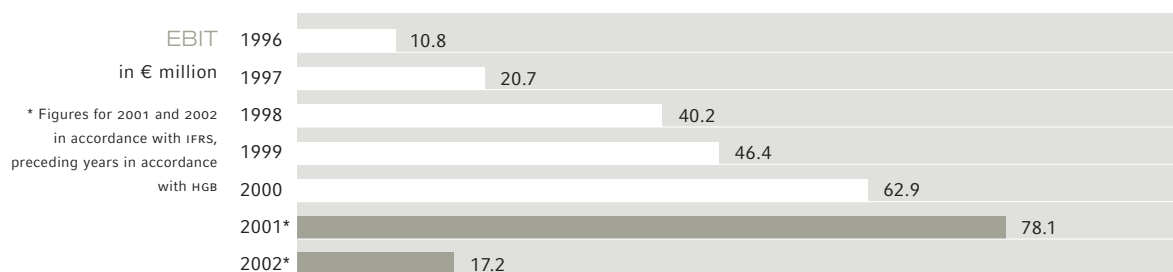
Results, Net Worth and Financial Position

Results 2002

In the financial year 2002, the GILDEMEISTER group's profitability remained below expectations. Earnings before interest, taxes, depreciation and amortisation (**EBITDA**) were € 54.9 million (previous year: € 113.1 million), earnings before interest and taxes (**EBIT**) amounted to € 17.2 million (previous year: € 78.1 million) and **results from ordinary activities (EGG)** showed a loss of around € 7.5 million (previous year: profit of € 54.7 million).

This reduction in earnings is due to various factors. Apart from the reduced sales volume, higher start-up costs for the 22 developments have affected staff and materials costs. However, these innovations safe-guard our strong technological position and are an investment in the future. In addition, business development in 2002 was also dominated by the continued increasing pressure on selling prices during the course of the year. The losses in sales profits amount to approximately 1.5%.

Despite the extremely difficult development in almost all major markets, several of our domestic facilities closed the financial year 2002 with a profit; this includes DECKEL MAHO Pfronten GmbH with its continued strong earning power, DECKEL MAHO Seebach GmbH and also SAUER GmbH & Co. KG. Within the subgroup GILDEMEISTER Italiana S.p.A., SACO and GRAZIANO contributed a profit, however, the subgroup as a whole closed with a loss. Along with missing profit contributions due to a reduced volume of business, the result at GILDEMEISTER Italiana was also affected by above-budget development and start-up costs and higher materials quotas due to shifts in the product mix. GILDEMEISTER Drehmaschinen GmbH and DECKEL MAHO Geretsried GmbH also reported a loss. Compared with the preceding year, results in these companies were affected by a drop in sales, high start-up costs for new products and planned materials quotas that were not achieved. LASERTEC GmbH also reported a loss due to high development expenses. With a slightly declining volume of business, our subsidiary, FAMOT Pleszew S.A., reduced last year's small loss. The DMG subgroup reported slightly positive EBIT, due to the decline in margins and spending on the necessary expansion of the sales and services organisation.



GILDEMEISTER Group Income Statement

	2002		2001		Changes against previous year	
	€ K	%	€ K	%	€ K	%
Gross performance	1,046,599	100.0	1,198,623	100.0	-152,024	-12.7
Cost of materials	-569,922	-54.5	-646,981	-54.0	77,059	-11.9
Gross yield	476,677	45.5	551,642	46.0	-74,965	-13.6
Personnel costs	-270,156	-25.8	-274,152	-22.9	3,996	-1.5
Other income and expenses	-151,588	-14.5	-164,414	-13.7	12,826	-7.8
EBITDA	54,933	5.2	113,076	9.4	-58,143	-51.4
Fixed asset depreciaton	-37,757	-3.6	-34,952	-2.9	-2,805	8.0
EBIT	17,176	1.6	78,124	6.5	-60,948	-78.0
Financial result	-24,672	-2.3	-23,387	-1.9	-1,285	5.5
Profit / loss on ordinary activities	-7,496	-0.7	54,737	4.6	-62,233	-113.7
Taxes on corporate income and business profits	-11,214	-1.1	-28,952	-2.4	17,738	-61.3
Profit / loss for the year	-18,710	-1.8	25,785	2.2	-44,495	-172.6

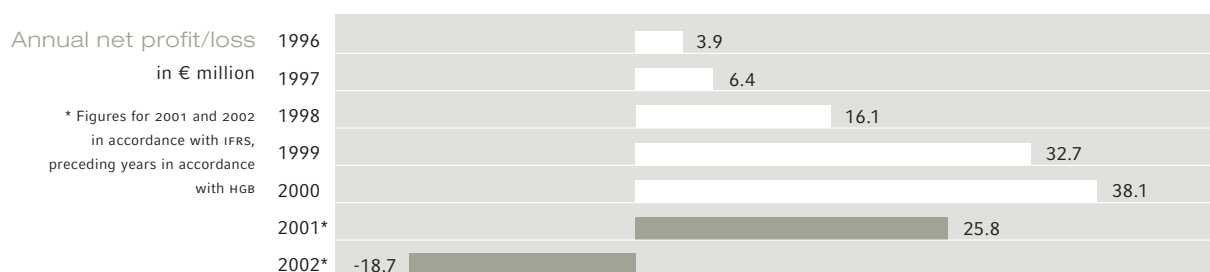
Gross performance reached € 1,046.6 million, therefore being below the preceding year's record figures by 12.7% or € 152.0 million (€ 1,198.6 million). The materials quota increased from 54.0% to 54.5%. This rise is primarily due to high serial start-up costs that over-compensate for the mix-related improvements in the production programme and for the improved purchasing terms. At € 476.7 million, the gross yield was 13.6% or € 75.0 million below the preceding year's figure (€ 551.6 million). This is a gross yield margin of just 45.5% (2001: 46.0%).

Staff costs dropped by € 4.0 million; staff intensity increased from 22.9% to 25.8%. The productivity-related cutback in industrial employees, less overtime and lower variable elements of pay are counter-balanced by an overall increase in expenses for salaries and pay scale increases, since the cutback of 209 employees planned in the financial year will only be finally reflected in 2003.

The balance from other income and expenses dropped by € 12.8 million to € 151.6 million (previous year: € 164.4 million). Following adjustments in accordance with the lower gross performance, the other income and expenses decreased by € 22.7 million. On the other hand there were exchange and currency losses of € 6.1 million and direct project costs of € 3.8 million, following the investigation into a co-operation in the cutting machine tools area between GILDEMEISTER and ThyssenKrupp. Leasing and rental expenditure amounted to € 17.1 million in the reporting year (previous year: € 16.6 million). As at 31 December, 2002 leasing and rental obligations for the financial year 2003 stood at € 13.1 million. The annual depreciation expense rose to 3.6% (previous year: 2.9%). The depreciation value of € 37.8 million includes goodwill amortisation of € 7.0 million.

The financial result that increased from € -23.4 million to € -24.7 million reflects the increased financial requirements of the financial year. These additional requirements are primarily due to the fact that the appropriation of assets was not sufficiently adjusted to the development of the business. Other principal causes were the funding of incurred losses and the distribution of dividends for the preceding year.

Despite the loss on ordinary activities, there is tax expenditure for the reporting year, since the tax burden of the profitable companies is only reduced to a limited extent by the losses incurred at individual companies. The net loss for the year reached € 18.7 million (previous year: annual net profit of € 25.8 million). Further details on revenue and expense items are set out in the Notes starting on page 199.

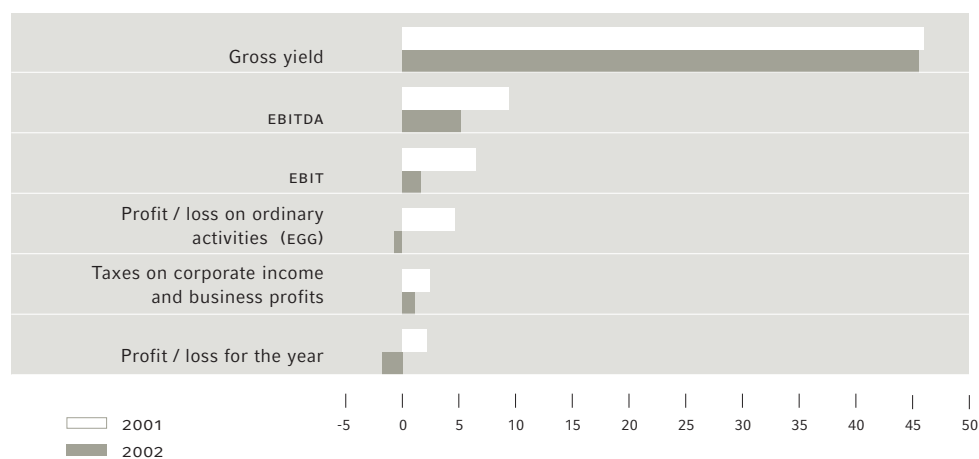


Whilst the gross yield margin reduced by 0.5 percentage points from 46.0% to 45.5%, the weakening of the EBITDA margin by 4.2 percentage points to 5.2% was more noticeable (previous year: 9.4%). This was primarily due to adjustments in the personnel accounts and additional costs in other expenses. Since depreciation increased, the EBIT margin decreased to 1.6% (previous year: 6.5%). Finally, the absolute and relative weakening of the financial result compared with the preceding year contributed to the fact that the results from ordinary activities (EGG) showed a loss and the related quota decreased to -0.7% (previous year: 4.6%).

Margin development of the GILDEMEISTER group in %

	2002	2001
Gross performance	100.0	100.0
Gross yield	45.5	46.0
EBITDA	5.2	9.4
EBIT	1.6	6.5
Profit / loss on ordinary activities (EGG)	-0.7	4.6
Taxes from corporate income and business profits	1.1	2.4
Profit / loss for the year	-1.8	2.2

Margin development of the GILDEMEISTER group in %



The Annual Report and Financial Statements of GILDEMEISTER Aktiengesellschaft are included in a separate report.

The distribution of dividends of the affiliated companies determines the result of **GILDEMEISTER Aktiengesellschaft**. In the past financial year, their profit for the year totalled € 4.4 million (previous year: € 59.1 million).

Due to the group's annual net loss, the Executive Board and Supervisory Board will propose to the general meeting of shareholders, to be held on 16 May 2003, not to distribute a **dividend** for the financial year 2002, but to carry forward the GILDEMEISTER Aktiengesellschaft net profit for the year of € 4.4 million to new account for the financial year 2003.

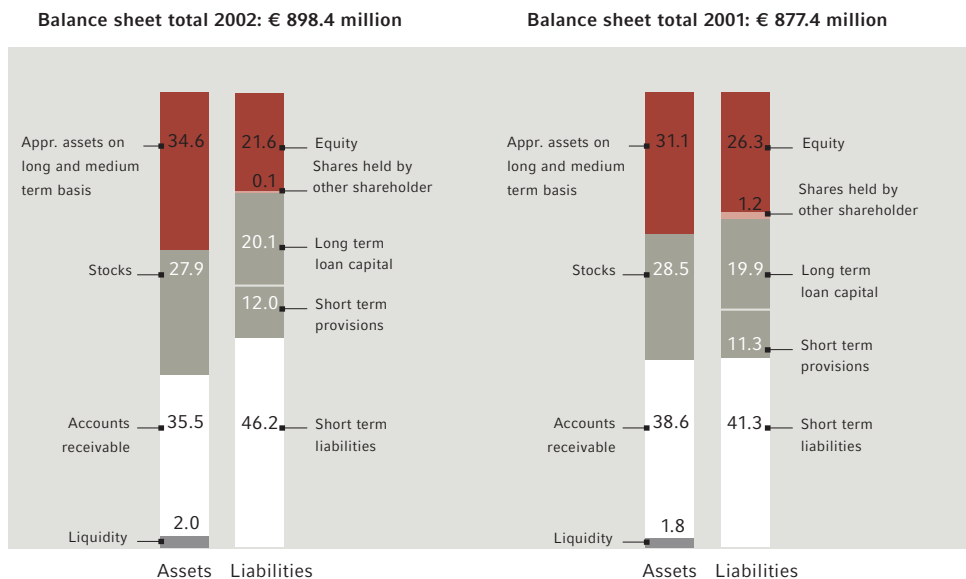
Net Worth and Financial Position

GILDEMEISTER group balance sheet

	31 Dec. 2002		31 Dec. 2001		Changes against previous year	
	€ K	%	€ K	%	€ K	%
Assets						
Appropriated assets on long and medium term basis						
Fixed assets	276,281	30.7	247,634	28.2	28,647	11.6
Current assets	34,725	3.9	25,743	2.9	8,982	34.9
	311,006	34.6	273,377	31.1	37,629	13.8
Appropriated assets on short term basis						
Stocks inc. payments on account	250,768	27.9	249,771	28.5	997	0.4
Accounts receivable and other assets	318,900	35.5	339,000	38.6	-20,100	-5.9
Liquid funds	17,689	2.0	15,278	1.8	2,411	15.8
	587,357	65.4	604,049	68.9	-16,692	-2.8
Balance sheet total	898,363	100.0	877,426	100.0	20,937	2.4
Total equity and liabilities						
Long and medium term funds						
Equity	193,824	21.6	231,177	26.3	-37,353	-16.2
Shares held by other shareholders	1,193	0.1	10,773	1.2	-9,580	-88.9
Loan capital						
Provisions	40,547	4.5	40,588	4.6	-41	-0.1
Liabilities	140,129	15.6	133,795	15.3	6,334	4.7
	180,676	20.1	174,383	19.9	6,293	3.6
	375,693	41.8	416,333	47.4	-40,640	-9.8
Short-term funds						
Provisions	107,839	12.0	98,714	11.3	9,125	9.2
Liabilities	414,831	46.2	362,379	41.3	52,452	14.5
	522,670	58.2	461,093	52.6	61,577	13.4
Balance sheet total	898,363	100.0	877,426	100.0	20,937	2.4

Compared with last year, the **balance sheet total** of the GILDEMEISTER group rose by 2.4% or € 20.9 million to € 898.4 million (previous year: € 877.4 million).

Assets and capital structure of the GILDEMEISTER group in %



The **fixed assets** on the **assets** side increased by 11.6% or € 28.7 million to € 276.3 million (previous year: € 247.6 million). The investments in tangible fixed assets mainly pertain to increases in capacity and optimisation measures in logistical procedures and processes in the production plants and structural improvements to re-inforce the sales structure. **Intangible fixed assets** increased by 19.1% or € 16.3 million to € 101.4 million (previous year: € 85.1 million). This relates essentially to capitalised development costs and goodwill. The asset additions are set out in more detail in the “Investments” chapter starting on page 100.

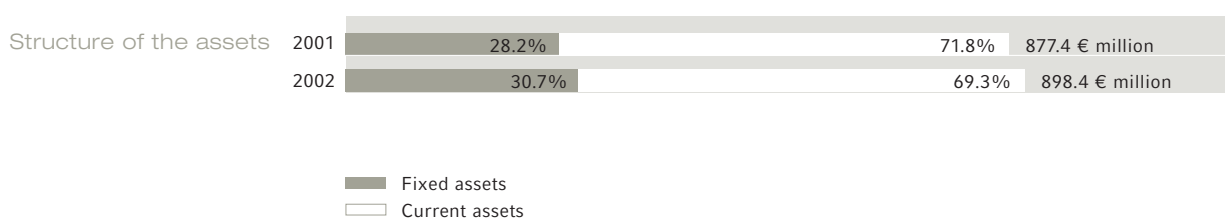
In the reporting year **stock on hand** showed a slight increase by 0.4% or € 1.0 million to € 250.8 million (previous year: € 249.8 million). Whilst the inventory of finished goods of € 88.9 million corresponds with the preceding year's level (€ 88.5 million), raw materials and consumables recorded a reduction by 7.9% or € 5.9 million to € 69.0 million (previous year: € 74.9 million). The work-in-progress inventory shows an increase by 7.1% or € 6.0 million to € 90.6 million (previous year: € 84.6 million). In all, the stock on hand share in the balance sheet total decreased slightly by 27.9%, compared to 28.5% in the preceding year. The inventory-sales ratio reduced from 4.6 to 4.1.

Compared with the previous year, the **accounts receivable and other assets** reduced by 5.3% or € 17.7 million to € 316.6 million (previous year € 334.3 million). Whilst the decline in accounts receivable was marginal when compared with the preceding year, the other assets dropped by 38.7% to € 21.4 million (previous year: € 34.9 million). This decline is primarily due to smaller tax refund claims and lower accounts receivable from factoring. At 4.1, the rate of turnover pertaining to accounts receivable remained below the preceding year's value of 4.4 by 9%. At the balance sheet date, **liquid funds** totalled € 17.7 million, therefore exceeding the preceding year's figure (€ 15.3 million) by € 2.4 million. The relative share in the balance sheet total rose slightly from 1.8% to 2.0%.

Development of the Liquid Asset Ratios in the GILDEMEISTER Group in %		2000	2001*	2002*
Cash ratio		7.0	3.5	3.6
Ratio of financial current assets to current liabilities		91.5	80.7	67.1
Current ratio		137.9	130.2	111.4

* Figures for 2001 and 2002 in accordance with IFRS, preceding years in accordance with HGB

The structure of the assets demonstrates a shift to a long and medium-term appropriation of assets.

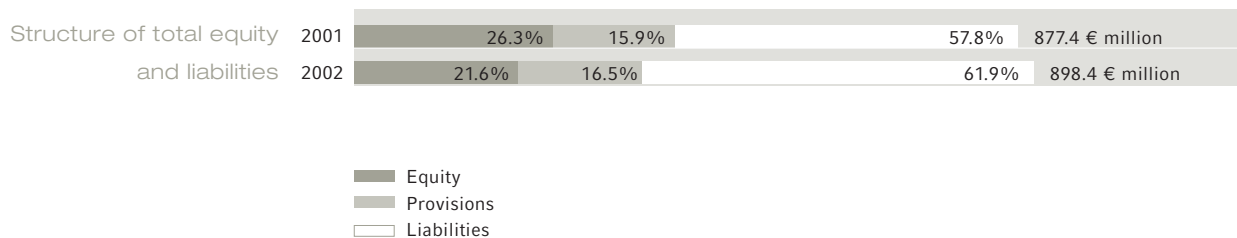


With respect to **total equity and liabilities**, the negative results for the year and the distribution of a dividend for the previous year resulted in a decline in **equity capital** of 16.2% or € 37.4 million to € 193.8 million (previous year: € 231.2 million). The **equity ratio** was 21.6% (previous year: 26.3%). This decrease in the equity ratio is primarily due to the – in contrast with last year – higher balance sheet total, resulting from the increase in short-term financing. The ratio of average net indebtedness to average equity (**gearing**) rose from 104.8% to 140.6%.

Long-term borrowed funds, increased by € 6.3 million to € 180.7 million. Their 20.1% share in the balance sheet total remained at the preceding year's level (19.9%). The proportion of **long-term provisions** decreased from 4.6% to 4.5%. **Long and short-term financing** decreased by € 40.6 million or 9.8% to € 375.7 million in the reporting year. The assets appropriated on a long and medium-term basis were 120.8% financed (previous year: 152.3%) by funds that are available on a long and medium-term basis. The balance sheet therefore still shows a balanced financing structure.

Short-term financing increased by € 61.6 million or 13.4% to € 522.7 million. This includes an increase in short-term provisions of 9.2% or € 9.1 million to € 107.8 million (2001: € 98.7 million). Short-term liabilities increased by 14.5% or € 52.4 million to € 414.8 million (2001: € 362.4 million).

When compared with the preceding year, the total equity and liabilities indicate a clear shift in the **funding** of total equity employed. The total fixed assets and stock on hand of € 527.1 million (previous year: € 497.4 million) are 71.3% covered (previous year: 83.7%) by long and medium-term funding. When compared with the preceding year, the structure of total equity and liabilities indicate – apart from the decrease in the equity ratio – an increase in liabilities.



GILDEMEISTER group Cash Flow Statement

	2002	2001	Changes against prev. year
	€ K	€ K	€ K
Cash flow from current activities			
1. Loss for the year (prev. year: profit for the year)	-18,710	25,785	-44,495
2. Fixed asset depreciation	37,757	34,952	2,805
3. Change in deferred taxes	-4,849	18,579	-23,428
4. Decrease/increase in long-term provisions	-41	5,801	-5,842
5. Other income not affecting payment	-506	-314	-192
6. Increase in short-term provisions	14,024	24,944	-10,920
7. Profit/loss on fixed assets disposal	-105	287	-392
8. Increase/decrease in stocks, trade debtors and other assets	19,915	-84,227	104,142
9. Increase in trade creditors and other liabilities	185	5,653	-5,468
	47,670	31,460	16,210
Cash flow from investment activities			
1. Receipts from tangible fixed assets disposals	4,766	6,520	-1,754
2. Payments for investments in tangible fixed assets	-38,706	-52,583	13,877
3. Payments for investments in intangible fixed assets	-14,493	-15,084	591
4. Payments for investments in financial assets	-23,484	-9,550	-13,934
5. Receipts from financial assets disposals	28	0	28
	-71,889	-70,697	-1,192
Cash flow from financing activity			
1. Receipts from borrowing (finance) loans	43,402	47,974	-4,572
2. Distribution of dividend to shareholders	-17,328	-17,238	-90
3. Distribution of dividend to other company members	-755	-1,108	353
4. Receipt from investment allowance	2,266	1,481	785
5. Receipts from other company members	0	245	-245
	27,585	31,354	-3,769
Changes affecting payments	3,366	-7,883	11,249
Consolidation and exchange rate related changes not affecting payments	-955	-935	-20
Liquid funds as at 1 January	15,278	24,096	-8,818
Liquid funds as at 31 December	17,689	15,278	2,411

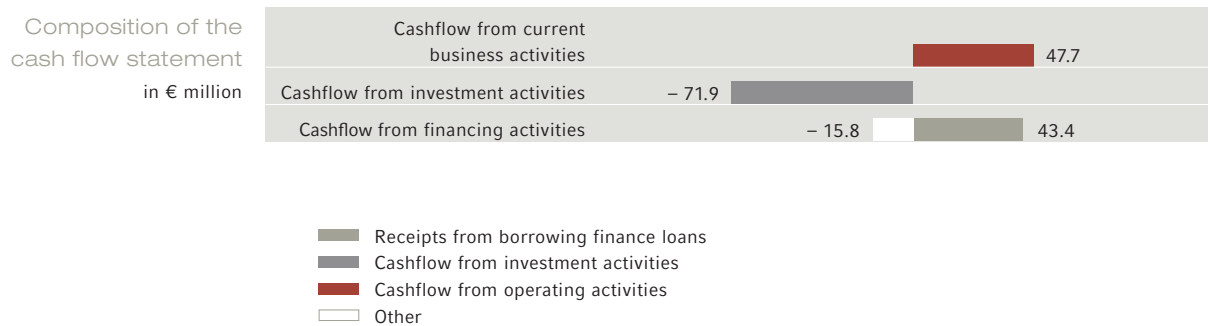
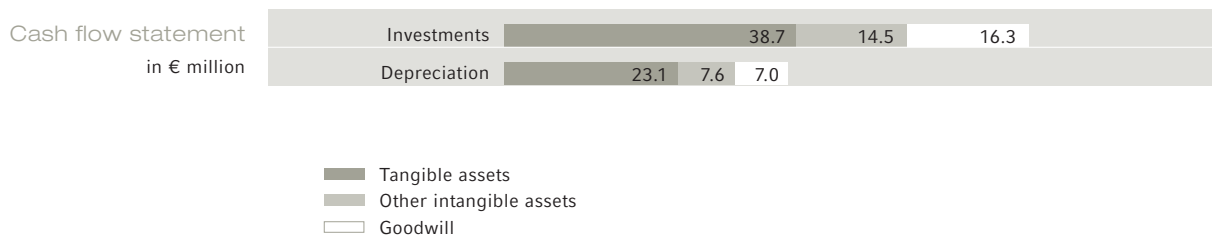
The **cash flow statement** records the payment flow in a financial year and represents the inflow and outflow of liquid funds. In this process, the origins of the funding employed are set out against the investment activity. The **cash flow** is calculated by adding to the profit for the year those expenses that are not set off against any payments, and subtracting from it income that did not result in the receipt of monies.

Based on the profit/loss for the year, the cash flow is indirectly deduced from **current operations**. In this process, movements in balance sheet items pertaining to current operations are taken into account and adjusted for changes due to foreign currency translation and changes in the consolidated group. The **cash flow from investment activity** and the **cash flow from financing** are each calculated on a cash basis. A reconciliation of the cash flow with the published consolidated balance sheet is therefore not possible.

In the reporting year, **cash flow (inflow of funds) from current operations** was positive, amounting to € 47.7 million (previous year: € 31.5 million) and had risen by a total of € 16.2 million or 52% against the preceding year. Both, the € 2.8 million or 8% increase in depreciation of fixed assets to € 37.8 million, which was due to investment activity carried out during the preceding year, and the € 19.9 million reduction in the commitment of funds in stocks, trade debtors and other assets, contributed to the increased inflow of funds. The € 14.0 million increase in short-term provisions (previous year: € 24.9 million) and the slight rise in trade creditors and other liabilities of € 0.2 million compared with € 5.7 million in 2001, also resulted in an increased inflow of funds. A negative impact was noted from the recorded net loss for the year of € 18.7 million (previous year: net profit of € 25.8 million) and the € 4.9 million increase in deferred taxes (previous year: release of € 18.6 million).

The group's continued high investment volume is reflected in the **cash flow (outflow of funds) from investment activity**. Net investments rose by 2%, amounting to € 71.9 million in the reporting year compared to € 70.7 million in the previous year. Amounts paid out for investments in tangible fixed assets were around € 38.7 million, therefore falling 26% below the preceding year's figure. Further details are set out in the "Investments" chapter on page 100. € 23.5 million were invested in the acquisition of further interests in a & f Stahl- und Maschinenbau GmbH, FAMOT Pleszew S.A. and GILDEMEISTER Italiana S.p.A. € 10.1 million were spent on development services in the reporting year. This amount is included in the amounts paid out for investments in intangible fixed assets. There were no sales of companies or other business units during the reporting year.

The **cash flow (inflow of funds) from financing activity** of € 27.6 million fell by 12% from the preceding year's figure of € 31.4 million and is shown as investment allowances/grants and borrowing of finance loans. The distribution of dividends to shareholders for the financial year 2001 resulted in an outflow of funds of € 17.3 million (previous year: € 17.2 million) in 2002. There were no investment and financing activities not affecting payment in the reporting year. Liquid funds at the balance sheet date rose by 16% to € 17.7 million, when compared with the preceding year (€ 15.3 million).



The **value added statement** demonstrates the difference between the company's output and the consumption of products and services, in terms of value, purchased from other firms. The distribution statement shows the contribution of those participating in value-added activities – employees, company, lender, shareholders/company members and government.

In the financial year 2002, the value added of the GILDEMEISTER group totalled € 287.5 million (previous year: € 352.6 million). This is a decline of 18.5% or € 65.1 million. In the distribution of the value added, obligations to payees/recipients exceeded the value added generated, requiring an adjustment from the company's capital of € 27.7 million. The following table shows the value added statement in detail.

Value added statement of the GILDEMEISTER group

	2002		2001		Changes against previous year	
	€ M	%	€ M	%	€ M	%
SOURCE						
Sales revenues	1,032.8	96.3	1,145.4	93.9	-112.6	-9.8
Other revenues	40.1	3.7	74.8	6.1	-34.7	-46.4
Operating performance	1,072.9	100.0	1,220.2	100.0	-147.3	-12.1
Raw materials & consumables	569.9	53.1	647.0	53.0	-77.1	-11.9
Depreciation	37.8	3.5	34.9	2.9	2.9	8.3
Other expenses	177.7	16.6	185.7	15.2	-8.0	-4.3
Purchased materials & services	785.4	73.2	867.6	71.1	-82.2	-9.5
Value added	287.5	26.8	352.6	28.9	-65.1	-18.5

	2002		2001		Changes against previous year	
	€ M	%	€ M	%	€ M	%
DISTRIBUTION						
Employees	270.3	94.0	274.5	77.9	-4.2	-1.5
Companies	-27.7	-9.6	27.2	7.7	-54.9	-201.8
Lenders	24.7	8.6	23.4	6.6	1.3	5.6
Shareholders/company members	0.3	0.1	18.4	5.2	-18.1	-98.4
Government	19.9	6.9	9.1	2.6	10.8	118.7
Value added	287.5	100.0	352.6	100.0	-65.1	-18.5

Distribution of the value added
in the GILDEMEISTER group
in %

2002: Total € 287.5 million

Employees		94.0
Companies	-9.6	
Lenders		8.6
Shareholders/Comp. members		0.1
Government		6.9

2001: Total € 352.6 million

Employees		77.9
Companies		7.7
Lenders		6.6
Shareholders/Comp. members		5.2
Government		2.6

GILDEMEISTER Share

The Trading Year 2002

With few exceptions, the **stock markets** suffered the longest and sharpest drop of the post-war period. The financial year 2002 was a weak year of trade for most investors. The Deutsche Aktienindex (DAX) came bottom of the global stock exchange. Over the year it lost a further 44%. The other great stock exchange indices in New York, London and Tokyo also suffered losses. The Dow Jones lost 17.5%, the FTSE 100 index 25.4% and the Nikkei index 18.6%. The Euro STOXX 50 lost 37.3%. The new markets were also strongly affected. The American Nasdaq suffered a 31.7% loss, and the loss suffered by the German NEMAX-50 amounted to nearly 70%. The MDAX also suffered major losses: over the year it lost almost 30%. According to securities dealers, the general weak situation in the stock exchange is due to world-wide market conditions; however, they consider the downward trend to be excessive. Experts believe that many shares are severely underpriced.

Year end prices of the
GILDEMEISTER share
in €

1996	3.58
1997	5.01
1998	5.78
1999	6.80
2000	8.20
2001	9.32
2002	3.78

Key data of the
GILDEMEISTER share

Security code number (WKN)	587800
Stock symbol	
Stock exchange	GIL
Reuters Stock exchange Frankfurt	GILG.F
Xetra-Handel	GILG.DE
Bloomberg	GIL

GILDEMEISTER share performance figures

		1996	1997	1998	1999	2000	2001	2002
Capital stock	€ M	48.7	48.7	55.5	56.4	75.1	75.1	75.1
Number of shares ¹⁾	M shares	19.0	19.0	21.7	21.7	28.7	28.9	28.9
Market capitalisation	€ M	68.2	95.4	125.4	147.5	235.6	269.2	109.2
Year-end price ²⁾	€	3.58	5.01	5.78	6.80	8.20	9.32	3.78
Highest price ^{2) 3)}	€	8.74	7.52	9.31	7.30	10.30	9.90	12.07
Lowest price ^{2) 3)}	€	2.86	3.53	4.78	5.05	6.65	6.20	3.21
Annual average price ^{2) 4)}	€	4.70	5.38	6.26	6.20	8.66	8.78	8.24
Dividend	€	-	-	0.28	0.50	0.60	0.60	-
Total dividend	€ M	-	-	6.1	10.9	17.2	17.3	-
Dividend yield	%	-	-	4.8	7.4	7.3	6.4	-
Net earnings per share ⁵⁾	€	-0.46	-0.07	0.46	0.76	0.91	0.85	-0.66

1) In 1999 wurde the capital stock was split 1 : 10; the previous year's values were adjusted accordingly.

2) Prices since 1999 Frankfurt, before that Düsseldorf

3) Highest/lowest prices on the basis of variable prices

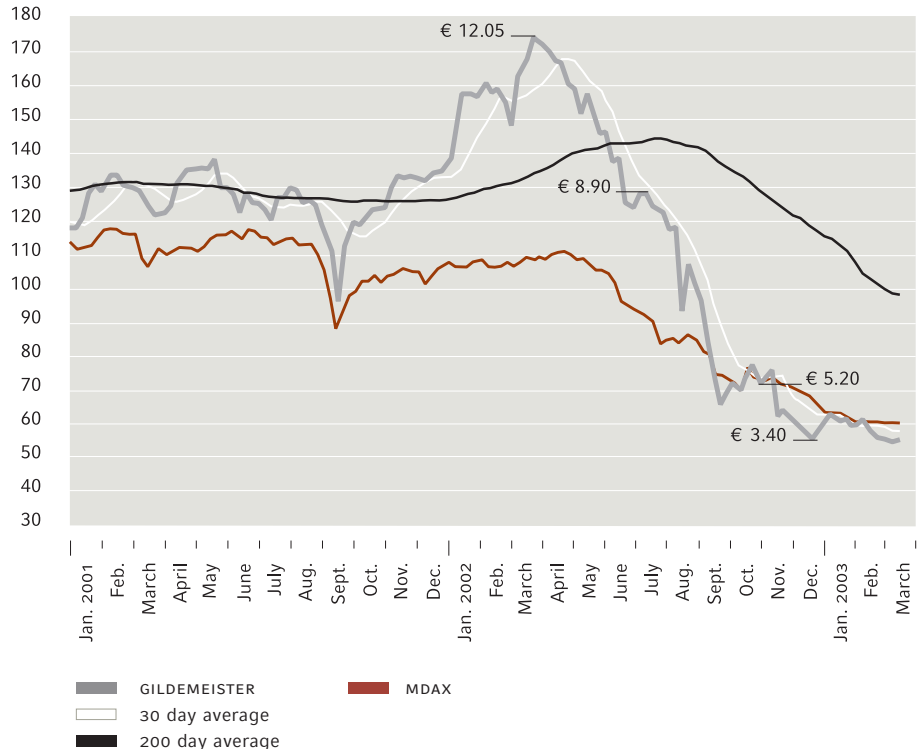
4) Annual average price on the basis of closing prices

5) 2001 and 2002 in accordance with IAS 33

Development of the GILDEMEISTER Share

In the first few months of the year 2002, the GILDEMEISTER share performed well, reaching its high of € 12.05 on 20 March, 2002. By the middle of July, the GILDEMEISTER share oscillated at about a € 9 level. The second half of the year was dominated by a negative trend in the capital markets. The GILDEMEISTER share, too, suffered losses and had, by the end of October, sunk to a level of around € 5. The price performance in the third and fourth quarter was due not only to the overall weak development of the market, but also to the announced passing of a dividend as a result of declining profits. On 18 December, its annual low was around € 3.40 (closing price). By the end of the year (30 Dec. 2002), the GILDEMEISTER share traded at a price of € 3.78. Throughout the year, our security lost 59.4% in total. The current price of € 3.60 (18 March 2003) does not reflect the value of the company. However, according to experts, an overall turn-round in the stock market is not expected before there are clear signs of economic recovery. The failed pooling of the machine tool business with ThyssenKrupp was judged favourably by many analysts. Up-to-date studies on this subject, prepared by the research departments of the following banks, are available: Landesbank Baden-Württemberg (20 Dec. 2002), WestLB Panmure (23 Dec. 2002), Independent Research (27 Dec. 2002). **Up-to-date studies** of the GILDEMEISTER share were prepared by the Landesbank Baden-Württemberg (07 Feb. 2003), WestLB Panmure (07 Feb. 2003) and the Landesbank Baden-Württemberg (24 March 2003).

The GILDEMEISTER share in comparison with the MDAX January 2001 to March 2003 in %



New stock market segmentation

Since 1 January, 2003, the new equity market segmentation for the Frankfurter Wertpapierbörse has come into effect; this includes the two new stock admission sections: the “Prime Standard” and “General Standard”. Based on the ranking lists from 31 January, 2003, the “Prime Standard” includes the new selection indices, DAX, MDAX, TecDAX and SDAX. The DAX continues to host the 30 largest equities. The size of the MDAX was reduced from 70 to 50 enterprises. The TecDAX 30 takes on most securities from the technology sector listed in the NEMAX 50. The SDAX includes 50 securities and applies to stock corporations, which, according to the definition by the Deutsche Börse, belong to traditional segments of industry.

GILDEMEISTER has been listed in the “Prime Standard” since December 2002. The strict, internationally accepted publishing requirements of this segment, have long been met by GILDEMEISTER. The decision as to which securities will be represented in which index, was made on 11 February, 2003 and was implemented on 21 March, 2003. The criteria for entry in the new MDAX were the market capitalisation on 31 January, 2003, based on the value of the over-the-counter (OTC) traded securities, and the trade volume between January 2002 and January 2003. Only those companies that reached at least 60th place in respect of both requirements competed in the race for the only vacancy left, since 49 places were already taken. GILDEMEISTER was one of a total of nine candidates and just missed the entry due to its low market capitalisation. GILDEMEISTER will therefore be listed in the SDAX. According to analysts, the entry in the index will probably play a secondary role in the price performance of the GILDEMEISTER share.

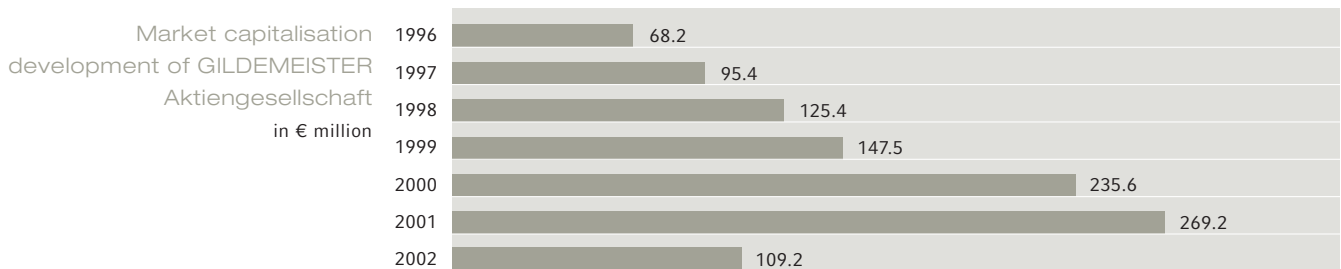
Stock market listing, trading volume and market capitalisation

The GILDEMEISTER share is traded at the Frankfurter Wertpapierbörse, the most important and highest-volume market in Germany. It is also listed in the Rheinisch-Westfälische Börse based in Düsseldorf and the Berliner Börse. Investors can place orders for the GILDEMEISTER share from 9am to 8pm on all trading days via the Xetra electronic trading system.

In 2002, interest in the GILDEMEISTER share was again high and the trading volume, too, was at a high level. The average trade volume amounted to 79,525 shares. (previous year: 49,478 shares). The shareholders' structure of GILDEMEISTER Aktiengesellschaft is dominated by a high free float. In the reporting year, portfolio investment amounted to around 93%, compared with 88% in the preceding year. Shareholders comprised a large number of private small investors and institutional investors. The

largest share of 6.75% is held by WestLB AG, Düsseldorf. In March 2002, Deutsche Balaton AG in Wiesbaden, who held 5.01% of the GILDEMEISTER shares, informed us, in accordance with Section 21 para. 1 WpHG (German Securities Trading Act), that they had sold their interest. Taking into account the free float of 93% the turnover factor in the free share capital during the financial year was 0.75.

The market capitalisation of GILDEMEISTER Aktiengesellschaft amounted to € 109.2 million compared to € 269.2 million in the previous year.



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. There were no dilution effects in the shown reporting period.

Determination of earnings	Results for the year excluding profit shares of other company members	-19,057 € κ
	Number of underlying shares	28,879,427
	Earnings per share in accordance with IAS 33	-0.66 €

Dividend

In the financial year 2002, GILDEMEISTER, like others, was unable to escape the weakening of economic activity in the machine tool building industry. Due to the group's declining profits and annual net loss, the Executive Board and Supervisory Board will propose to the general meeting of shareholders, to be held on 16 May 2003, not to distribute a dividend, but to carry forward the GILDEMEISTER Aktiengesellschaft net profit for the year to new account for the financial year 2003. We will consider distribution of a dividend, as soon as the group has obtained another net profit for the year.

Dividend development	1996	no distribution
	1997	no distribution
	1998	5.50 DM (equals 2.81 €)
	1999	0.50 € ¹⁾
	2000	0.60 €
	2001	0.60 €
	2002	no distribution

1) after share split in the ratio 1:10

Investor Relations

Our activities with respect to **Investor Relations** are an important element of the company's growth-orientated strategy. GILDEMEISTER meets the high information demand of the capital market using a variety of methods. During the reporting year, there were again numerous contacts with institutional investors, financial analysts and private investors. Along with the DVFA analysts conference, various events for investors were held both in Germany and abroad. To meet the increasing demands of the capital market, we expanded our roadshows, conference calls, one-to-one discussions and company presentations. Our first attendance in December 2002 at the "German Midcap Conference" in Frankfurt met with a great response. At this forum that is run by the German Federation of Financial Analysis and Asset Management and directed at analysts, institutional investors and representatives of investment companies throughout Europe, GILDEMEISTER made many new contacts.

GILDEMEISTER reported quarterly on all relevant company figures, in line with its traditional transparent information policy. For economic reasons, we have re-organised the sending of the interim reports with effect from the third quarter of 2002. Dynamic online versions of the Quarterly Reports were included as downloads on the **GILDEMEISTER website** (www.gildemeister.com). Our Internet presence remains at a high standing. The wide range of information available to investors includes current prices, ad-hoc reports and press releases, financial reports, information related to corporate governance and the general meeting of shareholders and also the financial calendar. Further details are set out in the “Marketing / Public Relations Work” Chapter on page 145. With our mailing campaign, we ensured that every interested person received, on request, the printed version of our Quarterly Report. In early 2002, we conducted an image advertisement in all major German business papers. Our Annual Report, of which 15,000 copies were published in two languages, received again special attention. The Report can be seen on the Internet in a dynamic online version. The model reporting of GILDEMEISTER was confirmed again: In the “manager magazin” annual competition for the best Annual Report, GILDEMEISTER again reached one of the leading positions. In the “manager magazin's” ranking it took top position; and in the overall ranking of approximately 250 German and European listed stock corporations it came second, having reached first place the preceding year. We were very pleased about the positive response to our Annual Report 2001 and have taken this as an incentive to make the current Report just as informative and readable.

Our information policy is transparent, well founded and up-to-date. It contributes to strengthening the trust of the shareholders in GILDEMEISTER and to generating new circles of investors. We are absolutely committed to an open, continuous and comprehensive exchange with shareholders, potential investors and financial analysts. It is our major concern to raise the value of our company on a lasting basis and to re-inforce its earning power. Value and market orientated activities in the interest of our shareholders will remain the priority of the GILDEMEISTER management.

Your contact at the GILDEMEISTER Investor Relations team:

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Corporate Governance

In accordance with Clause 3.10 of the German Code of Corporate Governance, the Executive Board and Supervisory Board report jointly on Corporate Governance at GILDEMEISTER as follows:

At GILDEMEISTER, **Corporate Governance**, i.e. the responsible management and supervision of a company, enjoys a high standing. We welcome the introduction of the “German Code of Corporate Governance”, with which the government commission sets standards of conduct for supervisory and executive boards, primarily of listed companies. The Code represents an important step in the development of legal rules pertaining to, and practice of, the management and control of companies. GILDEMEISTER meets all the recommendations of the Code; the only exception being the special remuneration of the chairmanship and membership of the Supervisory Board committees. The implementation of this recommendation requires the passing of a resolution at the next general meeting of shareholders.

At GILDEMEISTER, Corporate Governance is an essential element of our company ethos, which is geared towards the lasting increase in company value to the benefit of our company and our shareholders. The Code's standards and rules are included in our Code of Practice and fully integrated by the management in all business processes. The main elements of the Code include the efficient co-operation between the Executive Board and Supervisory Board, respect for the interests of the shareholders and openness and transparency in the company's communication system. In close co-operation with the Supervisory Board, the Executive Board of GILDEMEISTER sets the group's strategic direction and ensures its implementation. The safe-guarding of the interests of the shareholders combined with the goal of increasing the company's value on a long-term basis, are our main concerns. Regular reports on corporate strategies, the projected development of the group and on potential risks pertaining to current and future operations strengthen the trust of the shareholders and acceptance in the capital market. The principles of transparency, topicality, openness and equality apply in this respect.

GILDEMEISTER declaration of compliance at: www.gildemeister.com

On 19 December, 2002, the Executive Board and Supervisory Board issued the following declaration of compliance in accordance with Section 161 AktG in combination with Section 15 EG AktG (Introduction Law to the German Companies Act).

Shareholders can access the declaration, which is posted permanently on our website.

“GILDEMEISTER Aktiengesellschaft complies with the recommendations of the ‘Government Commission on the German Code of Corporate Governance’, as published by the Federal Ministry of Justice in the official section of the electronic Federal Gazette with the following exception:

Up to now, the chairs and members of the Supervisory Board committees have not received any extra compensation with respect to their activities in these committees. The Executive Board and Supervisory Board will propose to the next general meeting of shareholders, to be held on 16 May, 2003, to amend Article 12 of the Articles of Association of GILDEMEISTER Aktiengesellschaft to include a rule for the remuneration of the chairmanship and membership of the Supervisory Board committees (Clause 4.4.5 para. 1 sentence 3 of the Code).”

The Executive Board and Supervisory Board work closely together.

The base for good and efficient corporate governance is the regular communication between the Executive Board and Supervisory Board. The Executive Board informs the Supervisory Board regularly and immediately on all matters pertaining to planning, business development, the risk situation and risk management, which are of relevance to the company. Any deviations from plans and targets in the course of business, and the strategic direction of the company are swiftly disclosed to the Supervisory Board. The Articles of Association provide approval reservations for the Supervisory Board with respect to any transactions of fundamental significance.

The third party economic loss insurance (so-called D&O insurance) taken out by the company, provides for an adequate excess for members of the Executive and Supervisory Boards of GILDEMEISTER Aktiengesellschaft.

Conflicts of interest are avoided

A comprehensive Prohibition to Compete clause that goes beyond the provisions included in Section 88 AktG applies to members of the Executive Board. Any conflicts of interest will be disclosed to the Supervisory Board without delay. With respect to his/her function as a member of the Executive Board, such member may neither request or accept any contributions or other benefits nor grant any unjustified benefits for himself/herself or third parties. The members of the Executive Board are committed to the interests of the company and shall obtain the approval of the Supervisory Committee, before accepting any secondary occupation, in particular any supervisory board seat outside the group (pursuant to Sections 100, 125 AktG). Any business transactions between a member of the Executive Board and the company shall be conducted through the Supervisory Board on behalf of the company. Any major transaction carried out between a person close to a member of the Executive Board, including but not limited to, close relatives of such member, and the company or a group company, also requires the prior approval of the Supervisory Board. The same applies with respect to any major transaction between a company that is primarily controlled by a member of the Executive Board or a person close to such member of the Executive Board, and the company or a group company. All transactions shall, in principle, meet all standards customary in the industry.

The members of the Supervisory Board are also committed to the interests of the company, and, when making decision, must not pursue any personal interests nor utilise for their own benefit any economic opportunities the company may be entitled to. A member of the Supervisory Board shall promptly disclose to the Supervisory Board any conflicts of interest, including but not limited to, such conflicts that may arise from his/her appointment as an advisor or officer at customers, suppliers, lenders or other parties to a business transaction. The Supervisory Board will include any conflicts of interest and their treatment in their report to the general meeting of shareholders. There were no conflicts of interest or transactions with the company during the financial year, neither with respect to members of the Executive Board nor with respect to members of the Supervisory Board.

Any consultancy agreement or other agreement for the provision of services or work between a member of the Supervisory Board and the company also requires the approval of the Supervisory Board. There were no such agreements in the reporting period.

Each member of the Supervisory Board shall have the skills, competence and specialist experience required for the proper exercising of his/her duties, and shall be adequately independent. Each member of the Supervisory Board shall ensure that he/she will have sufficient time available to discharge his/her responsibilities as a Supervisory Board member. It is further provided that only those persons may be nominated for election as a Supervisory Board member who have not reached the age of 70.

The safe-guarding of the interests of the shareholders is the main concern

Each share of the GILDEMEISTER Aktiengesellschaft grants one vote. There are neither voting rights with more than one vote nor any preference or maximum voting rights.

Shareholders may either exercise their voting rights themselves in the general meeting of shareholders, through an authorised person of their choice or through a proxy bound by their directives.

Shareholders shall be informed of important dates through a Financial Calendar included in the Annual and Quarterly Reports. In addition, such dates shall be updated regularly on the website of the company.

Adequate remuneration of Executive Board and Supervisory Board

Remuneration of the members of the Executive Board consists of one fixed and one variable component. Apart from the duties and performance rendered by a member of the Executive Board, further criteria for the adequacy of the remuneration include the company's economic situation, performance and future prospects in view of its comparative environment.

Total emoluments for active members of the Executive Board amounted to € 1,385 κ (previous year: € 1,781 κ), including € 450 κ variable management bonuses (previous year: € 930 κ). This amount includes remuneration in kind consisting mainly

of amounts for the use of company cars, which will be assessed in accordance with applicable tax regulations. No loans or advance disbursements were granted to the members of the Executive and Supervisory Boards in the reporting year.

Company pension reserves of € 6.7 million for former members of the Executive Board and their surviving dependants were set up.

Apart from the reimbursement of their expenses – including VAT applicable to the Supervisory Board fee – the members of the Supervisory Board currently receive, pursuant to Section 12 of the Articles of Association, a fixed remuneration of € 10,000 payable at the end of the financial year. Each remuneration will increase by € 1,000 for each increase in dividend distributed per share, if such dividend exceeds the price of € 0.10 per share by a full € 0.03 per share. The remuneration of the Chair of the Executive Board is twice the amount described above and of his/her deputy one and a half times the amounts described above.

In the financial year 2002, provisions of € 135 κ for the remuneration of the Supervisory Board were made (previous year: € 351 κ). In view of Section 12 para. 2 of the Articles of Association of GILDEMEISTER Aktiengesellschaft, this amount does not include any variable components (previous year: € 216 κ), since a distribution of a dividend is not planned. In the reporting year, the members of the Supervisory Board did not receive any other remuneration or benefit for services rendered by them, including consulting and introduction activities.

In line with the proposals of the German Code of Corporate Governance it is intended to expand the Supervisory Board fee by a component that is geared to the long-term performance of the company. In future, chairmanship and membership of the committees of the Supervisory Board will also be compensated for.

Responsible management of risks

An important element of good corporate governance is the company's responsible management of risks. For the systematic identification, assessment and control of rewards and risks we utilise risk management policy as an integral part of day-to-day operations.

The risk management policy has been audited by the auditor. It fully meets the requirements of Section 91 para. 2 AktG. Further details are included in the "Risk Reporting" chapter on pages 91 – 99 of this Annual Report.

Reporting and auditing of annual accounts

We are not aware of any relationship to affiliated persons required to disclose information in the Notes to the Financial Statements.

It was agreed with the auditor, KPMG Deutsche Treuhandgesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main, to inform the Chair of the Supervisory Board or the Auditing Committee promptly of any grounds of exclusion or bias that may arise during the audit. It was further agreed that the audi-

tor shall report promptly on all findings and events arising during the audit that are of significance for the duties of the Supervisory Board. Additionally, it was agreed the auditor would inform the Supervisory Board of, or include in, the auditing report any facts found during the audit process that prove the declaration of compliance given by the Executive Board and Supervisory Board pursuant to Section 161 AktG to be incorrect.

Up-to-date and open dialogues ensure transparency

Up-to-date and open dialogue with the shareholders and participants in the capital market represent a central element in the corporate policy at GILDEMEISTER. We lay claim to the continuous safe-guarding of transparency. We pursue the principle of fairly, promptly and comprehensively providing information to all target groups. All information published by us can, on principle, be accessed in German and in English via our Internet pages. Our website, www.gildemeister.com, also includes ad-hoc reports and press releases by GILDEMEISTER Aktiengesellschaft, detailed information on the “German Code of Corporate Governance” and information about shareholders, who, through purchase, disposal or otherwise, have obtained, exceeded or fallen below 5, 10, 25, 50 or 75% of voting rights in the company.

With the Fourth Financial Market Promotion Act coming into force on 1 July, 2002, the members of the Executive and Supervisory Boards of GILDEMEISTER Aktiengesellschaft must, pursuant to Section 15 a of the German Securities Trading Law, disclose the purchase and disposal of GILDEMEISTER shares. By 31 December, 2002, no such disclosures were received by GILDEMEISTER Aktiengesellschaft. Neither was any purchase or sale – subject to disclosure requirements pursuant to Clause 6.6 of the German Code of Corporate Governance – of the company or any of its group companies, or of any option or other derivative instrument to purchase the same through members of the Executive Board or Supervisory Board conducted before 31 December, 2002.

The appointments of the Executive Board and Supervisory Board members are set out on pages 236 – 237.

All shareholders and prospective buyers can subscribe to an electronic newsletter, which provides continuous, up-to-date information on all developments within the group. Using modern communication systems we provide actual and potential investors (Investor Relations), customers (Customer Relations) and the public (Public Relations) with news on the latest developments of the GILDEMEISTER group.

Risk Reporting

The global transactions of the GILDEMEISTER technology group are naturally exposed to a number of risks, which are inseparable from the running of any business. Our risk policy is based on the principle of responsibly weighing awards and risks, and of taking only those risks that are unavoidable to the value enhancement process.

For the systematic identification, assessment and control of rewards and risks we actively employ our risk management policy as an integral part of day-to-day operations.

General economic risks: Potential risks for the GILDEMEISTER group result primarily from economic developments in those markets that are relevant to the company. The economic revival that, in early 2002, was expected for the second half of the year did not occur; however, GILDEMEISTER was able to close the fourth quarter of 2002 according to plan and with noticeably positive stimuli. Our business development is dominated by the continuing weakness of economic activity in Germany, Europe and the United States, and by the resulting dwindling inclination to invest that is present in our major markets. According to most research institutes, German economy will stagnate until the middle of 2003, before showing signs of recovery during the second half of the year. The Iraq conflict represents a real risk to overall development. Positive trends can be expected in individual countries in Asia and particularly in the PR of China. Thanks to the production site in Shanghai that was established at the end of 2002, GILDEMEISTER will be able to participate in this development.

In Europe, economic activity is picking up only slowly; this is accompanied by restrained investment activity. In Germany, the economic uncertainty is aggravated by current fiscal policies. A further rise in insolvencies and in the number of unemployed can be expected. To limit the effects of economic development on the performance of the GILDEMEISTER group, we have introduced cost-cutting and restructuring measures, and have also prepared action plans that can be implemented at short notice. Actions for the reduction or the control of macroeconomic risks include the constant observation of economic trends across all management levels of the group.

GILDEMEISTER does not expect any substantial restrictions on business development due to the development of the capital markets and the interest rate level. Awards and risks arising from parity changes must be equally weighted. The forecasts shown above were taken into account in our planning for the year 2003. There are no risks arising from overall economic development that would jeopardise the group's existence in the foreseeable future.

New statutory regulations, such as the German Transparency and Publicity Act (TransPuG) passed in May 2002 and the announced amendments to the tax law, constitute an important legal, economic and tax framework for GILDEMEISTER. Other additional financial burdens will arise mainly from the announced changes in taxation and the increase in incidental wage costs. However, specific amounts will depend on the actual development of the announced plans.

Due to overall economic conditions which have been aggravated by the provisions of Basel II, the granting of bank loans will be increasingly restricted to many of our medium-sized customers, resulting in longer terms for accounts receivable and an increased commitment of funds at GILDEMEISTER. The receivables ratio therefore dropped from 4.4 in 2001 to 4.1 in 2002. In addition, we will increasingly lose orders due to a lack of financing options for our customers.

Section risks result mainly from the cyclical trends in the machine tool market. A forecast on the development of the engineering industry, particularly the machine tool building industry, for 2003 involves many uncertainties. The German Engineering Federation (VDMA) expects a further delay in economic revival which will, at best, be moderate in 2003. From GILDEMEISTER's point of view, consumption will be around 2-5% below the 2002 level. The ifo Institute and the Association of German Machine Tool Factories (VDW) expect, at best, the intake of new orders and production to be at the preceding year's level. This development requires that no major changes occur in global economy within the period of prediction. With respect to GILDEMEISTER, a rather restrained course of demand is expected for the financial year 2003; whilst there might be a moderate revival in the second half of the year. The risks arising from cyclical section trends are faced by GILDEMEISTER with technological superiority, a modern production programme and an extensive clientele so that the group's financial situation will not be significantly affected, should the above expectations prove correct. Due to an ongoing consolidation phase in the machine tool industry, new competitors in the market are not expected. Risks from a section-related concentration are not known. Also not expected is the launch of any significant new technologies without the participation of GILDEMEISTER.

GILDEMEISTER with its global presence coupled with a consistent market orientation and stringent product development is strategically well positioned even in the face of unfavourable sector trends. In addition, we are continually analysing both customer behaviour and the competition. In 2003, GILDEMEISTER will continue to push forward its global presence at trade fairs, and further focus its strategy on individual markets.

Risks from operational tasks can be individually identified:

Research and development risks: Technological and product-related developments are identified at an early stage and carefully implemented by interdisciplinary teams in a market-orientated fashion. Our formidable innovation speed enables us to safeguard and enhance our technological superiority. This involves the risks of faulty development or of exceeding the budget with respect to individual product types. The individual risk can reach up to € 3 million per development project. To ensure in advance that cost and time limits are not exceeded, not only do Construction and Sales participate in the design reviews during the various development phases, but so do Procurement, Production, Quality Assurance and Controlling. Our own world-wide direct selling organisation ensures that our product strategy is geared towards individual market requirements. The resulting high customer proximity enables the establishment of long-term business relationships and allows us to respond even faster when customer requirements change. A major contribution to the reduction of risks in Research and Development comes from the development of the "Preventative Quality Assurance" method. Coupled with the system-supported methodology of serial start-up management (SAM) that was implemented last year, this method developed into a uniform quality management technique with respect to the processes of product development. We have thus expanded the successful, tried and tested methods and process enhancements in Research, Development and Advance Production Planning, such as Failure Mode and Effect Analysis (FMEA) or Concurrent Engineering, by workflow and communication orientated functions. The improvement in development quality and communications result in a noticeable acceleration in procedures with a smaller error rate.

Sales risks: For the early identification of risks and rewards, our comprehensive Marketing Information System (MIS) records all customer data world-wide and analyses market and competition related information. Using the request events stored in MIS we are able, with the use of statistical methods, to forecast customer orders by machine type and sales region within the short and medium term planning domain. The sales risk is limited by the fact that we do not depend on crucial customers and individual regions. In addition, all market introductions are supported locally by our world-wide sales organisation. MIS is supplemented by our modern logistics systems through which the sales department can obtain information on the product status at any time.

The international market for our products is dominated by strong competition. Therefore, GILDEMEISTER is currently facing intense pricing competition. Thanks to a reduction in costs and optimised production processes we were able to counterbalance part of the dramatic 5% world-wide drop in prices in 2002. However, in the past year we still suffered a total loss in margins of around 1.5%.

In all, during the last five years, the group has constantly worked on expanding its market-leading position. Our products enjoy a high market acceptance, thanks mainly to their high technical standard.

Production and procurement risks: Without flexible production and logistics structures, the achievement of the high innovation and growth speed of the GILDEMEISTER group would not be possible. For this reason, we have analysed and re-organised all our processes for the production of goods and services and related areas of activities during the last few years. After carrying out these process analyses, we have optimised the production sequences and workflow within the GILDEMEISTER group so that most materials and goods in process can be delivered according to the just-in-time principle. With respect to important key components, the conditions required for double-sourcing are in place. We meet further materials and production risks by manufacturing know-how components ourselves, and through the availability of further group-internal resources at a & f Stahl- und Maschinenbau GmbH and FAMOT Pleszew S.A.

A uniform, consistent production-logistical code system ensures the complete transparency of sequences, and documents all relevant changes. For example, the continuing improvement in the production processes is permanently monitored using the codes pertaining to production progress, processing time and processing continuity. The aim of method is to reduce stocks required, bring down the level of capital tie-up, and to reduce the utilisation risk. In addition, a large number of other quality and production related codes are employed for the monitoring and early recognition of possible risks. The prompt response to any risks identified requires an early awareness of these problems, including any problems that occur during the use of our pro-

ducts at the customer's site. This is the purpose of our quality hotline, which enables the prompt identification, assessment and forwarding to the units responsible, of any quality defects in the machines in use, as reported by the world-wide DMG sales and services organisations. On the basis of this data we can speedily introduce constructive modification measures, should these prove necessary. All products and operational processes are carefully checked and optimised by our employees who are actively integrated into the continuing improvement process via the Corporate Suggestion System.

Personnel risks: The skills and will to achieve of our employees represent a crucial factor in the success of the GILDEMEISTER group. The intense competition for qualified skilled labour and senior staff with technical or section-specific background will remain. To attract new employees, we offer attractive integration and training programmes as well as modern and efficiency-based compensation schemes. Internal and external further education and training activities ensure the systematic development of personnel in the group. We adapt our training and education standards to the permanently changing professional requirements, ensure a constant know-how development in each individual and thereby contribute to the commitment of staff to the company. Co-ordinated key figure systems provide early information on quantitative and qualitative changes in our personnel.

Risks from financing and evaluation: One of the key tasks of the GILDEMEISTER Aktiengesellschaft is the optimisation of the group's financing and the limiting of its financial risks. We monitor and control the group's liquidity with the use of instruments for financial planning and financial analysis. In the debtors' area the development of the existing receivables and the structure of the receivables are permanently monitored by the group companies and, at the group level, by GILDEMEISTER Aktiengesellschaft. This way, potential risks can be identified very early and appropriate counter-measures taken.

Several banks with a first-class credit standing finance the short-term resource requirements of GILDEMEISTER Aktiengesellschaft and – within the group's cash management – of all its national subsidiaries. Domestic short-term operating financing is arranged centrally through GILDEMEISTER Aktiengesellschaft. The consortium agreement, with respect to operating financing, will end on 31 December, 2003. The resource requirements of our international group companies are funded individually through credit line agreements with local banks. There is no concentration, or even a dependence, on individual lenders. As far as investments are funded through outside resources, these are arranged, at matching maturities, via medium and long term loans.

The group's cash position was affected by the delayed payment pattern of our customers. Liquidity is also affected by the negative profit situation and currently subdued business conditions. The existing scope of liquidity is improved by measures used for the reduction in the appropriation of assets. In this respect we would like to mention our strong receivables management.

Over a third of the outside financing volume is secured against the risk arising from changes in interest rates by agreements for long-term fixed interest rates or interest derivatives. To control the risk due to, and opportunities arising from, changes in interest rates, agreements for short-term fixed interest rates are used. In general, it is expected at the moment that interest rates in the money and capital markets will either not change or continue to fall. No negative impact on our business outlook is expected from this development. Our international alignment leads to risk from exchange rate fluctuations between the Euro, US Dollar and other currencies, and this could affect the operative result, the financial result and the payment flows. The majority of our business is conducted in Euro territory, without exchange risk; other risks are reduced by hedging transactions. There are risks and awards from exchange rate fluctuations for the group, the results of which used to more or less balance out. The hedging against currency risks is carried out with each transaction through the group companies or GILDEMEISTER Aktiengesellschaft.

The acquisition of GILDEMEISTER Italiana S.p.A. has resulted in a sizeable goodwill that is rateably amortised. Following the bad result of GILDEMEISTER Italiana in the financial year 2002, it will depend on future developments whether or not additional amortisation is required over the next few financial years. Deferred taxes concern both national and particularly international companies showing losses. The valuation of this account is also affected by the course of future business development.

The **investment activity** within the GILDEMEISTER group is consistently monitored and assessed in relation to its profitability by Central Controlling with the use of various instruments. The focus with each investment decision is a pre-investment analysis.

Projects of € 50,000 and over require the direct approval of the Executive Board and are accompanied by a project controlling process, enabling a fast response by the management, should pre-determined criteria be exceeded during the project.

Legal risks: To our knowledge, there are no court or arbitration proceedings pending or threatened, which could significantly affect the economic situation of the GILDEMEISTER group's companies. Customer complaints are speedily dealt with by each responsible company.

In the past two financial years we reported on legal proceedings brought before the court by the Italian stock market supervisory authority, CONSOB, against GILDEMEISTER Italiana S.p.A.. The basis of this case was the capitalisation of a compensation claim for the termination of a commercial dealership agreement in this company's Annual Financial Statements 1999. We do not expect any significant consequences affecting our financial or liquidity position arising from these proceedings.

Therefore, no significant adverse effects on our business development are expected arising from legal risks.

Other risks and IT risks: To allow the companies to concentrate fully on their core responsibilities, we use integrated IT infrastructures that are standardised throughout the group. Potential risks in information technology are dealt with by the use of modern hardware and software, and collaboration with competent service partners. We have taken particular measures to secure the high availability of the computer systems and networks, the daily updated mirroring and archiving of data, and to protect against external attacks. Our excellent knowledge of the system along with practice-orientated data-processing seminars also allow the continuous optimisation of our IT systems. Apart from IT, GILDEMEISTER Aktiengesellschaft, as parent company, is also responsible for the central co-ordination of other key functions across all areas.

These include Personnel, Marketing and Finance & Controlling. The Plant Controlling of our production companies as well as the de-centralised and centralised controlling of DMG Vertriebs und Service GmbH report continually to the Central Controlling of GILDEMEISTER Aktiengesellschaft.

Important business events and changes in the result are continually analysed and fed back. Based on the market-orientated, de-centralised planning within the individual DMG companies, quarterly projections are made which are simultaneously co-ordinated with production plant planning. Our risk management policy also includes limit systems, the monitoring of important contracts with suppliers and customers, and a reporting system that runs through the various levels of authority. Apart from a routine exchange of technical information at nearly all company levels, regular management meetings are also held where rewards and risks in the business development are analysed and discussed in detail. To secure optimal performance and results, clear rules determine the scope of activities of the group companies which are systematically run as profit centres.

Our risk management is completed by a group-wide insurance package that is geared towards the operational requirements of the company.

Overall risk: In conclusion, it can be claimed that risk can be controlled and that, from today's point of view, the future existence of the GILDEMEISTER group is not jeopardised. The investments in numerous product developments carried out within the GILDEMEISTER group during the past years, and our continually expanded market presence form a basis to achieve once again positive results for the financial year 2003. This will continue the constant improvement in performance of the past years under normalised economic conditions. As far as possible, we have taken precautions against typical business risks that could substantially affect the company's financial and profit situation. To continue tackling the original sources of risks and identifying rewards at an early stage, risk management is a matter of principle at GILDEMEISTER and is actively implemented across all divisions, functional areas and levels of authority. Our range of instruments for risk management are continually developed and integrated into the ordinary operation of the business. The annual audit includes an assessment of the internal control system and risk management policy.

The balance sheet rating for the Consolidated Financial Statements used last year to demonstrate the company's viability and steadfastness, is no longer offered by our external service company. We are instead working on the possibility of using a comparable system that also meets the requirements of Basel II.

Systematic risk management is a crucial factor for the sustained success of a company. Organising risk management creates the required structures that enable and support the appropriate responses by decision-makers in the day-to-day running of the company. All entrepreneurial activities are associated with opportunities and risks, are geared towards limiting risks as far as possible and leveraging opportunities. To avoid GILDEMEISTER's exposure to uncontrolled dangers, risk management uses a range of instruments to identify, classify, monitor, control and minimise risks in a systematic manner. Organisationally, risk management is integrated in both the Controlling of the group and each of the individual companies.

Risks are continually identified and measured in all monitored areas with the help of checklists and surveys. The individual methods range from market and competition analyses, through to the coaching of suppliers, and surveys of employees. Risk analyses and evaluations are carried out in many areas using quantitative measures. For the monitoring and controlling of risks, we use a series of instruments that go far beyond classical financial controlling and are continuously being developed.

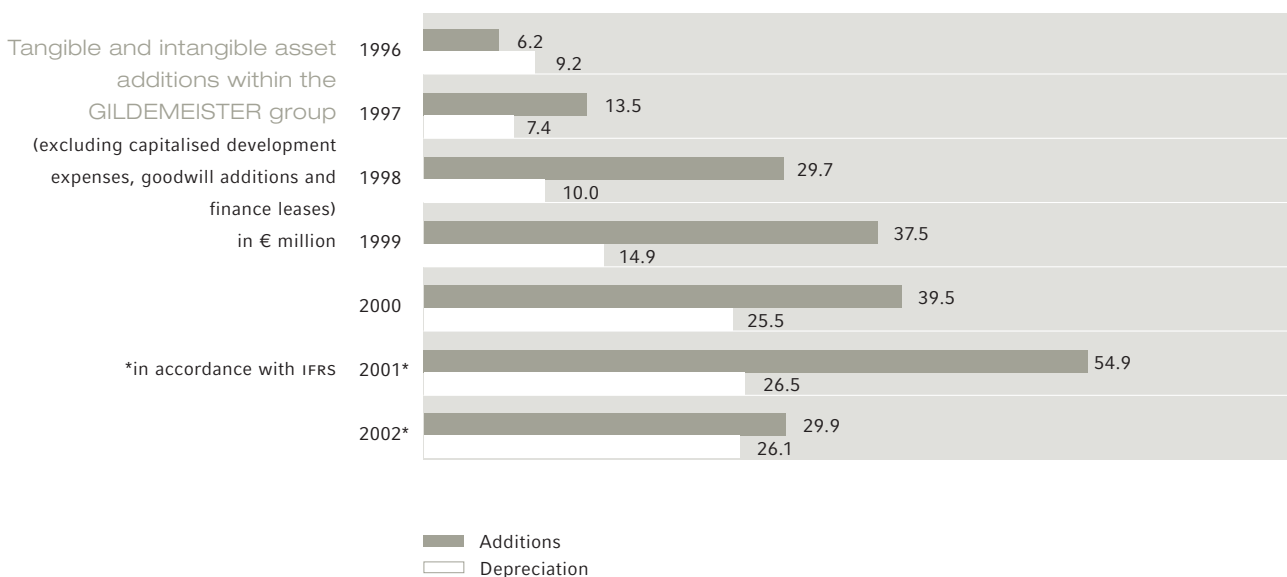
An important contribution to the communication between the company units and GILDEMEISTER Aktiengesellschaft is their regular reporting on the current situation to the Executive Board. The company's speed of response is improved by the decision-orientated processing of information and rapid communication of risk matters. As a result, rewards and risks concerning the entire company portfolio can be effectively evaluated and actively controlled. The success factors of an efficient risk management within the company include the so-called "hard factors", such as check-ups, the separation of functions, limit systems, etc. Even more important are the "soft factors": company philosophy, style of management as well as commitment and the specific development of the staff. By integrating risk management into the existing organisation structure and structuring of operations, the relevant areas of authority and responsibility are guaranteed.

Investments

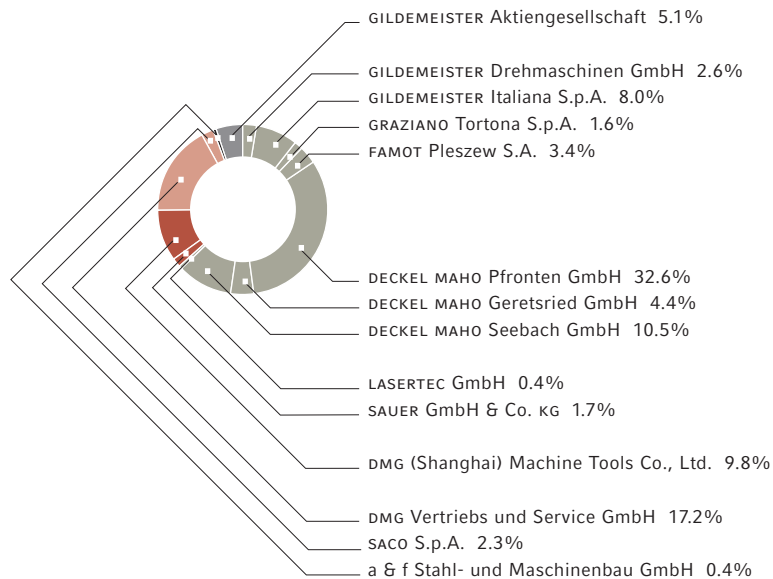
The investment activity of GILDEMEISTER was in line with general cyclical trends. In all, we reduced our investments in tangible and intangible assets by 46% to € 29.9 million, compared with the preceding year when the figure was € 54.9 million. We have therefore used 86% of the planned € 34.9 million. Further intangible fixed asset additions worth € 26.4 million were due to the capitalisation of development costs in accordance with IFRS. In addition, we increased our interest in GILDEMEISTER Italiana S.p.A. to 100%, in FAMOT Pleszew S.A. to 99% and in a & f Stahl- und Maschinenbau GmbH to 90%. Leasing office and plant equipment cost € 5.4 million, and € 16.7 million was spent on buildings.

In the reporting period, depreciation of fixed assets and long-term investments, excluding capitalised development expenses, goodwill additions and finance leases amounted to € 26.1 million, this corresponds with the preceding year's figure of € 26.5 million.

A milestone with respect to the implementation of our globalisation strategy is the production plant in Shanghai, which we acquired for € 2.9 million. At the Pfronten and Seebach sites the new construction projects that were started in 2001 were completed; in addition we erected a new assembly line in Pfronten.



Contribution by each group company to the investments in tangible and intangible fixed assets



Investments by each company

GILDEMEISTER Drehmaschinen GmbH, Bielefeld

In the reporting year, GILDEMEISTER Drehmaschinen GmbH invested € 0.8 million. To safe-guard the serial start-up of the new machine types, we invested € 0.4 million in model types, tools and fixtures. In the office communication area € 0.3 million were invested on replacement hardware and software.

GILDEMEISTER Italiana S.p.A., Brembate di Sopra

In the reporting year, investments by GILDEMEISTER Italiana S.p.A. amounted to € 2.4 million. One of the main investments of € 0.5 million was in the production start-up for the new CNC multi-spindle automatic lathes. In addition, € 0.4 million were spent on the logistic re-structuring of the assembly and production areas. This includes the implementation of a software module for the integrated management of the merchandise.

GRAZIANO Tortona S.p.A., Tortona

In the financial year 2002, GRAZIANO Tortona S.p.A. invested € 0.5 million. Following the re-structuring of the merchandise area during the preceding year, € 0.2 million were invested during the reporting year in the logistic re-alignment of the assembly and production areas. With the purchase of Lotus Notes software licences, amounting to € 0.1 million, GRAZIANO adjusted to the group standard with respect to communication software.

FAMOT Pleszew S.A., Pleszew

In the reporting period, FAMOT Pleszew S.A. invested € 1.0 million. To increase existing production capacities, a horizontal machining centre from DECKEL MAHO Geretsried GmbH was acquired. The investments in this respect amounted to € 0.3 million. In the office communication area € 0.2 million was invested in replacement hardware and software.

DECKEL MAHO Pfronten GmbH, Pfronten

The highest amount in the group of € 9.7 million was invested at the DECKEL MAHO Pfronten site. To increase the flexibility of the τ line assembly and improve productivity, € 2.4 million were invested in the completion of a new hall housing an assembly line. For the production start-up of new machine types, model types, tools and fixtures worth € 0.8 million were needed. A further € 0.4 million were invested in test and measuring equipment. Of the investments in the IT area, totalling € 3.0 million, € 2.2 million were spent on the "Front Office" project, which serves to optimise operational sequences and processes within the group.

DECKEL MAHO Geretsried GmbH, Geretsried

The investments by DECKEL MAHO Geretsried GmbH amounted to € 1.3 million during the reporting period. To ensure a smooth serial start-up, model types, fixtures and measuring equipment worth € 0.6 million were purchased. € 0.4 million were spent on new office and meeting rooms in close proximity to production. These enable an improved communication between assembly and related areas, thereby contributing to an increase in product quality.

DECKEL MAHO Seebach GmbH, Seebach

The amount invested at DECKEL MAHO Seebach GmbH was € 3.1 million in the financial year. The largest share of € 1.3 million was spent on the new technology and presentation centre. € 0.9 million were invested in tools, fixtures and measuring equipment for the production start-up of new products.

LASERTEC GmbH, Pfronten

In the reporting year, LASERTEC GmbH invested € 0.1 million in tangible fixed assets. Following the preceding year's investments of € 0.3 million in the establishment of a new site at Kempten, only minor investments were required in the reporting year in order to maintain readiness to operate and for replacements.

SAUER GmbH & Co. KG, Idar-Oberstein

In the reporting year, SAUER GmbH & Co. KG invested € 0.5 million in tangible fixed assets. These were primarily to set up production and improve processes.

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

GILDEMEISTER invested € 2.9 million in the acquisition of a new production site in Shanghai. The new site covers a total area of 15,000 m² and includes a usable area of 10,000 m² that will be available for the installation of machine tools and will also be used as a technology centre.

DMG Vertriebs und Service GmbH, Bielefeld

DMG Vertriebs und Service GmbH invested € 5.1 million in the reporting year. Modern technology centres were moved into at the sites in Stuttgart, Frankfurt and Taichung in Taiwan. In Japan, land for a new technology centre in Yokohama was purchased, which will be completed some time in 2003. A further € 0.9 million was invested in new tools and measuring equipment. € 3.5 million were invested in car replacements for the sales and services areas. These were financed through leasing.

saco S.p.A., Castelleone

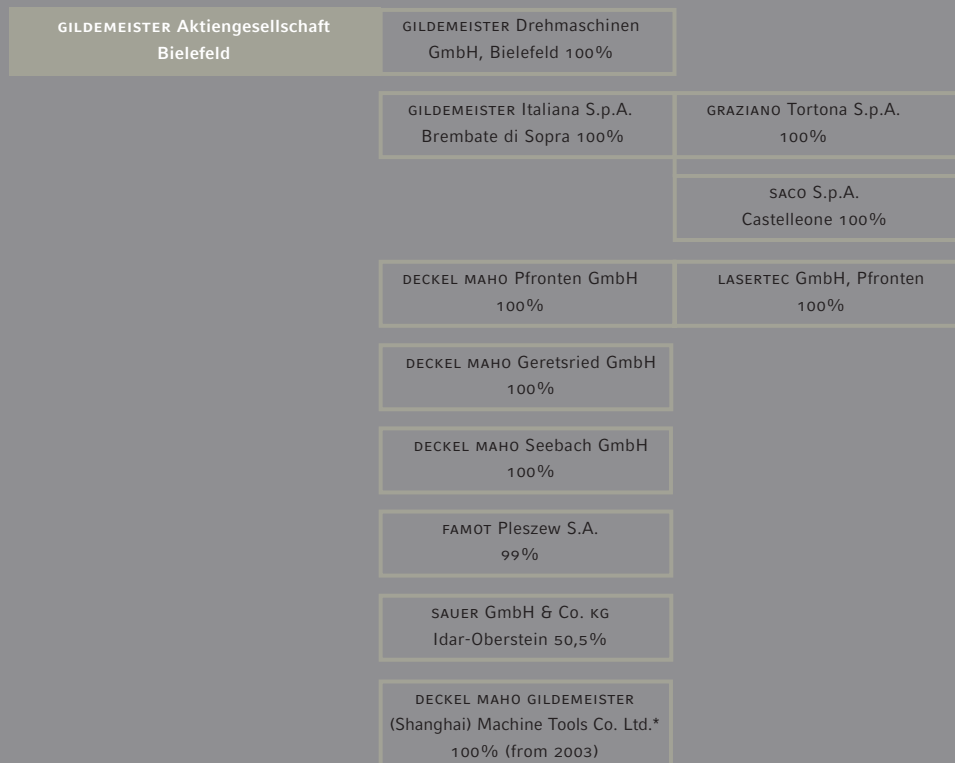
At the Castelleone site € 0.7 million were invested in new plant and machinery.

a & f Stahl- und Maschinenbau GmbH, Würzburg

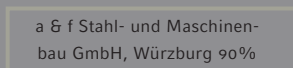
a & f Stahl- und Maschinenbau GmbH invested € 0.1 million in tangible fixed assets.

Group Structure

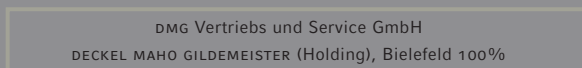
Production plants



Procurement



Sales and service organisation



* Start of business 2002

The GILDEMEISTER group is one of the major producers of cutting machine tools with eleven production facilities and 48 national and international sales and service sites, 38 of which have prestigious technology centres. The DMG Vertriebs and Service GmbH holds 100% of the respective share capital of its subsidiaries with one exception.

Germany	Europe	America	Asia	Technical Services
DMG Stuttgart Vertriebs und Service GmbH	DMG Italia S.r.l. Gorgonzola	DMG America Inc. Charlotte	DMG Asia Pacific Pte. Ltd. Singapore	DMG Service Dreher GmbH Bielefeld
DMG München Vertriebs und Service GmbH	DMG France Nord S.a.r.l. Les Ulis	DMG Chicago Inc. Chicago/Schaumburg	DMG Australia Melbourne, Sydney	DMG Service BAZ GmbH Geretsried
DMG Hilden Vertriebs und Service GmbH	DMG France Sud S.A.S. Lyon, Scionzier	DMG Houston Inc. Houston	DMG China; Beijing, Shanghai, Xian, Guangdong*	DMG Service UFB GmbH Pfronten
DMG Bielefeld Vertriebs und Service GmbH	DMG Büll & Strunz GmbH Wiener Neudorf (51%)	DMG Los Angeles Inc. Los Angeles	DMG Technology Trad. Co. Ltd. Shanghai	DMG Service UFB Seebach GmbH
DMG Berlin Berlin, Chemnitz	DMG (Schweiz) AG Zürich/Dübendorf	DMG Canada Inc. Toronto	DMG India Pvt. Ltd. Bangalore, Delhi	DMG Gebrauchtmaschinen GmbH, Geretsried, Bielefeld
DMG Frankfurt Vertriebs und Service GmbH	DMG (UK) Ltd. Luton	DMG México Monterrey	DMG Nippon K.K. Yokohama	DMG Trainings-Akademie GmbH Bielefeld, Geretsried, Pfronten
	DMG Danmark Kvistgård	DMG Brasil Ltda. São Paulo	DMG Taiwan Ltd. Taichung	
	DMG Nederland B.V. Veenendaal		DMG Korea Ltd. Seoul	
	DMG Belgium B.V.B.A. Zaventem		DMG Malaysia SDN BHD Kuala Lumpur	
	DMG Iberica S.L. Barcelona, Bilbao			
	DMG Czech s.r.o. Brno			
	DMG Polska Sp. z o. o. Pleszew			

GLOBALITY. TECHNOLOGY. GROWTH_ “OF COURSE, WE WANT TO
CONTINUE GROWING IN THE INTERNATIONAL MARKETS –
NOT IN QUANTITY, BUT FIRST OF ALL IN QUALITY.”

THOMAS HAAG _Sales / DMG Management

SALES: Growth is not a value per se; neither is it a suitable yardstick to gauge performance. So, becoming bigger, for GILDEMEISTER, means the ability to enhance its offer – with quality taking priority over quantity. Instead of expansion at any cost, we focus on expanding in the interest of meeting our global customers' needs even better.

GLOBALITY. TECHNOLOGY. GROWTH.

Constantly to adapt to new situations and in doing so always to follows and adjust to changing market conditions. To offer customers all they need to be successful in their market segments: more value, more flexibility, more success. Because in the development of new products, concepts and services, we not only think ahead, we also take a holistic view. With a powerful and value-generating range of products and services on offer, which is without equal in international competition, GILDEMEISTER ensures that demanding customers throughout the world can cut a high profile.

Organisation and Administration

The GILDEMEISTER group is made up of eleven production plants, a & f Stahl- und Maschinenbau GmbH and DMG Vertriebs und Service GmbH as well as their subsidiaries. GILDEMEISTER Aktiengesellschaft acts as the parent company for these companies.

DECKEL MAHO Pfronten GmbH is the parent company of LASERTEC GmbH. These companies together with DECKEL MAHO Geretsried GmbH, DECKEL MAHO Seebach GmbH, GILDEMEISTER Drehmaschinen GmbH, FAMOT Pleszew S.A., the three companies of the sub-group GILDEMEISTER Italiana, SAUER GmbH & Co. KG and DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., which was established in November 2002, represent the group's plants. a & f Stahl- und Maschinenbau GmbH is primarily responsible for the supply of components. Another parent company is DMG Vertriebs und Service GmbH. With its numerous national and international subsidiaries it is the production plant's sales and services interface with the market.

The GILDEMEISTER group consistently runs all its companies as profit centres. To achieve optimal performance and results, clear rules determine the extent of responsibilities. Via the data processing infrastructure that is co-ordinated throughout the group, all operational processes and sequences are standardised. The data processing system thereby acts as an integral link within the group structure. Key functions across all areas of the group are performed centrally. These include the controlling and financial functions, personnel, marketing, the legal sector as well as logistics and procurement. In the reporting year, 64 people were employed in the executive units. The organisational expenses of GILDEMEISTER Aktiengesellschaft amounted to € 10.8 million.

In the reporting year, the allocations to the executive units of GILDEMEISTER Aktiengesellschaft remained unchanged as follows: Dr. Rüdiger Kapitza, as Chair of the Executive Board, was responsible for Corporate Strategy and Product Development, Sales and Marketing, Services and Personnel as well as Public Relations work. Mr. Dieter Schäfer was responsible for Controlling and Finance & Accounting, and Dr. Raimund Klinkner for Logistics, Purchase & Procurement, Production, Information Technology and Projects. Since 1 January, 2003, Dr. Klinkner has been Deputy Chair of the Executive Board. At the meeting of the Supervisory Board on 28 November, 2002, Mr. Michael Welt, was appointed head of the Controlling, Procurement and Information Technology units with effect from 1 January, 2003.

Legal Corporate Structure

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

- _ GILDEMEISTER Drehmaschinen GmbH,
- _ DECKEL MAHO Pfronten GmbH,
- _ DECKEL MAHO Seebach GmbH.

Another profit and loss transfer agreement was entered into between DECKEL MAHO Pfronten GmbH and LASERTEC GmbH.

In the reporting year, the share of Holding Macchine Utensili S.p.A. in GILDEMEISTER Italiana S.p.A. was increased from 85.97% to 100%. GILDEMEISTER Aktiengesellschaft held 99.09% of the share capital of FAMOT Pleszew S.A.; at the beginning of the financial year, this participation had amounted to 96.03%. Additionally, the interest in a & f Stahl- und Maschinenbau GmbH was increased from 51% to 90%.

In November 2002, GILDEMEISTER Aktiengesellschaft incorporated DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd. as fully owned subsidiary. The GILDEMEISTER group's first production plant outside Europe began its operative business in January 2003.

DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, as holding company, runs the operative sales and services organisation units. It entered into profit and loss transfer agreements with the following subsidiaries:

- _ DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- _ 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 Berlin Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- _ DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- _ DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER,
- _ DMG Service BAZ GmbH DECKEL MAHO GILDEMEISTER,
- _ DMG Service UFB GmbH DECKEL MAHO GILDEMEISTER,
- _ DMG Service UFB Seebach GmbH DECKEL MAHO GILDEMEISTER,
- _ DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER,
- _ DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER.

The **consolidated group** of DMG Vertriebs und Service GmbH remained unchanged in the financial year 2002. The GILDEMEISTER group only has affiliated companies and has **no shareholdings**.

Affiliated Companies

The “Machine Tools” Segment

The new machines business of all those affiliated companies of GILDEMEISTER Aktiengesellschaft, which operate as production plants and produce machine tools, represent the “**Machine Tools**” segment. This segment includes the “turning”, “milling” and “laser/ultrasonic” divisions.

The “Turning” Division

A cutting machining process for the production of usually rotationally symmetrical parts, where the work piece rotates and the cutting tool carries out feed motions along and across the rotation axis, is known as “turning”. The field of application for this technology is extremely versatile: it includes the production of shafts, axles, joining elements and fittings. The companies listed below are the centres of competence for the group's turning technology. The co-ordinated collaboration of the Eight-Lines product strategy of the four lathe manufacturers creates further synergies in the product development, logistics and procurement areas.

GILDEMEISTER Drehmaschinen GmbH, Bielefeld

The Bielefeld site is the centre of competence for turning technology with the product lines: universal lathes (NEF), CNC universal lathes (CTX), vertical lathes (CTV), general purpose centre lathes (TWIN line) and turning and milling centres (GMX). With these products, GILDEMEISTER Drehmaschinen GmbH operates in five of the eight product lines of the “turning” division. The company sees itself as a technological partner with its customers, and utilises the ongoing trend to integrated machining to gain a strategic benefit. In contrast to the sales of standard machines, customer-specific technology solutions are increasingly significant.

The successful presentation of product innovations, CTX 520 linear and GMX 400 linear, enhances the competitive position of GILDEMEISTER Drehmaschinen GmbH. This was further supported by the fact that we have improved the control technology with respect to speed and comfortability of 3D programming and simulation. With the MF Programmer 3D we provide our customers with an external, customer-friendly programming tool.

The company was certified in accordance with the process-orientated ISO standard specification 9001 as early as 2001. In the reporting year, all preventative quality assurance processes were switched over to a paperless Intranet solution. The procurement risk for high-quality structural components and components was reduced using specific supplier coaching. In 2002, the serial start-up of all new CNC universal lathes

with linear drive technology led to an unscheduled increase in the materials quota and temporarily resulted in an increased logistical input. In contrast to the preceding year, GILDEMEISTER Drehmaschinen GmbH with its 398 employees reported a loss (negative EBIT). This change in the result is due to the reduced volume of business, heavy spending on the launch of new products and the fact that planned materials quotas were not reached.

GILDEMEISTER Italiana S.p.A., Brembate di Sopra

In the year 2002, GILDEMEISTER Italiana S.p.A. was able to accomplish synergies in sales, procurement and logistics, mainly thanks to the improved integration of the company with the affiliated companies, GRAZIANO Tortona S.p.A. and SACO S.p.A.

GILDEMEISTER Italiana is the specialist for multi-spindle automatic lathes within the group and expert in the „straight turning“ technology, a special machining process in the turning of workpieces, the length of which is substantially larger than its diameter. The company has a complete production programme for general purpose centre lathes: it ranges from highly specialised automatic lathes, through to cam and CNC controlled multi-spindles (GM or GMC line) to so-called “Swiss-type long turning automatic screw machines” of the GD/GLD line and short turning automatic screw machines of the Sprint line.

The financial year 2002 was dominated by two activities: the restructuring to CNC controlled multi-spindle machines on the one hand, and the fundamental re-organisation of assembly and production areas and optimisation of the production and logistics processes on the other hand. The area gained by these measures will be used for a technology centre.

With 691 employees the subgroup GILDEMEISTER Italiana closed the financial year 2002 with a loss (negative EBIT). In contrast to last year, here, too, a smaller volume of business, above-budget development and start-up costs and increased materials quotas due to the shift in product mix led to the negative result.

GRAZIANO Tortona S.p.A., Tortona

GRAZIANO Tortona S.p.A., which has been part of GILDEMEISTER Italiana S.p.A. since 1998, has 133 employees and is the second-largest producer of universal automatic lathes in Italy. The company's range of products covers the universal turning and four-axis automatic lathe areas. In the reporting period GRAZIANO continued its innovation campaign: The CTX 620 linear universal lathe completed the range of products. Thanks to a full change-over of its production programme within two years, GRAZIANO was thereby successfully integrated into the group's Eight-Lines Strategy as a centre of competence for CNC universal lathes of the CTX line. GRAZIANO Tortona S.p.A. reported a positive profit contribution within the subgroup GILDEMEISTER Italiana.

FAMOT Pleszew S.A., Pleszew

FAMOT Pleszew S.A. is responsible for the production of trunk machines within the group. In the reporting year the serial production of five new types of trunk machines was launched with a total of 561 pieces. The production of which totalled 1,187 corresponded with the previous year's level.

FAMOT also produces complete machine tools. Along with universal lathes (NEF 280 M, 320 K and NEF 520 K) and CNC controlled universal lathes (CTX 400 with FANUC control), the company for the first time produced milling machines in the reporting year; these include the CNC vertical machining centres DMC 63 V and DMC 103 V with FANUC control.

In the financial year 2002, FAMOT also supplied – apart from the production plant in Bielefeld and Geretsried – DECKEL MAHO in Pfronten and GRAZIANO with mechanical and structural components for machine tools. FAMOT's role as supplier of the above products continued to increase during the reporting year. With its current production programme for integrated machines, FAMOT Pleszew S.A. is the leading manufacturer of machine tools in Poland. The company and its 467 employees recorded sales amounting to € 25.3 million, with slightly negative EBIT.

The “Milling” Division

“Milling” is a cutting machining process where the cutting tool rotates and, via feed motions of the tool and the work piece, creates work piece surfaces of any kind on several axes. These activities of the GILDEMEISTER group are brought together in those companies trading under the name of DECKEL MAHO. Three companies operate as independent profit centres based at sites in Pfronten, Geretsried and Seebach. Targeted innovations and clear production strategies have established the trade name DECKEL MAHO in the major industrial markets of the world. DECKEL MAHO is the global market leader in the 5-axis technology and international leader in milling machines and vertical and horizontal machining centres.

DECKEL MAHO Pfronten GmbH, Pfronten

DECKEL MAHO Pfronten GmbH develops and produces the universal milling machines and machining centres for the production programmes DMU-T, DMU-P and DMC-U. In this field, DECKEL MAHO Pfronten remains the innovative leader and trend-setter in the market of milling technology.

The milling machines and machining centres of DECKEL MAHO Pfronten are universal both in respect of horizontal and vertical 5-sided and 5-axis integrated machining by one machine, and in respect of the modular machine design from various production programmes and their technological solutions in the hardware and software field. A wide range of technologies and equipment variations, such as 5-axis simultaneous

machining, milling and turning in one machine or high-speed cutting, complement the features of the basic machines. With its range of products, DECKEL MAHO meets the demands of the market: high flexibility, versatile opportunities to use and powerful features.

In the reporting year a total of seven developments were introduced and brought to serial maturity. The highlight amongst the heavy machines was the DMC 340 U, a giga milling centre of 80 tons. It can be used for high-precision production of profiles and cubic work pieces of up to 16 tons in weight in one setting. The speedy implementation of these innovations was supported by the serial start-up management system (SAM) that was introduced throughout the group during the reporting year.

DECKEL MAHO Pfronten continues to rely on short cycles of innovations, thereby safeguarding its above-average growth and continuously high productivity. Together with its 779 employees, the site at Pfronten again recorded the best result throughout the GILDEMEISTER group in the reporting year 2002.

DECKEL MAHO Geretsried GmbH, Geretsried

DECKEL MAHO Geretsried GmbH with its production programmes, DMC-H and DMC-V, represents the centre of competence for horizontal and vertical machining centres in the GILDEMEISTER group. Along with customer demands for high productivity, high constant precision and high reliability, demand for integrated solutions is increasing. Accordingly, the system and automation capacity in the horizontal machining centre division was expanded. Major orders in the motor and components supplying industry were thereby secured for the first time. The production programme was expanded by the new entry machines, the DMC 64 v linear, DMC 104 v linear and DMC 144 v linear. The completion of the production programme of vertical machining centres and expansion of machine sizes to the upper size segment ensure that further clientele in machining of large parts can be attracted.

The high-end vertical machining centre DMC 165 v that was specifically designed for tool manufacture and mould making was steadily developed to serial maturity, and will be produced in series by the end of the reporting year.

The expansion of the product portfolio was the basis for the order intake of € 150 million, which almost equalled the preceding year's figure, despite the slackening of economic activity. The serial start-up of the DMC 64 v linear/104 v linear/144 v linear during the second half of the year had a negative impact on the result. To ensure supply capability demanded by the market, additional suppliers had to be found. This resulted in considerable acceleration expenses and an unscheduled deterioration in the materials quota. At the end of the year, 410 people were employed at the site in Geretsried. Due to heavy spending on the development of new products, such as development and serial start-up cost, and an increased materials quota, the financial year 2002 closed with a loss.

DECKEL MAHO Seebach GmbH, Seebach

DECKEL MAHO Seebach produces the small and medium-sized CNC universal milling machines and machining centres for the DMU, DMF and DMP production lines. In addition to the introduction of the traversing column machine area (DMF 360 linear) and the machining centres (DMP 60V linear), the universal machining centre area was also expanded (DMC 50 eVolution and DMC 70 eVolution). This year's highlight at the site was the awarding of the company's new production plant as overall winner in the "Best Factory™ – Industrial Excellence Award 2002" competition by INSEAD, WHU and Wirtschaftswochenzeitung.

The world-wide weakness of economic activity also affected the course of business at DECKEL MAHO Seebach. However, thanks to its high flexibility and dynamics, the company succeeded in utilising the opportunities of the market, and in maintaining its profitability. Although the volume of business was lower than in the previous year, DECKEL MAHO Seebach GmbH, with its 416 employees, recorded another profit for the reporting year.

The "Laser/Ultrasonics" Division

In relation to our laser machines, "laser beam machining" is an eroding process, where an innovative 3-D machining of filigree cavities is carried out using a spot-beam with a high energy level. In this respect, both metallic materials and materials that are not easily machineable, such as high-tech ceramics or cemented metal carbide, can be used. Most of the material, which has been cut off the surface in layers through the laser beam (laser = light amplification by stimulated emission of radiation), evaporates, or is pumped out as melt. The latest application is represented by machines for laser precision cutting and drilling in the 2-D and 3-D area.

For the first time, the new "ultrasonic" production process enables the economic mechanical processing of hard-brittle advanced materials (such as high-tech ceramics, glass, silicon or cemented metal carbide). With this technology we use company-manufactured spindles and diamond tools that have been specifically developed for ultrasonic machines. Through the ultrasonically energised main spindle, the cutting machining process (milling or grinding, drilling and, in future, turning) is overlaid by a high-frequency oscillating motion. At a low thermal load, the cut volume is thereby greatly increased. Over the next financial years, we will be specifically promoting the promising "laser" and "ultrasonic" technologies.

LASERTEC GmbH, Pfronten

LASERTEC GmbH, Pfronten is a fully owned subsidiary of DECKEL MAHO Pfronten GmbH and is a technological trend-setter within the group thanks to its laser technology. Based on the successful engineering architecture of DECKEL MAHO Pfronten, the laser technology is used successfully in laser erosion, laser fine cutting and laser drilling

applications. The options present in laser materials processing, meet the high demands of micro-technology and the advancing miniaturising technology. In comparison with the traditional cavity sinking by EDM, erosion via laser is ideal for the manufacture of the finest contours and cavities, offering considerable cost advantages thanks to short processing times and a smaller number of staff. In addition to laser beam erosion, LASERTEC, with its newly developed highly dynamic precision LBM machine, the DML 80 FineCutting, also serves the laser fine cutting and laser drilling applications in the 2-D and 3-D areas. These machines can be used in various areas of medical and electrical technology, sheet metal working or other innovative industries. New standards are set by the laser drilling of turbine blades used in aviation and in the industrial gas turbine area. In the reporting area the company employed 35 people; due to heavy spending on research and development, the result was negative, as expected.

SAUER GmbH & Co. KG, Idar-Oberstein

With its majority controlling share in SAUER GmbH & Co. KG, GILDEMEISTER gained access to the growing market in “ultrasonic” machining of advanced materials, such as high-tech ceramics, glass, silicone and cemented metal carbide. This technology is unique throughout the world. A large number of these machines are used for the production, under production conditions, of carbon fibre brake disks, silicone wafer for the semi-conductor industry and condyles for medical applications. The company's growing reputation and its focus on its core expertise have created the basis for a profitable growth development. In the reporting year, SAUER GmbH & Co. KG, with its 22 employees already recorded a profit (EBIT) of € 1.0 million.

The “Services” Segment

The “Services” segment is mainly made up of the promising services division of DMG Vertriebs und Service GmbH and its subsidiaries. Also included in this segment are the supply services of a & f Stahl- und Maschinenbau GmbH and the components made by SACO S.p.A.

Sales and Service, Technical Services

DMG Vertriebs und Service GmbH, Bielefeld, and branch offices

DMG Vertriebs und Service GmbH is our world-wide sales and services interface with the market for all products of the GILDEMEISTER group. With its 37 independent subsidiaries that are all run as profit centres (preceding year: 36), five branch offices (preceding year: five) and six further sales and services sites (preceding year: ten), DMG is represented world-wide in all major purchaser countries for machine tools. DMG had 1,496 employees (preceding year: 1,521) – which represents 30% of all em-

ployees in the group – and, in the reporting year, contributed substantially to the sales of the group. This organisation is operating throughout the world and, with its national and international technology centres, stands out thanks to the following three factors:

- _consistent market proximity
- _direct selling covering all areas
- _comprehensive, customer-orientated one-stop technical services.

In the reporting year, DMG France Sud S.A.S. began its operative business in Lyon. DMG Iberica S.L. has moved from Madrid to Barcelona. After giving up the Mumbai and Chennai sites, DMG India Pvt. Ltd. focused its activities on the technology centre in Bangalore. In China, a new selling agency was opened in Guangdong. In the reporting year, DMG Service UFB Seebach GmbH expanded its existing service activity by adding spare parts logistics for the products of DECKEL MAHO Seebach.

Around the end of the financial year, we started the necessary re-structuring and re-alignment activities with respect to DMG in accordance with the markets in Germany, Europe, America and Asia. It is planned that the GILDEMEISTER group's sales and services organisation – after being straightened and adapted to changed market conditions – will become even more global and more flexible with an even greater customer proximity, in order to operate more successfully in the markets throughout the world.

Due to the decline in margins and the investments carried out with respect to the necessary expansion of the sales and services organisation, the DMG subgroup recorded only slightly positive EBIT.

Branch offices

DMG Vertriebs und Service GmbH, Bielefeld, a fully owned subsidiary of GILDEMEISTER Aktiengesellschaft, maintains, apart from the 37 sales and service companies, the following international branch offices, which are not legally independent enterprises:

- _DMG Danmark,
Filial af DMG Vertriebs und Service GmbH
DECKEL MAHO GILDEMEISTER, Tyskland,
Kvistgård/Dänemark
- _DMG China DECKEL MAHO GILDEMEISTER
Beijing Representative Office,
Beijing/P.R. of China
- _DMG China DECKEL MAHO GILDEMEISTER
Shanghai Representative Office,
Shanghai/P.R. of China
- _DMG China DECKEL MAHO GILDEMEISTER
Xian Representative Office,
Xian/P.R. of China

The sales offices DMG Vertriebs und Service GmbH in Beijing, Shanghai and Xian are accredited for the acquisition of group products in the PR of China. DMG Technology Trading (Shanghai) Co., as a fully owned subsidiary of DMG Vertriebs und Service GmbH, Bielefeld, is responsible for the service activities in this market.

DMG Asia Pacific Pte. Ltd., Singapore, a fully owned subsidiary of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld, maintains a branch office that is not a legally independent enterprise:

_DMG Australia,
Melbourne/Australia

DMG Danmark and die DMG Australia operate as sales and services offices for their respective parent companies in their respective allocated areas.

There are no branch offices at home. Apart from running the operative business, DMG Vertriebs und Service GmbH, Bielefeld, acts mainly as a holding company. During the reporting year, business in the branch offices continued to rise noticeably.

Components and Procurement

saco S.p.A., Castelleone

Thanks to the new production hall that was put into operation in the preceding reporting period, the flexibilised production and logistics system and the expanded production programme, saco S.p.A. was able to smooth out its capacity utilisation, despite the strained situation in the components market for machine tools.

Apart from the equipment for multi-spindle automatic lathes, saco offers a wide range of other components, such as machine elements, bar magazines and integrated spindle engines. The company made a positive profit contribution within the subgroup GILDEMEISTER Italiana.

a & f Stahl- und Maschinenbau GmbH, Würzburg

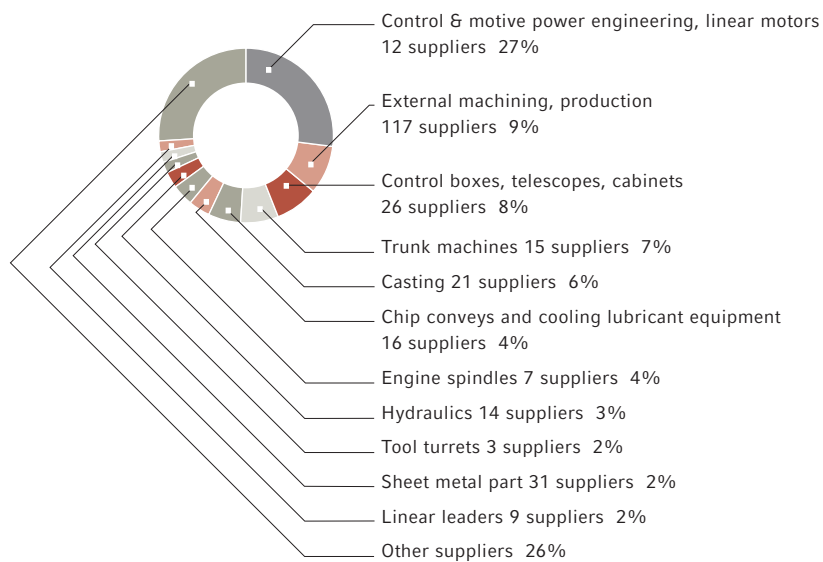
Since the reporting year, GILDEMEISTER Aktiengesellschaft has held a 90% interest in a & f Stahl- und Maschinenbau GmbH. This procurement company operates in the field of qualified procurement of mechanical parts, assembled construction components and trunk machines. Along with the German and Italian production plants of the GILDEMEISTER group, it supplies numerous well-known European customers from the mechanical and plant engineering industry and also supplies a major Japanese producer of robots.

For the benefit of the procurement area, the good contact built up over many years to a competitive net of suppliers – mainly in the countries of Central and Eastern Europe – is utilised and continually expanded. The expansion of the procurement range to include demanding, more complex and high-precision components and construction components was continued. a & f Stahl- und Maschinenbau GmbH was therefore able to develop its good competitive position and acquire new customers. With 26 employees, the company recorded another profit in the past financial year.

Procurement

In the financial year 2002, the GILDEMEISTER group has improved its supply situation and has achieved further positive results in the procurement field. We closely co-operate with our supply firms, utilising cost-cutting potentials in a spirit of partnership. In the reporting year, cost of raw materials, consumables and goods for resale amounted to € 570 million (previous year: € 647 million), € 466 million (2001: € 519 million) were attributed to raw materials and consumables. The **rate of turnover of raw materials and consumables** therefore amounts to 54.5% (previous year: 54.0%). The increase in cost of materials due to the start-up of the new machines, was partly counter-balanced by a more than 5% reduction in the cost of materials with respect to the line machines. The procurement co-ordination activity across all locations (for example in materials-group management), expansion of the standardisation and the new coSupply approach for competitive supply partnerships, all contributed substantially to these improvements. To ensure **supply stability**, concentrated efforts have proven successful in individual cases.

Contribution of each materials group to purchasing volume (€)

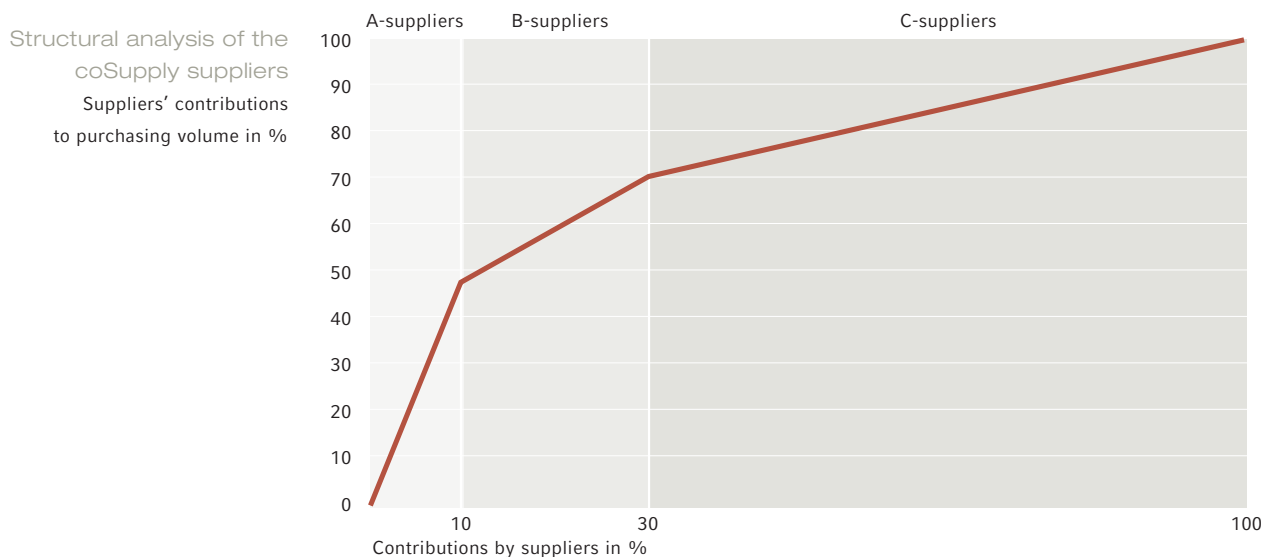


The most important individual development in the procurement area was the **coSupply** campaign as a partnership framework of structure for competitive, continual supply chains. This includes the new multi-language Internet supplier portal (www.coSupply.de). Its individual access, “my coSupply”, is used by the supply partners to view not only general information, but also their suppliers' evaluation and underlying ratios and to communicate with the group's contact persons. The option of a structured contact via the platform facilitates the evaluation of potential supply partners.

All coSupply actions are aimed at increasing our competitiveness through the enhancement of the three characteristics of our supply partnerships: communication, co-operation and competence. This integrated approach is key to the Supply Chain Management principle. It increases efficiency through greater competence, thereby leading to a broadly structured enhancement of competitiveness. coSupply co-ordinates supply partner specific procurement, materials planning, logistics and purchasing activities. For example, all processes along the entire supply chain within the quality, supply performance, price-performance ratio and innovative ability categories are evaluated and continually optimised in inter-disciplinary trained teams across all sites and companies. In numerous workshops GILDEMEISTER, together with the TOP-30 suppliers, developed optimisation potentials, as in the preventative quality assurance pertaining to raw materials, and demonstrated further improvement options.

The GILDEMEISTER group's second Suppliers Day was the setting for the introduction of the coSupply campaign, which took place parallel to the in-house exhibition and opening-up of the new building at the Seebach site in March 2002. More than 150 representatives from the TOP supply companies took part in this event, which closed with the "Supplier-of-the-Year" awarding in the quality and supply performance categories and an overall winner.

The **suppliers' structure** will be further improved – in the coSupply process – and will be tightened up, for example through the development of the **strategic supply partnerships**. The suppliers can therefore be better integrated into the product development processes. This will expedite the serial maturity of newly developed products and enhance the quality of start materials. The group's formidable innovative power will thereby be successfully promoted.



suppliers thereby become more efficient, whilst the standardisation process has been noticeably expedited through the pooling of goods into materials groups and systems. This approach links the advantages of centralised actions – for example with respect to the cumulative procurement volume – with the advantages of a lean, de-centralised organisation, as in the use of local suppliers' networks.

The processing of orders was further improved by the expansion of the Internet-supported linking of suppliers to our electronic data processing systems (GILDEMEISTER eSupply) which was introduced last year. This system offers a synchronised view of our production planning. In 2002, we developed the system's functionality so that we are now able to process feedback from our procurement partners. The resulting improved communication increases the reliability of supply, which lets us avoid most supply bottlenecks.

In the reporting year, GILDEMEISTER also re-organised both the internal and external flow of materials, thereby optimising the procurement logistics of start materials. Based on the successful pilot project of a **Transshipment Point (TSP)** at the Seebach site, a second TSP for the supply of FAMOT Pleszew S.A. was set up and put into operation. This makes the buyer plants' supply of materials for the assembly of trunk machines unnecessary. This in turn has made the introduction of trunk machines supply for the DMU 60 T at the Pfronten site easier.

Thanks to all these new measures that were taken in the procurement logistics area, we were able to maintain our standard in the storage of goods, despite the strained market conditions. The **rate of turnover pertaining to raw materials and consumables** fell only slightly, from 6.9 to 6.8, when compared with the preceding year's record figure. When compared to the industry as a whole, the average **period of storage** of raw materials and consumables of approximately 54 days remains at a good level.

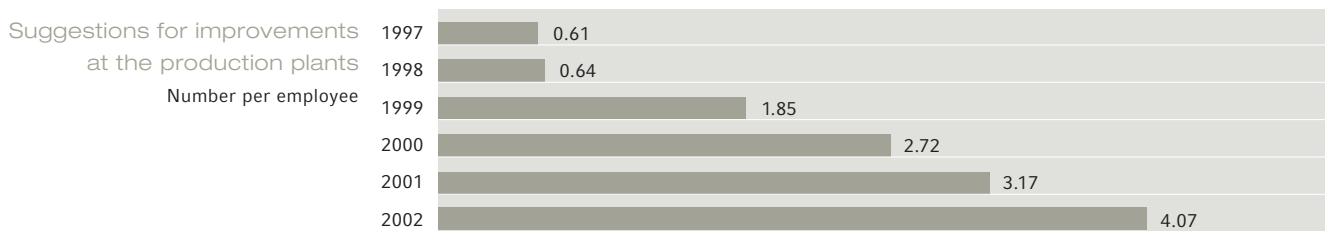


Production and Logistics, Products and Services

In the reporting year we continued to expand the PULL production system (**Produktions- und Logistik-Leistung** = performance of production and logistics) in **production and logistics**. The PULL managers working at the individual sites pushed ahead with the process optimisation in numerous workshops, thereby supporting, amongst other things, the 22 serial start-ups of new products. This way, it was possible to control most of the additional complexity in the production companies resulting from the start-ups. Within the further enhanced, group-internal PULL auditing process, we intensified the transfer of know-how and improved the production controlling.

Due to the decline in business volume, the improvements in production processes achieved did not have any positive impact on the area productivity. However, the productivity reserves gained can be turned into raised external sales through an increased output, once economic activity begins to pick up again.

In 2002, the further rise in **suggestions for improvement** demonstrated once more the high motivation of our employees. During the reporting period, each employee in the production plants handed in an average of 4.07 suggestions for improvement; this is a 28% rise compared with the previous year (preceding year's figure: 3.17).



A total of 13,869 suggestions for improvement were handed in (previous year: 10,834) with a total net benefit (benefit of suggestions minus costs of implementation) of € 2.8 million (previous year: € 2.3 million). In the third successive year, the four domestic turning and milling machine plants of the GILDEMEISTER group have therefore occupied the first to fourth places in the “Engineering” category of the German industry ranking run by the DIB (German Institute of Business Management). The group's outstanding position with respect to ideas management in 2002 is clearly demonstrated when compared to the rest of the industry: in engineering, an average of 0.89 suggestions were handed in per employee.

Source: dib, Deutsches Institut für Betriebswirtschaft e.V. (German Institute of Business Management.)

One of the most innovative optimisation measures in the financial year 2002 was the introduction of an assembly monitoring system at all the German sites. The system obtains the required data directly from the group-standardised BaaN-ERP application. Thanks to the radio-supported production data acquisition system (BDE), all information is continually updated. All assembly yards (“pits”) are visualised with respect to their main logistics statistics, such as meeting time targets, deviations from processing times and the materials supply situation, with the aid of traffic-light codes that are easily understood, and display, if necessary, various background information, for example possible stock-outages. The system provides a graphic navigation function with respect to the BaaN-ERP system data that is specifically edited for the user. The assembly monitor can be viewed via the Intranet and via the numerous terminals within the assembly area, thereby helping all participants to obtain a quick insight into the assembly status, actions to be taken and any measures that may have already been introduced. An illustration of the assembly monitor can be viewed on page 54.

The series start-up management (SAM) that was introduced group-wide during the second half of 2001, was instrumental in the 22 serial start-ups. It supports the user in the structured acquisition and solving of problems arising during the start of a series. This is done through the provision of workflows for the input of data, visualisation and communication, thereby supporting co-ordination amongst the participating areas and integration of the supply partners. SAM was therefore instrumental in successfully increasing both problem solving speed and quality during the series start-up process. Its effectiveness increased noticeably during the reporting period, after being developed into an integrated system-supported innovation management tool by linking it to the “preventative quality assurance” method, developed by GILDEMEISTER for the optimisation of product development and construction processes.

The process-orientated programme for lasting improvement in performance pursued by GILDEMEISTER during the past year, was honoured twice in the reporting period by renowned committees: The new production plant of DECKEL MAHO Seebach GmbH, Seebach, was elected overall winner in the European “Best Factory™ – Industrial Excellence Award 2002” competition by the jury of the French School of Management, INSEAD, and the German Wirtschaftshochschule für Unternehmensführung (WHU). This is awarded annually by the German journal “Wirtschaftswoche” and the French magazine “L'usine nouvelle” and is awarded companies that have gained a lasting competitive advantage thanks to their excellent production management. The winners were announced in the April 2002 issue of the “Wirtschaftswoche”. At the 19th German Logistics Congress in October 2002, the jury of the Bundesvereinigung Logistik e. V. (German Logistics Association) chose GILDEMEISTER Aktiengesellschaft as the winner

of the “German Logistics Award 2002” for the process-orientated turn-round through logistics re-structuring plan. Since 1984 the German Logistics Association has annually honoured enterprises in industry, trade or the service industry, who have successfully put into practice a trend-setting, integrated overall logistics programme.

The erection of the production site in Shanghai was begun during the reporting period. A usable area of 10,000 m² is initially intended for the production of the two innovative standard machines, the CTX 310 and DMC 64 v linear. The related technology and presentation centre will support the further tapping of the continually growing Chinese market.

Thanks to the development of new **products**, the GILDEMEISTER group, in the reporting year, continued to expand its position as technological leader in the global competition. In the turning area the product portfolio ranges from universal lathes through to CNC multi-spindle automatic lathes. In the area of milling, the GILDEMEISTER group is also a full-line company covering the whole range of applications.

With its trend-setting laser and ultrasonic technologies, GILDEMEISTER is already serving the growth markets in the production of the most demanding parts made, for example, from “advanced materials” for products that used in important growth industries such as aviation or the semi-conductor industry.

In addition to machine tools customers today are demanding comprehensive **services and service products**. GILDEMEISTER meets this demand with the services offered by DMG Vertriebs und Service GmbH.

GILDEMEISTER Drehmaschinen GmbH, Bielefeld

At GILDEMEISTER Drehmaschinen GmbH, the past year was dominated by the serial start-up of seven innovative products that were introduced at the EMO 2001. Following the extremely positive experience of the clocked assembly line for the CTX line that was introduced in the preceding year, the conveyor was equipped with additional and more complex variants of the CTX 400 S2 model. The assembly line production of the follow-up model, the CTX 420 linear, that had been specifically designed for line assembly, was taken up in parallel. This parallel production of both models (“model mix”) during the start-up phase of the follow-up model was only possible with an extra-budgetary outlay. In 2002, the KANBAN-control materials supply of the line assembly was adapted to the requirements of this model mix production. The great increase in customer individualisation requires constant further improvement measures that constitute a major part of the PULL actions carried out at the site. One example of this is the development of a radio network for data acquisition (BDE), which enables the contemporary and inexpensive capture and illustration of the assembly situation.

In the turning field, the company actively operates in five of the now eight product lines and, with GILDEMEISTER Italiana, GRAZIANO and FAMOT Pleszew S.A. offers the most comprehensive production programme for lathes in the world. The collaboration between the group's four lathe producers within a flexible plant association creates synergies in product development, standardisation and purchasing. GILDEMEISTER Drehmaschinen GmbH was able to re-inforce its market position with an increased range of products. The site at Bielefeld produces the product lines of universal lathes, vertical lathes, two-spindle turning centres and general purpose centre lathes. In the reporting period, new customers were acquired mainly for vertical lathes and turning centres.

GILDEMEISTER Italiana S.p.A., Brembate di Sopra

The reporting period at GILDEMEISTER Italiana S.p.A. was dominated by a far reaching re-structuring of the assembly and production areas. A variety of individual actions resulted in a significant increase in the density of areas so that one of the assembly halls could be completely cleared. The area thereby gained will be used as technology centre in the near future. In this process, the assembly of the GD line was completely re-constructed.

In accordance with the GILDEMEISTER group's PULL strategy, manufacturing penetration was noticeably reduced and the range of value-added components in production was limited to those components that identify technical expertise. These measures do not only improve logistics, for example with respect to the flow of materials, area productivity or processing time, but also product quality and flexibility, since the new processes have an even greater failure resistance and transparency. Another factor which contributed to the enhanced logistics was the partnership-like collaboration with the suppliers to the site that was intensified in the course of the coSupply activities. An important element in this respect is the mutual transfer of methods for the joint improvement of the process chain. The supply of materials in pre-production was thereby ensured, despite the frequent, short-notice changes in customer requirements.

The range of products of GILDEMEISTER Italiana S.p.A. includes a complete programme of CNC long and multi-spindle automatic lathes for small-lot, medium-lot and mass production of precise lathe works. The innovative CNC multi-spindle automatic lathes uniquely combine the benefits of the traditional machining of mass lathe works with the flexibility of CNC-controlled machines and the speed and precision of linear drives. After heavy spending on research and development and the costly preparations, this line was brought to serial production at the end of the year. The supplier industry with its demand for low per-unit costs and just-in-time deliveries represents an increasing sales focus.

GRAZIANO Tortona S.p.A., Tortona

GRAZIANO also carried out a far reaching restructuring of its production programme during the reporting period. In accordance with the group's Eight-Lines product strategy the site was turned into a centre of competence for universal lathes of the CTX line. The former range of products has almost completely run out and was seamlessly replaced by the CTX 310 and CTX 320 linear models that were developed in 2001. With the CTX 310 model, GRAZIANO produces the group's capture model of the CNC universal lathes. The CTX 320 linear offers the customer substantial advantages in productivity thanks to the fast linear drive.

Despite these extensive restructuring measures, the site succeeded to maintain its area productivity at the preceding year's level. In addition, the assembly and production areas were re-organised and noticeably reduced under logistic considerations. Following the completion of the serial start-up phase of these two models, area productivity increased noticeably during the second half of 2002. The transfer of technical expertise across all sites and the continuing efficiency review as part of the PULL system were the basis for the successful implementation of this restructuring process.

FAMOT Pleszew S.A., Pleszew

The reporting period at FAMOT was dominated by the re-structuring action of the production programme as part of the GILDEMEISTER group's innovation campaign. The start-up of five new trunk machine models with a total of 561 units was co-ordinated and dealt within the remit of serial start-up management (SAM) and in particular close co-operation with buyers plants. This way it was possible, with initial additional expense, to ensure the supply of the sister production plants with the required trunk machines.

In this respect we set up a Transshipment Point (TSP) in the Munich area – as set out in the “Procurement” chapter – for the direct supply of the trunk machine assembly at FAMOT by the suppliers. Processes were thereby significantly simplified and stocks of raw materials and consumables reduced, since the goods now remain in the possession of the suppliers until their arrival at FAMOT.

During the reporting period, FAMOT Pleszew S.A. maintained the production of trunk machines for the group companies at an almost constant level of 1,187 units per year (2001: 1,182 units). In addition it also supplied the group companies with high-quality structural components and components during the reporting year. Along with 17 different trunk machine models, it also produced head stocks and large cast parts. FAMOT also produces complete machine tools. Along with the universal lathes (NEF 280 M, 320 K and NEF 520 K) and CNC controlled universal lathes (CTX 400 with FANUC control), the reporting year also saw the first production of milling machines with the DMC 63 V and DMC 103 V CNC vertical machining centres with FANUC control.

DECKEL MAHO Pfronten GmbH, Pfronten

In the reporting period the Pfronten site focused on the optimisation of its production and logistics. The most important innovation in this respect was the initial operation of the clocked assembly line for the DMU- τ production line housed in a purpose-built hall. As previously occurred at sites in Bielefeld and Seebach, the introduction of the line assembly resulted in numerous improvements in important statistics. Line assembly requires adjusted planning and a significantly better process quality than usual assembly methods. It thereby results in an improved supply reliability, faster processing times and higher flexibility. For example, the processing times for the assembly of the DMU 60 τ fell by 40%. The reduction of the manufacturing penetration due to the supply of trunk machines in the DMU 60 τ model from FAMOT contributed to this, as did the re-structuring of the pre-assembly areas.

DECKEL MAHO Pfronten supplies the market with CNC universal milling machines and universal machining centres within a machining range of 600 to 3,400 mm and is represented in four of our eight milling production lines. The modular machine programme offers the customer individually assembled machines at prices that are typical for standard products. In addition to the performance features of the basic machines, a wide range of technologies and variations in equipment can be used – for example, 5-axis simultaneous machining, milling and turning in one machine or so-called high speed cutting. The application profile is rounded off by a wide range of additional equipment. In the reporting year, the existing production programme was expanded by the DMC 60 S that introduces a trend-setting milling machining programme “off the peg”. In the heavy machine area, the DMC 340 U, a giga milling centre, was introduced to the market. This 80 t machine, the biggest ever built by DECKEL MAHO, can be used for the high-precision production of profiles and cubic work pieces of up to 16 tons in weight in one setting. In addition to machine hardware, DECKEL MAHO with its control systems and processors also offers powerful software to its customers.

DECKEL MAHO Geretsried GmbH, Geretsried

At the Geretsried site, activities in production and logistics were dominated by the production start-up of the DMC 64 V linear, the company's solid model, that was introduced in January. We consistently used the PULL system in the production of this vertical machining centre. Following the start-up optimisation of the pilot lot during the first quarter, processing time was reduced by more than 25% in the third quarter, reaching its target level by the end of the year.

DECKEL MAHO Geretsried produces horizontal and vertical machining centres for serial production in the DMC H and DMC V lines. We have continued to develop a range of options for these two lines of products, thereby offering users substantial benefits with respect to productivity and flexibility. This particularly applies to the option of adding further new control technologies. In addition, the product-accompanying service offer was considerably expanded at the Geretsried site.

With respect to the vertical machining centres, the two new machines, the DMC 104 v linear and DMC 144 v linear, complete the line of products in the compact category that was started with the DMC 64 v linear. The vertical machining centre programme demonstrates particular strength in HSC milling (high-speed cutting), and in the precision and surface quality.

DECKEL MAHO Seebach GmbH, Seebach

The highlight at the site was the awarding of the company's new production plant as overall winner in the "Best Factory™ – Industrial Excellence Award 2002" competition.

With the development and enhancement of the PULL principle, DECKEL MAHO Seebach further improved the conditions for economic and reliable production. Examples include the adoption of the assembly monitor programme of GILDEMEISTER Drehmaschinen GmbH. In addition, the company introduced consignment stocks at the sites of various 'A' suppliers thereby improving supply reliability.

DECKEL MAHO Seebach produces the small and medium-sized CNC universal milling machines and machining centres for the DMU, DMF and DMP production lines. The DMF line of traversing column machines was expanded by two new machines, the DMF 360 linear and DMF 500 linear. The DMF 360 linear is now produced in series.

The machining centre DMC 70 eVolution that is equipped with an automatic pallet changer, completes the production programme as an advanced version of the successful DMU-70 line. In the production machine area, DECKEL MAHO Seebach presented the newly developed DMP 60 v linear at various exhibitions with great success, enabling the assembly of the pilot lot by the end of the reporting period. Plug-and-play automation solutions with articulated arm robots expand the range of application for these machining centres.

Within the flexible plant association remit, the DMS 35 ultrasonic and DMS 50 ultrasonic are supplied to the group company SAUER, Idar-Oberstein, as basic machines.

LASERTEC GmbH, Pfronten

LASERTEC GmbH develops and produces machines for laser erosion, fine cutting and drilling and is thereby situated in the trend-setting microtechnology market. In addition to the pure laser erosion machines of the DML-40 line for the machining of the finest contours and cavities, the combination machine, DML 60 HSC, was added to the production programme in the financial year 2002. In just one setting, this product combines high-filigree machining with HSC milling for chip-intensive machining tasks.

The new **DML 80** that was first introduced in the reporting year, is the first serial laser processing machine world-wide for high- dynamic precision cutting and drilling in the 2-D and 3-D filigree area. This machines is distinguished by its versatile, modular design and high precision and dynamics.

SAUER GmbH & Co. KG, Idar-Oberstein

With its majority controlling share in **SAUER GmbH & Co. KG** that was acquired in 2001, **GILDEMEISTER** gained access to the growth market for the machining of materials of the future (“advanced materials”), such as high-tech ceramics, glass, silicone and cemented metal carbide. The ultrasonic technology used in this area is unique in the world, and technically and economically superior to alternative methods. **SAUER** is currently offering two models, the **DMS 35** ultrasonic and **DMS 50** ultrasonic; both are produced in co-operation with **DECKEL MAHO Seebach**. The machines' intelligent control algorithms monitor the machining process and regulate the technological parameters, thereby allowing an operator-less production. During the reporting period, the production processes were improved so that output was increased to 25 machines (previous year: four).

In addition to the production of machines, **SAUER** manufactures balanced, ultrasonic-enabled diamond tools that complement the technology process. The company thereby positions itself as a full-line provider of high-tech solutions for the machining of advanced materials.

DMG Vertriebs und Service GmbH, Bielefeld

Customers today demand a comprehensive range of **services and service products**, expecting top quality, shortest processing times and a high reliability. **GILDEMEISTER** meets these customer requirements with its market-orientated range of services in the service and spare parts business, in the training and tuition product area and in application technology and initial operations. In addition it continues to offer updates in the electronics or mechanics field. An innovative highlight is represented by the software and online products of the **DMG-Powertools** product range. Along with programming and training software, this includes the **MF-Programmer 3D** for programming and 3-D simulation, and the **DMG-Messenger GSM** communication software. Amongst other things, this tool forwards machine status reports to mobile phones. As part of the **GILDEMEISTER-Netservice**, user and programming support, fault elimination, remote diagnosis and software updates are offered online via a special access number by specialists who are available almost round the clock. Information for preventative maintenance, such as a service reminders and the ordering of spare parts, can be

obtained from regularly updated data. The GILDEMEISTER Net-Training programme supports machine users with the programming and use of their machines through virtual multi-media training. Benefits for the customers include a simplified, faster communication and not least savings in staff costs and travel expenses thanks to the training at the user's own machine. Thanks to Connectivity, which is fitted as standard and can be added to older products, a wide range of information about machine and process status can be transmitted via SMS or email.

DMG Gebrauchtmachines GmbH offers our customers a complete service package that is geared to the life cycle of the machine, and includes not only the repurchase of machines, but also the technical reprocessing and resale of used machines.

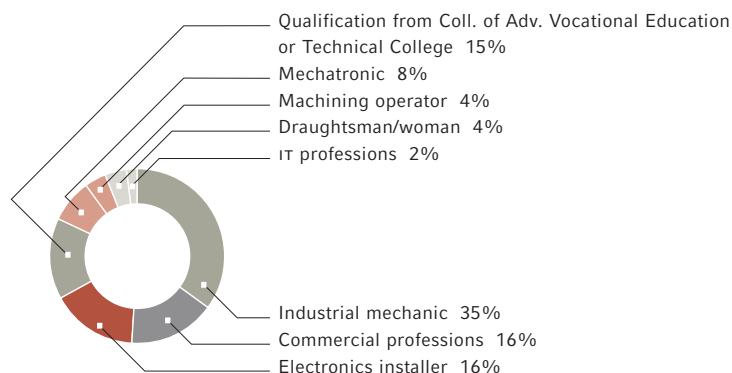
Employees

On 31 December 2002, 5,045 employees, including 224 trainees, were employed in the group (previous year: 5,234). During the reporting year the number of employees in the group reduced by 209 skilled staff, whilst the number of trainees increased by 20. The staff reduction was mainly in the "Machine Tools" segment at the production sites in Bielefeld, Geretsried and in Brembate di Sopra. The staff adjustment measures are directly related to business development in the individual group companies.

By the end of the year, 3,202 employees were working in the domestic plants. The number of employees at the international companies totalled 1,843, representing 37% of the group's personnel (previous year: 38%).

A total of 67 trainees was taken on during the reporting year. As a result, 224 young people were in vocational training by the end of the year. The number of trainees was therefore 10% above the preceding year's figure. This increase is primarily due to the hiring of trainees in mechatronics and IT. The GILDEMEISTER group provided vocational training in a total of 13 different training occupations. Apart from the traditional training for trades requiring an apprenticeship, tried and tested courses of study are offered and developed in association with regional colleges of advanced vocational education and technical colleges.

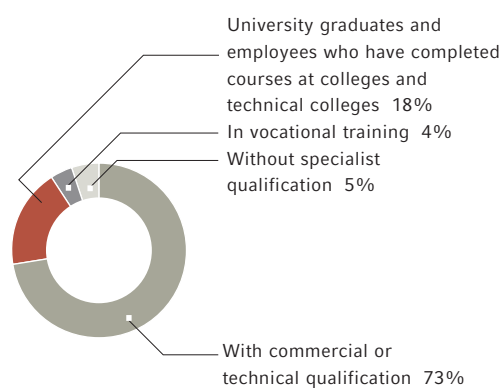
Training in the GILDEMEISTER group
Allocation by fields in %



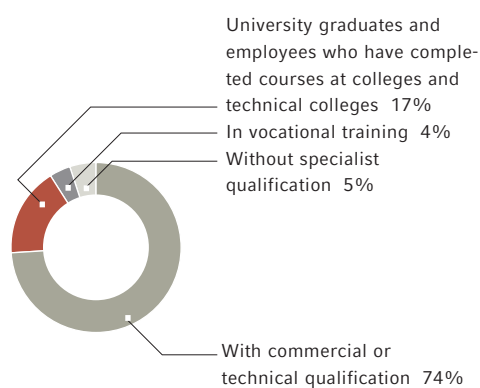
The qualification structure of our employees demonstrates that specialist vocational training enjoys a very high status in the GILDEMEISTER group:

Qualification structure of employees in the GILDEMEISTER group

2002: Total 5.045 employees



2001: Total 5.234 employees



As illustrated by the figures in the graph showing their qualification structure, 95% of our employees have a professional qualification or are currently in training. Excellent vocational training and ongoing further training provide an essential competitive advantage for the technology and service group of GILDEMEISTER. In the reporting year, the DMG Training Academy together with the respective personnel departments, were responsible for in-house training. 1,850 employees took part in further education,

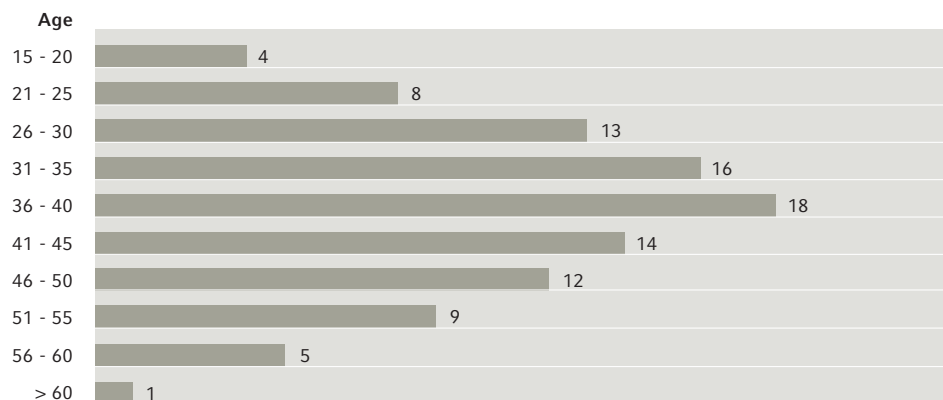
representing 37% of the entire staff. One of the most extensive training activities in 2002 was the qualifying our domestic and foreign service employees for the new machine generations. Another centre of activity with respect to training included the areas of office communication and data bases. Language courses promote the internationalising process of our company. In the reporting year, we have spent a total of € 2.8 million on further training (previous year: € 2.9 million).

Staff costs in the group totalled € 270.2 million (2001: € 274.2 million). Of this, € 226.7 million was attributed to wages and salaries (2001: € 232.6 million); € 42.1 million to social insurance contributions (2001: € 39.5 million) and € 1.4 million to old-age pensions (2001: € 2.1 million). The € 4.0 million reduction is primarily due to considerably less spending on extra-work pay and variable, performance-related pay elements.

As part of the GILDEMEISTER group's part-time retirement plan, we have entered into 113 part-time retirement agreements (previous year: 78). For this purpose, we have applied the so-called "block model"; i.e. the whole period of part-time retirement is divided into active and passive phases of equal length. 72 employees were in the active phase, 41 in the passive phase. The number of part-time retirement agreements thereby increased by 45%, when compared with the previous year. The purpose of the part-time retirement plan is to give more young people the opportunity of joining our attractive world of work.

The GILDEMEISTER group has a balanced age structure: 59% of our employees are younger than 40, and 85% are younger than 50.

Age structure of employees in the GILDEMEISTER group in %



In 2002, the number of traffic and operational accidents, 125, was 16% below the previous year's figure (2001: 149). In relation to the total number of staff this is a decrease to 2.5% (previous year: 2.9%). The level of sickness was at an average 3.3% and thereby slightly above the preceding year's level (2001: 3.2%), but considerably below the industry average of 4.2%.

During the reporting period, 16 employees of the GILDEMEISTER group celebrated their 40th anniversary and 44 employees their 25th anniversary. In addition, 54 employees were honoured for their 10-year service with the group. All these employees deserve our respect for their loyalty and continued commitment. At this point we would like to thank all our employees. Not least we would like to extend our thanks to our employee councils. Their unbiased and unbureaucratic mediation between company management and staff has contributed time after time to the rapid and goal-oriented implementation of decisions.

Environmental Protection

Managing our company in a sustained and ecological manner is an important goal at GILDEMEISTER. This applies to all sub areas within the group. Our production is structured with the environment in mind in that it handles valuable natural resources as carefully as possible and maintains emissions at a minimum. We guarantee a maximum of security for the environment. At GILDEMEISTER, acting responsibly also means that our employees are not exposed to any dangers in their daily work.

The machines we produce meet a high standard in environmental protection requirement. When developing new products, we are very careful to reduce the use of ecologically undesirable lubricants to minimum quantities. Energy-saving driving components, quiet building components and recyclable materials and packaging components have for years been standard practice at GILDEMEISTER. In co-operation with our partners from industry and research we continually work on further improvement measures. The careful separation of waste and use of certified waste disposal organisations are a matter of course at GILDEMEISTER. At the Seebach and Pfronten sites, the careful sealing of the floors in the particularly sensitive production areas was expanded so as to ensure an effective protection to the ground water. Thanks to environmental protection activities, DECKEL MAHO in Geretsried succeeded in conforming to the regional waste management programme. Discontinuing the use of an old heating system resulted in significant savings of energy.

In the reporting year, a new heating system was installed at the Pfronten site and the air conditioning technology was modernised substantially. Energy consumption and pollutant emissions have thereby been reduced. In addition we appointed a waste disposal officer at the site and took up the “Environment Management” project for the control of processes that are relevant to environmental issues. A certification in accordance with internationally accepted quality standards is feasible following the completion of this project. Investments of more than € 1 million at the Seebach plant – as in new heat insulated facing and a new air condition system – resulted in a considerable reduction in energy consumption.

Environmental protection also plays an important role at the logistics of the GILDEMEISTER group. For years we have used mainly returnable transport packaging for bulk and building components that need a lot of packaging. We consistently act in accordance with the strategy of the “low-package factory” and are therefore continually searching for further improvements. The use of packaging material for deliveries is based on strict legal requirements and the demands of our customers. The number of polluting deliveries by lorry was cut further due to optimised logistics and the consolidation of procurement material.

Ecological perspectives also play an important role within the internal and external communication system. An example of this is the DMG-Netservice that has increasingly gained in significance. It enables online user and programming support, thereby eliminating the need for travel-intensive local service calls. The DMG-Netservice is a growth area at GILDEMEISTER. Ecologically undesirable journeys are also avoided due to the use of modern information exchange systems. For example, video conferences held within the group and with external business partners are part of the order of the day at GILDEMEISTER. Information about GILDEMEISTER is increasingly read on the Internet instead of on paper. All these measures contribute to the protection of the environment.

In 2002 the GILDEMEISTER group invested a total of € 1.8 million (2001: € 4.0 million) in environmental protection activities.

Marketing / Press and Public Relations

In 2002, the GILDEMEISTER group used a number of methods to communicate with the outside world. This included numerous trade fairs and in-house exhibitions, a wide range of printed information, informative advertising, an attractive web page, multi-faceted investor-relations activities and consistent public relations work. A strong market image was thereby always ensured. Our marketing activities focused on our 22 innovations and the completion of our lines of products. Activities in corporate design, sales, pricing and innovation policy were closely linked to our marketing measures. Above all, our aims were the leveraging of marketing potentials, gaining access to new market segments and gaining new market shares, all under increasingly difficult conditions. The GILDEMEISTER group invested a total of € 22.5 million (2001: € 24.9 million) in marketing/communication. Over the year, the marketing budget was adjusted to the reduction in sales.

Trade fairs and exhibitions are among the most important marketing instruments for capital goods. In the reporting year, GILDEMEISTER and DECKEL MAHO were present at 69 trade fairs and exhibitions both in Germany and abroad. This form of presentation has intensified when compared with the preceding year. The response from all over the world was impressive. In a total exhibition space of almost 15,000 m², 652 turning, milling and laser/ultrasonic machines in production were presented. A recorded audience of 42,000 generated a direct intake of new orders of € 152 million. Events of particular significance were the METAV in Düsseldorf, IMTS in Chicago and AMB in Stuttgart. In the reporting year GILDEMEISTER invested € 11.9 million (2001: € 12.4 million) in trade fairs and exhibitions, representing 53% of the total marketing expenses (previous year: 50%).

At GILDEMEISTER, **advertising** means primarily the marketing of our products. The customer journal was published in 40 editions and 22 languages, with a total circulation figure of 558,000. Distribution was carried out via direct mailings and hand-outs in more than 40 industrial countries world-wide. In the reporting year, the advertising of our products focused again on the publication of illustrated catalogues and brochures: More than 810,000 flyers were produced (450,000 milling/laser/ultrasonic brochures and 360,000 milling brochures) weighing a total of 180 tons and read in 53 different countries. 210,000 product-specific flyers in 16 languages were distributed in more than 50 countries. The image of the flyer was reworked and the flyer published in a completely new design. In 2002, 1.9 million product mailings and journals and 244,000 event mailings were distributed in 53 countries. This is about 5,800 mailings per day. The “DMC 64/104 v linear” mailing alone resulted in more than 170 sales of machines. The year-end mailing consisted of two phases and was circulated more than 300,000 times in total. 20 editions in eleven languages resulted in additio-

nal sales of € 6.2 million. 3.3 million supplements advertised, and informed about, the 22 innovations of the year 2002 in all major trade journals world-wide, in 27 countries and 17 languages. GILDEMEISTER was overall winner in the German Logistics Award 2002 and received a presentation box for its attendance at this event. Innovative packaging was developed for our new software products, DMG-Netservice, DMG-Training Software, DMG-Messenger and MF-Programmer. Our constant world-wide presence increased recognition of the entire group, particularly in the Asian markets and in America. The total expense for product marketing amounted to € 9.4 million (2001: € 10.9 million), representing 42% of the marketing expenses (previous year: 44%).

The **Internet** has become an important element in our marketing and public relations work. More and more customers, shareholders and all those whose attention has been drawn to our group, visit our website (www.gildemeister.com), to obtain information on GILDEMEISTER or get in touch with us directly. The reporting year saw the relaunch of the GILDEMEISTER home page. It is now run as a portal with DMG-specific links and new areas, such as Investor Relations, with dynamic online versions of annual and quarterly reports and Highlight-Special-Sites with respect to our various new products. Our Internet pages also inform about the latest developments in the company, current share prices and many other things. Annual and quarterly reports and other printed information are increasingly requested as downloads. In the reporting year, a total of 558,562 visitors were recorded; this is a 27% increase when compared with the previous year. In the meantime, e-commerce and DMG-Netservice have become part of the day-to-day running of the business at GILDEMEISTER. E-commerce complements traditional distribution channels. This has resulted in an increased acquisition new customers. The DMG-Netservice, with one click of the mouse, allows access to the company's service know-how. Our advertising activities in all aspects of e-commerce tools amounted to € 1.2 million (2001: € 1.6 million); representing 5% of the marketing expenses (previous year: 6%).

GILDEMEISTER's **public relations activities** are based on a long-term communication strategy. The company's communications are directed at the outside world with the aim of improving the profile of GILDEMEISTER, and strengthening the group's position. The budget is used effectively and efficiently. All activities are internationally co-ordinated in respect of contents, design and timing. A central element of the press and public relations activities is to competently, speedily, openly and reliably inform the print and electronic media as well as all interested target groups on the current situation of the group and its companies. We value the open and ongoing dialogue with the national and international economic and trade press, with shareholders and financial experts, and with those associations, institutions and decision-making units that are of special importance to us. In the reporting year a total of 20 trade press

events were held, allowing us to reach 445 journalists from 14 nations. This resulted in specialist press articles totalling more than 1,100 pages.

The wide variety of marketing instruments and investor and public relations activities that are based on a comprehensive and compelling communication system accompany the course of business at GILDEMEISTER. Our goal is the convincing and competent positioning of our brand name and products in the market. The communication system complements the model of our market and value orientated corporate governance. Detailed information on our Investor Relations activities are set out on page 84.

Active involvement for the benefit of the community, both socially and culturally, has traditionally been a matter of course at GILDEMEISTER. Our activities are not isolated, but part of the community, which is the place of our entrepreneurial transactions and where our employees live. We expressly acknowledge our share of responsibility to society and therefore continue to consciously give our attention to the “outside world”, to help out in emergencies and to support social, cultural and communal projects and campaigns. The following can only serve as an example, for instance during the devastating floods in late summer 2002. Employees and management donated considerable amounts of money to the flood victims from those towns along the river Elbe, such as Bitterfeld and Wehlen, that were hit particularly badly. In addition, GILDEMEISTER gave its support during restructuring activities to customers in affected areas. More than 300 DECKEL MAHO and GILDEMEISTER-machines were damaged by the floods. In addition to our efforts within the company, we also support activities related to vocational training outside the group. Examples of this are our involvement with the Munich University of Technology and the Technical College in Kempten. Further financial contributions went to the “Aktion Förderung der Ingenieurausbildung” (Engineering Training Promotional Campaign) at the Rhein-Ruhr Institute for Economic Policy and the Berliner association MINT-EC, a BDA-run campaign (Federal Confederation of German Employers' Association). We also do “our bit” in the immediate surroundings of our production sites to bring about good and meaningful proposals, activities and campaigns. In the past year this included bearing the costs for children's holiday activities in Bielefeld-Sennestadt and the St. Vinzenz Hospital in Pfronten, gifts in kind to a nursery school in Seebach and a financial donation to an organisation that supports children suffering from cancer in Tübingen, to name just a few of many examples. At the group's headquarters in Bielefeld, GILDEMEISTER was one of those sponsors who contributed to the creation of the “Neue Bahnhofsviertel” (new vicinity of the station), setting new trends in urban planning. In all, our donations amounted to € 57,861.

SEGMENTAL REPORTING // „Machine Tools“ _The “Machine Tools” segment includes the group's new machine business in the turning, milling and laser/ultrasonic areas. This includes the turning machines and turning centres of GILDEMEISTER, GRAZIANO and FAMOT, the milling machines, machining centres and laser machines of DECKEL MAHO and the ultrasonic machines of SAUER._

Key Figures

“MACHINE TOOLS” SEGMENT

	2002	2001	Changes 2002 against 2001	
	€ M	€ M	€ M	%
Sales				
Total	768.6	875.9	-107.3	-12
Domestic	331.0	411.7	-80.7	-20
International	437.6	464.2	-26.6	-6
% International	57	53		
Order intake				
Total	723.1	841.9	-118.8	-14
Domestic	301.3	405.6	-104.3	-26
International	421.8	436.3	-14.5	-3
% International	58	52		
Orders on hand*				
Total	269.2	314.7	-45.5	-14
Domestic	132.5	162.2	-29.7	-18
International	136.7	152.5	-15.8	-10
% International	51	48		
Investments**	22.4	44.6	-22.2	-50
Employees	3,142	3,326	-184	-6
plus trainees	224	204	20	10
Total employees*	3,366	3,530	-164	-5
EBITDA	43.0	85.2	-42.2	-50
EBIT	16.2	62.6	-46.4	-74
EGG	0.4	49.1	-48.7	-99
Profit/loss for the year	-4.0	19.9	-23.9	-120

* Reporting Date 31 Dec.

** Tangible & intangible asset additions, exc. capitalised development expenses, goodwill additions and Financial leases

PLEASE NOTE: In 2002, accounting pertaining to sales performance in the “Machine Tools” and “Services” Segments was changed. To compare the figures for the financial year 2002 with the preceding year's figures, the relevant information for 2001 was adjusted accordingly.

The **sales** of the “Machine Tools” segment amounted to € 768.6 million, thereby falling 12% (€ 107.3 million) from the preceding year's figure of € 875.9 million. The contribution of the new machine business to group sales totalled 74% (previous year: 77%). In the reporting year domestic sales fell by € 80.7 million or 20% to € 331.0 million. International sales decreased by € 26.6 million or 6% to € 437.6 million. The export share increased to 57% (previous year: 53%).

The group's **order intake** pertaining to new machines reached € 723.1 million. This is a € 118.8 million reduction compared with the previous year (€ 841.9 million). Domestic orders decreased by € 104.3 million or 26% to € 301.3 million. During the same period, international orders decreased by just € 14.5 million or 3% to € 421.8 million. The foreign share therefore rose from 52% to 58%. Total **sales volume** was below the high figures for the preceding year. **Selling prices** were slightly raised within the limited market; they remained under high competitive pressure during the reporting year.

On 31 December, 2002, **orders on hand** pertaining to new machines were worth € 269,2 million, which was € 45.5 million or 14% below the preceding year's figure (€ 314,7 million). Whilst domestic orders on hand reduced by € 29.7 million or 18% to € 132.5 million, international orders on hand declined by € 15.8 million or 10% to € 136.7 million. The export share increased from 48% to 51% when compared with the previous year.

In contrast to last year, profitability in the “Machine Tools” segment was dominated by the smaller business volume. Materials and services purchased within the product roll-outs remit to strengthen the GILDEMEISTER technological position also affected profitability during the reporting period. The resulting increase in materials and staff costs placed an extra-budgetary burden on the segment's result. **EBIT** amounted to € 16.2 million (previous year: € 62.6 million). The achieved percentage return on sales amounted to around 2.1% following 7.1% in the previous year. **Results from ordinary activities** fell from € 49.1 million to € 0.4 million. Compared with the previous year, the segment's performance was affected by higher interests.

Potential **risks** for the future business development of the “Machine Tools” segment result primarily from cyclical influences. Organisational and logistic precautions were taken to protect the company against repercussions from the sales and profit situation as far as possible. Employment-related adjustments were selectively carried out. GILDEMEISTER invested heavily in materials and services for the development and roll-out of its innovative production programme and continued to strengthen its global market presence. The wide scattering of clientele across a whole variety of industries limits individual entrepreneurial risks. In all, GILDEMEISTER is strategically well positioned even when faced with unfavourable sector trends.

Investments in this segment reduced by € 22.2 million or 50% to € 22.4 million when compared with the preceding year. Further details are set out in the “Investments” chapter on page 100.

The wide variety of activities within the remit of the coSupply campaign dominated the **procurement and logistics** area of the GILDEMEISTER group in 2002. The expansion of the co-operation with our supply partners – for example thanks to regular workshops with the TOP suppliers – not only resulted in process enhancements, such as shorter processing times, reduced stocks or reduced re-order cycles, but also to the utilisation of further cost-cutting potentials, thereby contributing positively to the procurement situation.

In the reporting period GILDEMEISTER continued to increase its **productive capacity** through the optimisation of the production processes. In addition, the serial start-up management was administered by the production companies with increasing confidence in the reporting year.

The “Machine Tools” segment“ includes the “turning”, “milling” and “laser/ultrasonic” areas. The **product portfolio** offered by the group companies GILDEMEISTER Drehmaschinen GmbH, GILDEMEISTER Italiana S.p.A., GRAZIANO S.p.A. and FAMOT Pleszew S.A., ranges from traditional turning machines through CNC universal turning machines and CNC general purpose centre lathes to CNC multi-spindle automatic lathes. The group has a complete production programme from the manufacture of single items to the large scale production of precise lathe works. GILDEMEISTER is in tune with technological trends, such as the integration of the turning and milling technologies for complex integrated machining tasks and the erosion-resistant linear technology that ensures higher machine dynamics and precision.

In the “milling” area DECKEL MAHO offers a comprehensive range of products, which are produced at the three domestic sites of Pfronten, Geretsried and Seebach. DECKEL MAHO Pfronten GmbH offers universal milling machines and machining centres, whilst DECKEL MAHO in Geretsried produces mainly vertical machining centres that are used primarily for tool building and mould design, and horizontal machining centres that are used mainly in general engineering through to serial production. DECKEL MAHO Seebach supplies the market with the smaller CNC universal milling machines and a new product line of traversing column machines with linear drive technology on the X-axis. The future markets for the production of the most demanding work pieces from modern high-tech materials (“advanced materials”) are accessed by GILDEMEISTER by the “laser” and “ultrasonic” technologies of the group companies LASERTEC and SAUER. With respect to these trend-setting technologies, GILDEMEISTER expects a business volume of more than € 25 million for the financial year 2003.

Research and Development: During the reporting period, GILDEMEISTER showed 22 newly developed machines at 69 trade fairs and exhibitions, thereby confirming our technological supremacy. These developments expand our production programme and are in line with major technological trends. Our consistent focus on customer satisfaction contributes to the safe-guarding of our market position. Our great innovative power supports these efforts with a delivery programme, more than 90% of which has been developed during the last three years.

Our innovations continue to focus on the integration of the turning and milling technologies, the substantial increase in machining speeds through fast linear drives and dynamic kinematics and the increase in the machines' productivity and ease of operation through open CNC controls and the linking to our electronic service products. Opportunities to use the **forthcoming laser and ultrasonic technologies** are being expanded. With respect to laser technology, our supremacy in the machining of filigree high-precision parts is safe-guarded and expanded through additional fine-cutting and drilling applications (laser fine-cutting and laser drill). Customer satisfaction in the ultrasonic area is increased with further developed controls, an integrated technology data base and also through improved technology and components – for example, for superfinish boring in silicon.

At the end of the year, 3,142 **employees** (previous year: 3,326) and 224 trainees (previous year: 204) were working in the “Machine Tools” segment. This represents 67% of the entire staff within the GILDEMEISTER group. The reduction in staff by 184 (6%) was primarily carried out at the production sites with a larger decline in sales: Bielefeld, Brembate di Sopra and Geretsried. In 2002 the average personnel expense per capita at the domestic production plants amounted to approximately € 55.9 κ (previous year: € 55.4 κ). This increased expense is primarily due to increases in standard wages. Total average personnel expense pro employee in the “Machine Tools” segment amounts to € 44.5 κ (previous year: € 44.1 κ).

SEGMENTAL REPORTING // „Services“ _The “Services” segment is operated by DMG Vertriebs und Service GmbH and its subsidiaries. With its products and technical services it represents an independent division. The services provided include the service and spare parts business, service products, such as the DMG Powertools, tuition products and training services and remuneration for introduction activities, initial operations and the used machine business. Also included are the procurement services of a & f Stahl- und Maschinenbau GmbH and the components and tools from SACO S.p.A._

Key Figures

“SERVICES” SEGMENT

	2002	2001	Changes 2002 against 2001	
	€ M	€ M	€ M	%
Sales				
Total	263.6	268.5	-4.9	-2
Domestic	160.1	155.2	4.9	3
International	103.5	113.3	-9.8	-9
% International	39	42		
Order intake				
Total	257.3	260.2	-2.9	-1
Domestic	153.7	159.5	-5.8	-4
International	103.6	100.7	2.9	3
% International	40	39		
Orders on hand*				
Total	59.6	65.9	-6.3	-10
Domestic	8.6	15.1	-6.4	-43
International	50.9	50.8	0.1	0
% International	85	77		
Investments**	6.0	8.8	-2.8	-32
Employees*	1,614	1,644	-30	-2
EBITDA	17.7	34.4	-16.7	-49
EBIT	10.5	27.5	-17.0	-62
EGG	4.4	22.0	-17.6	-80
Profit/loss for the year	-1.7	13.5	-15.2	-113

* Reporting Date 31 Dec.

** Tangible & intangible asset additions, exc. capitalised development expenses, goodwill additions and Financial leases

PLEASE NOTE: In 2002, accounting pertaining to sales performance in the “Machine Tools” and “Services” Segments was changed. To compare the figures for the financial year 2002 with the preceding Year’s figures, the relevant information for 2001 was adjusted accordingly.

Business development in the “Services” segment was affected by various factors during the reporting year. The segment's sales contribution increased to approximately 26% (€ 263.6 million) of the group's sales volume (previous year: 23% or € 268.5 million). Due to fewer machine transactions, the increase in sales pertaining to the service and spare parts business and the service products was counterbalanced by a drop in fees for introduction and consulting activities, in the used machine business and in initial operations. The total sales of the segment dropped by 2% when compared with the previous year. Whilst domestic sales increased by € 4.9 million or 3% to € 160.1 million, international sales of € 103.5 million remained below the preceding year's figure (€ 113.3 million) by 9% (€ 9.8 million). The export share amounted to 39% (previous year: 42%).

The **intake of new orders** reached € 257.3 million, and, at € 2.9 million (1%), was only slightly below the preceding year's figure of € 260.2 million. Domestic orders dropped from € 159.5 million by € 5.8 million or 4% to € 153.7 million. With € 103.6 million, international orders exceeded the preceding year's orders by € 2.9 million or 3%. The export share thereby increased to 40% (previous year: 39%). With 487 used machines, the **sales volume** dropped by 15% when compared with the year 2001. The structural and organisational changes initiated at DMG Vertriebs und Service GmbH are crucial to the utilisation of further business potential in the Services segment.

On 31 December, 2002, **orders on hand** amounted to € 59.6, which is € 6.3 million or 10% below the figure for same period in the preceding year. Domestic orders on hand decreased by € 6.4 million to € 8.6 million. International orders on hand of € 50.9 million remained at the preceding year's level (€ 50.8 million).

EBIT in the “Services” segment“ decreased from € 27.5 million to € 10.5 million. Apart from the negative development of the exchange rate, performance was primarily affected by the drop in remuneration from the machines business which was suffering from pressure to volume and margins. In all, profit contributions from the other service products developed well. At a & f Stahl- und Maschinenbau GmbH and Saco S.p.A., earnings were weaker than in the previous year, whilst the used machine business created a burden on the total results for the segment.

In the Services segment, potential **risks** are dispersed by the wide selection of services offered and the use of direct selling organisation operating around the world. With the group's comprehensive range of services, GILDEMEISTER does not only maintain its product-specific market acceptance, but also its high customer loyalty.

In the reporting period, **investments** in this segment amounted to € 6.0 million. Further details are set out in the "Investments" chapter on page 100.

In the **procurement and logistics** area, the GILDEMEISTER spare parts service was further optimised in the year 2002. The world-wide availability of spare parts to the customer has increased substantially. Availability in the milling area therefore amounts to an average 93%. 98% of the available spare parts are delivered within 24 hours. This was ensured through the expansion of our modern logistics centres and the use of efficiently managed data processing systems. In this respect, we would like to give special mention to the eBusiness application of the online spare parts ordering system. This system allows the customer to select spare parts by means of fully illustrated online catalogues that are easily accessible, and to enter his/her choice directly into the BaaN-ERP system.

We offer our customers market-orientated **services and service products**. We offer a comprehensive range of innovative products in the service, spare parts and used machines business, in the tuition and training product area, application technology and initial operations as well as updates in the electronics and mechanics field. Further details are included in the "Production and Logistics, Products and Services" chapter on page 132.

The Services segment carries out **research and development** activities in close co-operation with the production plants of the "Machine Tools" segment. The DMG-Powertools service and software products, such as DMG-Netservice or the automated DMG-Messenger communication technology, have been systematically improved by our employees. This was made possible by the consistent use of open control systems in our machines.

We will continue to expand our range of services. Thanks to the close co-operation between sales and technology, no major resources will be required in this respect. The networking of open control systems beyond the borders of our company will continue to enable the development of new electronic products and services.

At the end of the year, 1,614 **employees** or 32% of the group's personnel were working in the "Services" segment". This is a total of 2% less than in the previous year. As in the previous year, 68% of this segment's employees were working in the services, spare parts logistics, application technology and training areas. Due to the business-related drop in the performance-related pay elements, the average personnel expense in the "Services" segment amounted to around € 66.3 κ (previous year: € 69.7 κ).

SEGMENTAL REPORTING // „Corporate Services“ _The “Corporate Services” segment includes the GILDEMEISTER Aktiengesellschaft with its group-wide holding functions, such as group strategy, product development, logistics and production, funding, controlling, personnel management and marketing as well as the group-standardised data processing infrastructure. Another area is key accounting, the management of our major customers, which has been centralised to include all areas and products so as to meet the increasing globalisation of international companies. Holding Macchine Utensili S.p.A. is also allocated to this business segment as finance company for the Italian production plants._

Key Figures

„CORPORATE SERVICES“ SEGMENT

	2002	2001	Changes 2002 against 2001	
	€ M	€ M	€ M	%
Sales	0.6	1.0	-0.4	-40
Order intake	0.6	1.0	-0.4	-40
Investments	1.5	1.5	0.0	0
Employees*	65	60	5	8
EBITDA	-7.9	-5.9	-2.0	-33
EBIT	-11.7	-11.4	-0.3	-3
EGG	-14.4	-15.8	1.4	9
Profit/loss for the year	-15.5	-10.4	-5.1	-49

* Reporting Date 31 Dec.

Sales and the **intake of new orders** in the “Corporate Services” segment of € 0.6 million mainly consisted of income from rents. With € -11.7 million, **EBIT** remained at the preceding year's level (€ -11.4 million). Specific economising measures, such as insourcing with respect to the group's information technology, were instrumental in the reduction in costs. On the other hand, performance was affected by direct project costs of € 3.8 million, incurred in relation to the investigation into a co-operation in the cutting machine tools area between GILDEMEISTER and ThyssenKrupp. On 31 December, 2002, 65 **employees** or 1% of the group's personnel were working in this segment (previous year: 60 employees). This increase is primarily due to the taking on of group-wide IT tasks. **Investments** were made in hardware and software for information and communication systems at GILDEMEISTER Aktiengesellschaft. In the reporting year investments totalled € 1.5 million.

The “Corporate Services” segment is comprised of GILDEMEISTER Aktiengesellschaft and Holding Macchine Utensili S.p.A. as financing holding company. Main **risks** arise from the entrepreneurial risk from affiliated companies. In the reporting year, the negative profit development of the subsidiaries has affected financial resources at GILDEMEISTER Aktiengesellschaft. Due to the negative result in the reporting year, the valuation of goodwill from the acquisition of GILDEMEISTER Italiana S.p.A. will depend on a good course of business at GILDEMEISTER Italiana. We will continue to develop our investor relations activities in order to meet the increasing demands from the financial market. Further details are included in the “GILDEMEISTER Share” chapter on page 79. Dialogue with our shareholders, potential investors and financial analysts enjoys a high status at GILDEMEISTER. The management of GILDEMEISTER Aktiengesellschaft will continue to focus their activities on the lasting growth of company value.



GLOBALITY. TECHNOLOGY. GROWTH_ **LASER FINECUTTING:** Innovative and of high precision. This is the highly dynamic laser fine-cutting technology with the new DML 80 FineCutting from LASERTEC. Fine-cutting in the 2D and 3D sectors, even drilling with laser – the modular concept of the machine makes it possible. The machine is used in car manufacturing and electronics, medical equipment, mechanical engineering and supply industries – in a word, where highest speed and maximum precision must combine in flawless manufacturing processes.

RESEARCH AND DEVELOPMENT_

Concentrate on what is essential while at the same time looking far ahead. Thinking along uncharted lines. This is the way innovative technologies are born and moulded for success in the international markets. We maintain an intensive, global dialogue with users and researchers, are open for suggestions, develop ideas, respond to criticism and generate holistic solutions. And we always use the synergy that is created within the group.

SUPPLEMENTARY REPORT _Overall Development and demand for German machine tools continue to be subdued during the first few months of this year.

GILDEMEISTER was able to start the financial year 2003 according to plan. As expected, the intake of new orders developed slowly. Although we noted an unchanged level of interest in machine investments during the first two months, orders did not pick up as yet. Sales corresponded with the preceding year's level._

Economic Development 2003

Overall economic development did not significantly improve during the first months of the current year. As before, the forces of economic recovery are only weak in most industrial countries. In the opinion of economic researchers, it is likely that this picture will begin to brighten by the end this year. The Organisation for Economic Co-operation and Development (OECD) sees the situation in a similar way. The EU Commission expects a maximum increase in gross domestic product for the twelve Euro states of 0.3% in the first quarter 2003. However, it could, at worst, drop by up to 0.1%. Some countries, such as the USA, have started government spending programmes to boost economic activity. This could provide fresh impetus.

Sources: Institute for World Economics (IfW), Kiel; Organisation for Economic Co-operation and Development (OECD), Paris; EU Commission, Brussels

At the beginning of the year, the economic trend in the German machine tool industry stagnated and demand for **German machine tools** remained slack. The industry's intake of new orders pertaining to cutting machine tools was 15% below the preceding year's figure; sales dropped by 17% (at: January 2003). Orders on hand in production months continued to decline, and, according to estimates of the vdw, are likely to amount to little more than 6 months by the end of February 2003 (comparative figure for the preceding year: 7.3 months).

Source: vdw (Association of German Machine Tool Factories)

Corporate situation after the reporting year

GILDEMEISTER was able to start the financial year according to plan. The customary start-up delays in the **course of business** that are typical for the section could not completely be avoided. In the first two months of this year, group sales of € 131.0 million were 7% below the figure for the comparable months of the preceding year (previous year: € 141.3 million). The production plants contributed to the performance as planned; however, for accounting reasons the total operating performance was not yet shown as external sales. In February, the intake of new orders within the GILDEMEISTER group rose again by 20% when compared with the restrained intake for the preceding month, and for the first two months reached € 148.0 million, as planned (previous year: € 156.8 million). On 28 February, 2003, orders on hand of € 345.8 million were 5% above the existing orders at the end of 2002, but remained below the preceding year's comparative figure (previous year: € 397.3 million). A statement on the result for the first two months of the financial year is currently not possible. We will report on this development in our next GILDEMEISTER Quarterly Report to be published on 8 May, 2003.



The successful development in **key accounting** continued throughout the first two months of the current financial year. Thanks to a major order from the fittings industry, worth € 4 million, the intake of new orders in this area was above the preceding year's reference figure.

With our intensive **marketing activities** in the first months we pursued the aim of pushing forward with current business operations right from the beginning of the year. At a Grand Opening of our new production plant in Shanghai, we were therefore able, as early as January, to present the standard machines CTX 310 and DMC 64 V linear, which are to be produced at the new plant, and to sell 37 machines to the value of € 6.6 million. This was followed by another highlight in February: the traditional in-house exhibition at our state-of-the-art production plant in Pfronten. Here our customers ordered 84 machines worth € 16.6 million. Our innovations presented at this exhibition – which included the Powertools from the “Services” segment were met with great interest from the specialist audience. In the first two months, **selling prices** were raised moderately by between 0% and 3% depending on the particular product.

During our **optimisation activities** the organisational structure of DMG Vertriebs und Service GmbH was adapted with effect from 1 January, 2003. The purpose of this re-organisation is the more globalised alignment of the DMG organisation and its improved orientation towards the customer and market. The new organisational structure is regionally directed towards the markets in Germany, Europe, Asia and America. It is thereby intended to develop consistently and push ahead the international customer and market orientation. No changes in the corporate structure resulted from these adjustments. At the beginning of 2003, we acquired a further 0,07% of the share capital of FAMOT Pleszew S.A. by public offering. GILDEMEISTER Aktiengesellschaft thereby holds 99.16% in FAMOT Pleszew S.A. To strengthen sales activities in Malaysia, DMG Vertriebs und Service GmbH purchased a 40% participation in DMG Marketing & Services Sdn. Bhd., Malaysia, based in Kuala Lumpur. On 30 January, 2003, GILDEMEISTER Aktiengesellschaft purchased the remaining 49% of shares in PCG Personnel Consulting GmbH. On 13 March, 2003, a profit and loss transfer agreement was entered into

between GILDEMEISTER Aktiengesellschaft and DMG Vertriebs und Service GmbH. This contract is subject to an approval reservation of the general meeting of shareholders to be held on 16 May, 2003. There were no further changes in the **legal structure of the company**. No acquisitions or sales of **interests** or operating units were made in the said period. An **increase in, or reduction of, capital** did not take place in the reporting year.

On 15 January, 2003, GILDEMEISTER opened its first production site outside Europe at a Grand Opening. In the course of our globalisation strategy we acquired a **production plant in Shanghai** in order to gain access to the steadily growing Chinese market. The new site covers a usable area of 10,000 m² that will initially be used for the assembly of the modern universal lathes, the CTX 310 and the DMC 64 V linear – as the first vertical machining centre with linear drive “made in China” – and also as technology centre. The above machines are typical line machines that are geared to the growing market segment of Chinese small and medium-sized private enterprises. It is intended, within the production and logistics association of GILDEMEISTER, to establish an optimal suppliers' structure around the new plant in Shanghai that is based on existing contacts. In future, machine components will be purchased locally. The production plant forms the basis for the tapping of the Chinese market. For 2003, GILDEMEISTER, together with DMG China Vertriebs und Service Organisation, a company of long standing, is planning for a business volume of around € 50 million in China.

On 23 January, the jury of the European Logistics Association honoured GILDEMEISTER as the winner of the **“European Award for Logistics Excellence 2002”**. With this, the highest award in Europe, the jury appreciates enterprises and organisations whose logistic projects and strategies have won awards at a national level. Following the German Logistics Award 2002, the overall logistic strategy of GILDEMEISTER has thereby proven itself at a European level.

On 12 February, 2003, parallel to the in-house exhibition at the production site in Pfronten, the third **Suppliers Day** took place. This annual event served again as forum for the optimisation of the exchange between GILDEMEISTER and its supply partners. At the beginning of the event, the Executive Board reported on goals and current activities of the GILDEMEISTER group. This was followed by a panel discussion with the prize-winners 2001, where experiences were exchanged from the implementation of the coSupply strategy for the organisation of supply partnerships. The day ended with the awarding of the “Supplier of the Year Award 2002” in the quality, supply performance, innovation categories and an overall winner.

No further **significant events** have occurred since the end of the financial year.

FORECAST 2003 _Global economic development remains subdued. According to most research institutes, the world economy will more or less stagnate until the middle of the year, before showing signs of recovery during the last six months of the year. However, many substantial risks due to the Iraq conflict remain.

A forecast for 2003 for the engineering industry, and particularly for the machine tool building industry, is currently full of uncertainties. The German Engineering Federation (VDMA) expects sales development in 2003 to be at the preceding year's level or slightly above. Forecasts with respect to global development in the machine tool sector have not yet been published. We expect global consumption to be slightly below the 2002 level. The ifo Institute and the Association of German Machine Tool Factories (VDW) expect the order intake and production to be at the preceding year's level. This development requires that no major changes occur in the global economy within the period of prediction.

GILDEMEISTER expects a rather restrained course of demand for the current financial year; looking ahead to a moderate revival in the second half of the year. We will adjust to each changed condition of the market as required. The service area continues to be utilised at full capacity. Staff capacity in the production plants will be adjusted according to site and necessity. We will continue to rationalise. Based on the already initiated profitability improvement measures, the improved efficiency in sales and the economising activities with respect to product development, marketing and materials costs in the current financial year, we anticipate achieving another profit for 2003._

In all probability, **overall economic development** will gradually take a positive turn this year. Global forecasts, for example by the Institute for World Economics, predict a 3.5% increase in gross domestic product. The International Monetary Fund (2.8%) and the World Bank (2.1%) are more cautious in their forecasts. The World Bank predicts the world-wide highest growth for the East Asia region. With respect to the **USA**, a vigorous recovery during the second half of the year could be possible. The stimulus programme adopted early this year, that appeared to be on a larger scale than first expected and includes considerable tax cuts, could contribute to this. The growth prognosis by the Kieler Institute for World Economics (IfW) for the American economy is 2.7% with respect to the entire year. Despite continuing structural problems, there will be a slight growth in **Japan**, say experts (IfW forecast: 1.1%). Stimulated by low interest rates and a recovery of international demand, growth in **Europe** will also accelerate. The growth prognosis by the Kieler IfW for the Euro zone is 1.5%. The EU Commission expects 1.8%.

According to forecasts, **Germany** should prepare for another year of marginal growth in 2003. According to most specialists, the economy will more or less stagnate until the middle of the year, before showing signs of recovery during the last six months of the year. At the beginning of the year, leading research institutes brought their projected levels of economic activity down. None of them remained with their forecast of 1.4%, made in the Autumn Report 2002. The IfW expects a 1.0% growth in gross domestic product for the current year. The German Economic Research Institute (DIW) considers just 0.6% to be realistic. At the end of 2002, the German Council of Economic Experts on the Assessment of Economic Trends established a 1.0% growth. If international economic conditions recover, German exports will also benefit. There are, however, certain factors at home that will hinder an economic upturn. According to the concurrent opinion of experts, this includes the increases in taxes and other fiscal charges that came into effect at the beginning of the year. They affect the already slack consumers' willingness to buy and the companies' willingness to invest. Even so, latest forecasts predict that investments in plant and equipment could increase by around 2%, whilst building investments will reduce by almost 2%. Further unfavourable influences stem from the bad employment prospects and the tight budget of the public authorities. Despite the 'Hartz' strategy, the annual average number of unemployed will probably climb to around 4.2 million. With regards to the situation in public spending, the Federal Government expects a deficit quota of below 3%. However, at the end of January, the German Government put its growth forecast for 2003 down to 1%. It can therefore not be ruled out that the maximum limit established by the Maastricht Treaty will be exceeded again. Price development is a concern of economic experts. In their opinion there is the risk of deflation with a lasting drop in prices and shrinking economic performance. Since the beginning of the year,

the Euro has gained in strength against major world currencies. Economic departments of leading banks disagree in their statements with respect to the development of the Euro against the US-Dollar and other currencies over the year. The high level of volatility of the US-Dollar is also due to the Iraq conflict. Should the Euro remain strong against the US-Dollar and other currencies, this would present an additional burden to the export-orientated German economy.

Sources: Institute for World Economics (IfW), Cologne; German Economic Research Institute (diw), Berlin; Economic Research Institute für Wirtschaftsforschung (ifo), Munich; German Council of Economic Experts on the Assessment of Economic Trends, Berlin; International Monetary Fund, Washington; World Bank, Washington; European Central Bank, Frankfurt

The **world-wide market for machine tools** will barely reach the preceding year's level in 2003. Due to the weak demand and the continuous uncertainty as to when economy activity will pick up, we expect both global output and consumption of machine tools to be around 2-5% below the preceding year's figure. On the one hand, this forecast for the **market volume** is based on the economic outlook for Japan and other major markets in Asia, and on the assumption that demand in Europe and North America will only start to pick up over the course of the year. On the other hand, it takes into account the imminent risks from global political developments. With respect to the **sales volume**, we expect a similar decline against the previous year. There are no statements on the **market and sales potential** of machine tools as yet.

The **German machine tool industry** in its forecast for **sector trends** also expects a difficult year ahead. In the past year, order intake was just € 0.5 billion above production. During the course of the year, the order backlog dropped to 6.7 months. The latest capacity utilisation was at just 86.1%, which no longer represents a full use of capacity. Against this background and in the face of a continuing weak demand at the beginning of the year, the Economic Research Institute (Munich) and the Association of German Machine Tools Factories (VDW) expect, at best, the order intake and production to correspond with the preceding year's figures. With respect to production, worth about € 8.4 billion, they expect a 6% loss in the first half of the month and a 5% growth during the last two quarters. With respect to the order intake of around € 8.9 billion, a slightly negative development in domestic sales (-2%) and corresponding growth in exports (+2%) are assumed. A delay in the assumed recovery by just a few weeks would mean another drop into a moderate loss within the total account. On a medium-term basis, the VDW and the Munich Economic Research Institute currently expect a growth phase of three years between 2004 and 2006. This development requires that no major changes occur in the global economy within the period of prediction.

Source: "The German Machine Tool Industry in the Year 2002" VDW (Association of German Machine Tool Factories)

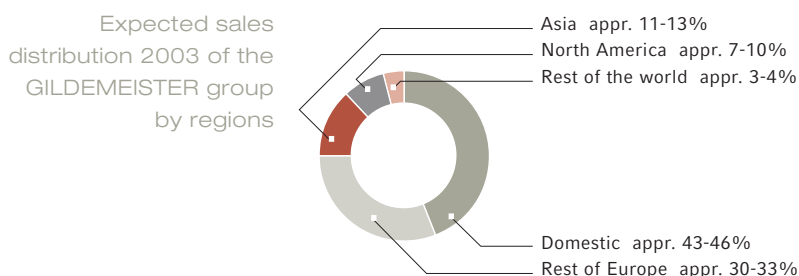
Further insolvencies of machine tool manufacturers at home and abroad cannot be ruled out and could result in a substantial change in the **industry's structure**. At the moment and for the foreseeable future, we do not expect any negative effects or risks for GILDEMEISTER due to any possible change in the market's competitive situation. On the contrary, GILDEMEISTER with its innovative and modern products and its global market presence has a real opportunity to defend and develop its leading position as a producer of metal-cutting machine tools against the international competition.

GILDEMEISTER has invested heavily in the development of new products and the expansion of its own sales and service organisation. By safe-guarding our future this way, we are well prepared for the expected recovery of the market in the financial year 2003. GILDEMEISTER, as a full-line company, offers the world's most comprehensive delivery programme in the metal-cutting machine tools area. Thanks to our innovative products, numerous technological advantages and customer-orientated services we will continue to secure our leading position this year with improved economic results. The world-wide presence of DMG Vertriebs- and Serviceorganisation in all major industry markets has created the conditions required for the building of adequate market shares.

We expect a rather restrained course of demand for the current financial year; looking ahead to a moderate revival in the second half of the year. In January and February, **order intake** amounted to € 148.0 million (in comparison to the preceding year: € 156.8 million). This is in line with our planning. For the first quarter of 2003, we expect the intake of new orders to be at the preceding year's level. Thanks to our innovative machines, we intend to increase our **share of the world-wide market volume**. In accordance with our planning, we expect the demand situation to improve during the course of the year and our intake of new orders to reach over € 1 billion for the entire year. An annual forecast for the development of incoming orders over the next reporting periods will be included in our first Quarterly Report on 8 May, 2003. Our planning is based on our innovative products, the increasing growth in Asia and first signs of a market recovery in America. With regard to the regional distribution of new orders, another shift in favour of the Asia region is likely. The finished goods inventories in the world markets, particularly those of our Japanese competitors, but increasingly of the European competition, too, have further increased the pressure on **selling prices**.

In the first two months, **group sales** reached € 131.0 million (preceding year's figure: € 141.3 million). Due to the higher export share, compared to the preceding year, the output from the production plants was, for accounting reasons, not reflected in external sales, since the export business is almost entirely traded for the DMG Vertriebs und Service GmbH account. Based on the expected intake of new orders for the current financial year and our – in contrast with industry trends – high level of existing orders, group sales could again be above € 1 billion. In this respect we expect that sales for the first quarter of this year will not quite reach the level of the preceding year's quarter.

With respect to the following quarters of the year, we are planning for a sales development that should be at around the level of the preceding year's quarters. With a domestic share of approximately 43-46%, we expect around 30-33% for the rest of Europe, 7-10% for North America and a sales contribution of about 11-13% for Asia. With respect to sales development for the following two years, we expect further increases of more than 10% for each year.



By the end of February 2003, **orders on hand** within the group had risen to € 345.8 million. This relatively high level of orders represents a good basic capacity utilisation to enable expected fluctuations in the order book for individual machine types to be counter-balanced. Despite the generally high level of new orders, GILDEMEISTER, too, is affected by fewer new orders in some areas, with the result that the smooth processing of some orders cannot always be guaranteed.

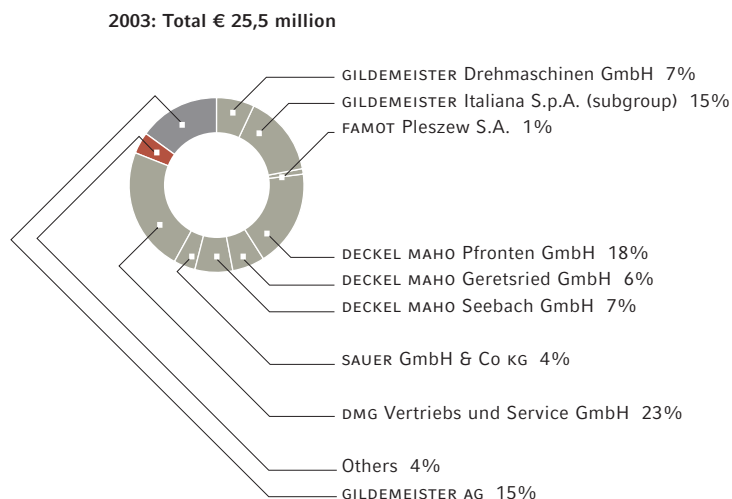
Based on current planning we presume that, whilst EBIT will be positive, the first quarter will still close with a loss on ordinary activities. Based on the already initiated profit improvement measures with respect to materials and staff costs, the reduction of costs in product development and marketing and the expected recovery in demands during the second half of the year, we anticipate the overall result to be positive. Due to current economic trends, a more accurate statement on **profit development** for the current financial year is currently not possible. We will consider the distribution of a **dividend**, as soon as the group has generated an adequate annual net profit.

Thanks to extensive measures for a reduction in the commitment of funds pertaining to stocks, we intend to achieve a lasting increase in the inventory-sales ratio. On a short-term basis, we do not expect any major change in the **financial structure** of the GILDEMEISTER group. From today's point of view and based on foreseeable trends, the group's current borrowing facilities are adequate for the availability of liquid funds within the group. We do not expect any major change in other financial commitments, which are broken down by maturity and set out on page 222 of the Notes to the Consolidated Financial Statements.

In 2003, the GILDEMEISTER group's **risk management** policy will continue to be developed further and consistently and based on a detailed reward and risk assessment. From today's point of view it can be said that the risks can be controlled and that the future existence of the GILDEMEISTER group is not jeopardised. We do not expect any major change in the risk reporting as set out on pages 91 to 99 for the financial year.

For the financial year 2003 the planned **investment** volume for tangible and intangible assets amounts to around € 25.5 million, thereby corresponding with the level of planned depreciation. A further € 6.3 million will be invested in tangible fixed assets, to be financed through leasing. The planned investments will primarily be used to maintain the company's readiness to operate and, to a small degree, to enhance market image and optimise processes. The highest investments of € 5.7 million is planned by DMG Vertriebs und Service GmbH. € 1.6 million will be used by this company for the erection of a new technology centre in Yokohama, Japan. € 0.9 million of the investment budget of GILDEMEISTER Aktiengesellschaft will be spent on the implementation of a group-wide, standardised Intranet. GILDEMEISTER Drehmaschinen GmbH has designated investments of € 1.7 million in the current financial year for the production of new machine types. The planned investment volume of the sub-group GILDEMEISTER Italiana S.p.A. totals € 4.0 million. The relocation of DMG Italia S.r.l. from Gorgonzola to the plant site of GILDEMEISTER Italiana S.p.A. in Brembate and the simultaneous expansion of the technology centre require investments of € 0.8 million. A further € 0.5 million have been allocated for the implementation of the group-standardised ERP system, BaaN, at the site in Tortona. FAMOT Pleszew S.A. plans investments of € 0.3 million, mainly to maintain the company's readiness to operate. At the Pfronten site, the continuation of the "Front Office" project will help towards the optimisation of operations and processes throughout the entire group and requires investments of € 1.5 million. DECKEL MAHO Geretsried GmbH is planning to spend € 1.7 million for the production of new machine types. At the Seebach site, the group's centre of competence for mechanical production, investments of € 0.4 million are planned to expand production opportunities. The site is planning to invest a total of € 1.7 million. To ensure the further expansion of the forthcoming technology of ultrasonic machines, it is intended to erect a new assembly hall with exhibition centre at the site in Idar-Oberstein, requiring investments of around € 0.8 million. The **structure of the investments** is well balanced amongst the varying **requirements** of the production sites and markets. According to current assessments, no risks are involved with the intended investments.

Shares by the individual group companies in the planned investments in tangible and intangible assets in %



In **procurement** the coSupply strategy for the creation of supply partnerships, that was introduced last year and successfully implemented in the reporting period, was further expanded. The experiences gained in numerous coSupply workshops are conveyed to other supply partners through various working groups. The appraisal of each TOP-supplier, their anonymised ranking and further data from the supply monitoring system will complement the “My coSupply” pages on the suppliers portal (www.cosupply.de). The supply partners are thereby able to view all relevant information and appraisals any time.

The value-added optimisation strategy that increasingly relates to trunk machines is pursued further. The group-wide co-ordinated purchase of aggregates, modules and structural components is safe-guarded through long-term **basic agreements**, which also ensures the supply of the **purchasing volume** and avoids stock outages. Due to the uncertain economic development, **purchasing prices** might have to be agreed on retrospectively in the current financial year. The strategic internationalisation of procurement is being continued. For example, we are considering an increase in the share of Japanese suppliers which would let us benefit from the currently weak Yen. Co-ordinated by central procurement, the plants of the GILDEMEISTER group will further expand the systematic materials group management in co-operation with the respective suppliers. In addition, the methods and measures of the procurement management are aimed at the joint improvement of processes, to reduce the level of funds tied up. For example, with a further improved supply of materials within the remit of our just-in-time principle, we expect a lower level of tied-up assets with positive effects on **liquidity**. To achieve this, we will maintain the turnover pertaining to raw materials and consumables at the high level of the preceding year, and increase the turnover pertaining to the remaining stocks.

In **production and logistics** we will set up two further assembly lines following our extremely positive experience with the introduction of assembly line production at the Seebach, Bielefeld and Pfronten sites. At the site in Pfronten a second assembly line is being installed for the DMU 80 T that will further increase the plant's production flexibility, since it will be used for the model-mix assembly of the DMU 60 T and DMU 80 T. Following the assembly of the DMU 35 M, the DMU 50 T will be assembled in Seebach on a purpose-built assembly line. Apart from a drastic cut in processing times, we will thereby achieve a far reaching improvement in the co-ordination of the logistic processes and a substantial increase in assembly flexibility, for example with respect to production.

In various projects for the ERP-supported visualisation of the production status, the good experience from the introduction of the assembly monitoring system in the plants at Bielefeld, Seebach, Pfronten and Geretsried will be transferred to other sites, but particularly to the plants in Brembate di Sopra and Tortona. In addition, the existing solutions will be further developed and enhanced in accordance with the KVP philosophy of the PULL strategy. Additional evaluations and user or situation related data preparation will thereby relieve staff in assembly and help them with the identification of measures.

At the site in Pleszew, interdisciplinary teams operating across all sites will, in the course of various PULL projects, improve productivity in the manufacture of components. Apart from work schedule analyses and reviews, specialist groups on value analysis issues or matters with respect to the training of work schedulers will implement the optimised and economic utilisation of assets.

The GILDEMEISTER group will continue to pursue its innovation-orientated strategy of technological supremacy in cutting machine tools. When implementing this strategy we adapted to economic trends. Against the background of the current restrained world-wide demand for machine tools, GILDEMEISTER will introduce "just" **10 innovations** during the current financial year, which will complete the line structure of our production programme.

The development of the trend-setting ultrasonic technology for the machining of "advanced materials" will be continued in 2003. In this respect SAUER GmbH & Co KG will transfer the ultrasonic technology onto the Evolution machine concept at the site in Seebach. This way, the two new machines DMS 50-5 and DMS 70-5 ultrasonic will enable a simultaneous 5-axis / 5-sided machining of the component. With the DML 80 Powerdrill, LASERTEC GmbH will introduce a new laser precision machine that is suited for a wide variety of cutting and drilling applications with a high machine precision at fast positioning speeds and high dynamics. The linking of different laser systems and the modular design enable a high flexibility for each application field of the customer.

Following the presentation of the large traversing column machine, the DMF 500 linear, the Seebach site, with the DMP 45, has completed the DMP line of high-precision vertical machining centres with a smaller frame size. In turning, the less expensive CNC universal lathe production line that was started with the CTX 310, will be complemented by two further models. The GMX line of turning and milling centres are expanded by the GMX 300. The GMX models simultaneously and equally integrate technologies for both demanding turning and milling, thereby enabling for the first time complete machining of many highly complex parts in just one cycle.

GILDEMEISTER will continue to systematically expand its range of **service products**. Thanks to the networking of open control systems and software modules beyond the borders of our company we gain access to potential markets for electronic products and services. Apart from the successful DMG Netservice, this includes further products from the “Powertool” family, such as the DMG Messenger. These future products expand our product lines and enhance our technological leadership by further integrating the milling and turning technologies, 3-D laser beam and ultrasonic machining and linear drives.

The lasting protection of natural resources continues to enjoy a very high status at GILDEMEISTER. At all our sites the commitment to **environmental protection** is an essential element of the group's corporate policy. We are therefore constantly seeking ecologically friendly solutions for both our products and processes. For example, the wider application of the reduced use of lubricants contributes significantly to the protection of the environment. The minimal quantity lubrication of guide elements, driving spindles and other components has already resulted in a noticeable reduction of pollutants. Along with the expansion of the existing environment management system, the plant in Pfronten invested € 0.6 million in the modernisation of the air conditioning and ventilation system.

For the current financial year it is planned to concentrate the spare parts logistics and procurement in DMG, thereby creating the organisational conditions for further growth in this area. In this respect, a new company will be established within the DMG association that will take on and bring together the spare parts area of the domestic and international production plants. Whilst the procurement for the active production parts will remain the responsibility of the plants, the new company will focus on the management of the optimised supply with phased-out and old parts and the world-wide provision of spare parts. No further changes in the **legal structure of the company** are planned. Company sub-ordinations or acquisitions are not planned at the moment. No substantial changes in the **organisation and administration** of the company are intended, nor are any significant restructuring measures planned.

The intense competition in the job market for highly qualified skilled personnel and senior staff will continue, particularly in our industry. We will therefore expand the promotion of young people from our own ranks. We already give young people the opportunity of proving their skills at national and international trade fairs. In addition, an intensified “exchange of best practices” amongst the trainees of the group companies is intended to promote a more efficient vocational training. In both the “Machine Tools” and the “Services” segments, staff adjustment measures are directly related to business development within the individual group companies.

Through its activities in **research and development**, GILDEMEISTER will continue to focus on the integration of the turning and milling technologies, the expansion of 3D-laser beam machining and the substantial increase in machining speeds through fast linear drives and dynamic kinematics. In addition, the new range of applications that was developed during the reporting period for the machining of modern, hard-brittle materials, ultrasonic machining, will be systematically expanded. In the areas of fundamental research, applied research and experimental development, GILDEMEISTER will, in 2003, collaborate closely with the suppliers of systems and research organisations, thereby creating the basis for the development of economic and innovative new products.

We will further improve the expertise of our **employees** working in research and development through specific training activities. The number of staff and the expenses on research and development will continue to be in line with our strategic aims. This will create the conditions for the further expansion of our technological leadership and for the safe-guarding of our leading market position. Despite the tight market situation, we will therefore continue our successful research and development policy with the introduction of 10 innovations in the current financial year.

The targeted implementation of our **social commitment** will be continued in the current financial year and, if required, adjusted towards current events. We will give our financial support to individual projects at the Munich University of Technology, the Technical College in Kempten or the Federal Confederation of German Employers' Association. At a local level, GILDEMEISTER will participate in culturally and socially meaningful activities within the immediate vicinity of the production plants. We will again sponsor the holiday activities run by the city of Bielefeld for children staying at home during the summer holidays. For the first time, GILDEMEISTER will support the “Bielefelder Konsens: Pro Bielefeld e.V.” society, thereby helping the city of Bielefeld with the development of its image.

RESEARCH AND DEVELOPMENT _GILDEMEISTER consistently gears all business processes to market requirements. This is particularly evident in our products, which are always innovative and customer-orientated. In the financial year 2002 we developed 22 new machines, which were exhibited at various trade fairs to the public around the world, in such places as Düsseldorf, Stuttgart and Chicago. Over 90% of the current delivery programme therefore consists of machines that were developed during the last three years. The new developments complement and expand our production programme and are consistently aimed at customer satisfaction. Thanks to its innovative production programme, GILDEMEISTER is well prepared to cope with current market conditions.

In the reporting period, expenses on research and development amounted to € 47.5 million (2001: € 49.8 million). This equals 6.2% (2001: 5.7%) in relation to sales in the “Machine Tools” segment. 397 employees (previous year: 395), representing 12.7% of staff, were working in the production plants on the development of new products. In addition, a large number of construction engineers worked for DECKEL MAHO and GILDEMEISTER in external engineering departments. A total of € 7.8 million was spent on this area._



Interdisciplinary development teams who are centrally co-ordinated and working across all sites demonstrate the GILDEMEISTER claim to innovative leadership. In regular standardisation committees and group-wide product development discussions, the plants collaborate with each other and with the sales experts on product characteristics, identical parts concepts or the implementation of new technology trends. In this respect the Groupware-based system that was successfully introduced last year to support the serial start-up management was further developed and expanded by the projects and applications of GILDEMEISTER's own "preventative quality assurance" system (PQS). The expanded system makes the quality assurance within the production development's process chain noticeably easier and also provides the opportunity for simultaneously working on one project in different locations ("Concurrent Engineering" or "Simultaneous Engineering"). These methods demonstrate the innovative power of GILDEMEISTER that was also evident in the filing of eleven industrial property rights in Europe, the USA and Japan during the reporting year, as in the previous years.

High-priority focal points for our future research and development policy include the integration of technologies, the machining technologies for "advanced materials", the increase in machine dynamics and electronic products and services. The integration of technologies does not only link turning and milling machining tasks, but also laser and milling processes. The machining speeds rise thanks to the use of fast linear drives and dynamic kinematics. The further development of ultrasonic machining widens the range of applications for the unique machining of modern, hard-brittle materials. The use of our open control systems and software modules enables the development of promising electronic service products. The DMG-Messenger, the Netservice, the CNC-Nettraining and the MF-Programmer 3D increase customer satisfaction through the networking of machines and multi-media applications beyond the borders of our company. In the reporting period, these products were systematically expanded in accordance with the group's strategy and brought together as the DMG-Powertools product family.

GILDEMEISTER Drehmaschinen GmbH, Bielefeld

During the reporting period, the range of products of GILDEMEISTER Drehmaschinen GmbH was expanded by the development of models and options that are in line with current market trends. The expenses pertaining to developments amounted to € 11 million and are therefore slightly above the level of the preceding year (2001: € 10.0 million). The expansion and optimisation of the project organisation in the development area was considerably pursued in order to reduce development times and enhance

development quality through early interdisciplinary co-ordination across the sites. The company employs 58 people in development and construction – representing around 14% of staff – (previous year: 60 employees). Thanks to an intensified communication between various bodies of the group and through the online data exchange, development projects and standardisation measures with the other group companies were further improved.

The universal lathes of the NEF production line were complemented by an expanded option package for tools and turret heads for fixed and driven tools. GILDEMEISTER is thereby expanding its European market leadership in this product line.

In the universal CNC turning area the CTX 420 linear that was exhibited in Autumn 2001 was complemented by those models with Y-axis and counter-spindle and by a model with Heidenhain 3D-control. Thanks to these models, the site gains access to further market potentials. The CTX 520 linear that was introduced at the AMB trade fair in Stuttgart expanded the production line by a larger model.

The successful product line of two-spindle turning centres TWIN 32/42/65/102 are now complemented by a portal option. This expansion improves the automated loading and unloading processes of the work pieces, thereby enabling an easier integration into automated production processes at the customer's site. This product line represents integrated machining at its best.

The vertical turning area was expanded by the development of standard handling options and the installation of workpiece reversing stations for the integrated machining of workpieces. Through the optional optimal linking of right-hand and left-hand machine constructions, automated CTV linear machines can be combined to production systems that are suitable for mass production.

At the ABM trade fair, the successful turning and milling centre TWIN 500 linear was expanded by a further machine model into one production line. The new GMX 400 linear stands out thanks to extended machining options for complex components, large tool storage basins in the standard model and short tool allowance. Thanks to innovative milling spindle technology the GMX production line sets the standard with respect to its machine dynamics and machining performance.

GILDEMEISTER Drehmaschinen GmbH is currently participating in several research projects that are promoted by the German Federal Ministry of Education and Research. In association with Universities (such as the Institute of Tools, Engineering and Business Studies of the Technical College in Karlsruhe), other producers of machine tools and controls, and operators, the area of high-precision machine tools and their virtual product development is researched. Another project is aimed at examining how production companies adapt to changing market conditions.

GILDEMEISTER Italiana S.p.A., Brembate di Sopra

In the reporting period, GILDEMEISTER Italiana spent € 5.3 million (previous year: € 11.0 million) on research and development. Following the completion of the main development activities in the development of the GMC production line of CNC multi-spindle automatic lathes, further research and development activities were reduced due to the site's particularly difficult market situation. With 62 employees, 14.9 % of the company's entire workforce is working in this area (previous year: 75). A further 19 employees of GILDEMEISTER Italiana s.r.o., Zlín, have worked for the parent company and other group companies in research and development projects. € 0.7 million was spent on this.

The CNC multi-spindle line was complemented by the two new GMC 20 ISM and GMC 35 ISM models that were put before the public for the first time at the METAV and the AMB. In accordance with market requirements, the productive capacity of the GMC-line was also noticeably increased with the construction of further machine options and supply equipment. These expansions include units for radial and axial drilling and milling or for inside machining with U-axis interpolation.

The GD line of CNC long turning automatic screw machines was expanded by the GD 12 linear model that was exhibited by GILDEMEISTER Italiana at the METAV. This machine completes the GD production line in the less than 12 mm diameter range and sets new standards not only in respect of machining speed and dynamics, but also in machining precision.

The Sprint line of short turning automatic screw machines for the machining of parts with average complexity was expanded by the new Sprint 20 linear and Sprint 32 linear models. Due to the simple construction of these general purpose centre lathes, they can be sold at very competitive prices despite the machine's high level of technology. Apart from FANUC-CNC controls, the company developed modifications with SIEMENS-CNC-controls for both models.

GRAZIANO Tortona S.p.A., Tortona

GRAZIANO Tortona S.p.A. continued its efforts with respect to both new and further developments. Since the main work on the CTX 310 and 320 linear models has been completed and expenses, for example on prototypes, no longer apply, spending on research and development was reduced by 20% to € 0.8 million during the reporting year (2001: € 1.0 million). In 2002, the research and development department at GRAZIANO consisted of 14 employees (previous year: 11); representing 10.5% of the entire workforce.

In the course of the product programme reorientation process that was started in 2001, GRAZIANO exhibited the new universal lathe CTX 620 linear at the BIMU trade fair in Milan. With this machine, the tried and tested linear technology is used in a machine of this dimension. The use of a torque engine as work spindle drive represents another new global innovation; enabling the combination of highest torques with high dynamics. With this development, the GILDEMEISTER group possesses a complete production line of universal lathes with linear drive.

A continued high status of development is enjoyed by the CNC-controls with their open architecture that allows the integration of additional support and service products. Thanks to this, our technological superiority against the competition is substantially reinforced. Following the production start-up of last year's new development, the CTX 310, this machine has been offered with three alternative control designs by the most reputable manufacturers. In the reporting period, this strategy was also used with respect to the CTX 320 linear that has been offered with a control from GE FANUC as an alternative to the SIEMENS-control since October 2002.

A further focal point in development activities was the completion of the option programme for the CTX 310 and CTX 320 linear.

FAMOT Pleszew S.A., Pleszew

In 2002, with € 0.1 million, FAMOT maintained its expenses on research and development at the preceding year's level. The company employed 12 people in this field (previous year: 14), representing 2.6 % of the entire workforce. The most important result from the research and development projects carried out by FAMOT in 2002 was the production of seven new trunk machine models. For the first time FAMOT supplies two further group companies with these machines: DECKEL MAHO Pfronten and GRAZIANO Tortona S.p.A. are now also buying pre-assembled trunk machines, thereby improving the structure of their production expenses. FAMOT is thereby making an important contribution to the optimisation of our value added.

In addition, FAMOT completed the development of two new machine tools with FANUC-control in the reporting period. The two models, DMC 63 V and DMC 103 V – these are the first milling machines in the history of the company – allow FAMOT to gain access to the market for inexpensive vertical machining centres.

The NEF-K universal lathes were reworked and exhibited at the AMB with a considerably improved operator console and a more powerful SIEMENS-control.

DECKEL MAHO Pfronten GmbH, Pfronten

In the reporting period DECKEL MAHO Pfronten GmbH invested € 12.5 million (previous year: € 10.6 million) in research and development. 97 employees (previous year: 90) – in close collaboration with Universities and Technical Institutes – are setting a fast pace in innovation. In the reporting year the site expanded all production lines with new developments that received a good response from the market.

At the in-house exhibition in Pfronten the plant presented the DML 60 HSC, a combined milling and laser machine for the economic combination of high-speed milling operations and filigree laser beam machining. With the DML 60 S and the DMC 60 T, DECKEL MAHO Pfronten developed two more machines that are based, as is the DML 60 HSC, on the successful T line in monobloc construction. The introduction of the DML 60 S, a milling machine with bar loader, continues the integration of the milling and turning technologies and has revolutionised the machining of complex precision parts of up to 100 mm in size. Thanks to the numerous advantages of bar machining, such as highest workpiece precision or the reduction of set-up times, DECKEL MAHO Pfronten and GILDEMEISTER gain access to a new market. With the DMC 60 T, the site offers its customers a 5-axis machining centre with a unique cost-performance ratio.

The machines with a frame size of 160 and milling and turning technology closed a gap in this rapidly growing market segment. The last introduction in the reporting period were the large DMU 340 P and DMC 340 U machines that stand out, amongst other things, due to their intrinsically stiff engine bed and the resulting substantial simplifications and savings for the customer during installation. This model completes the DMU-P and DMC-U lines in the larger size segment.

DECKEL MAHO Pfronten continued the expansion of the controls area with the CNC control MillPlus IT.

DECKEL MAHO Geretsried GmbH, Geretsried

In the reporting year, the developments that were initiated last year have now been taken into serial production by DECKEL MAHO Geretsried GmbH. To do this, the plant has again raised its internal development capacities slightly against the previous year and has thereby safe-guarded the implementation of research and development targets and its existing technical expertise. The number of staff in research and development thereby rose by 7% to 61 (previous year: 57). Due to structural changes in the reporting period, the development budget reduced slightly by 3% to around € 9.5 million (previous year: € 9.8 million).

The site's most significant innovation was a newly developed production line of vertical machining centres in the compact class with an exceptionally good cost-performance ratio and, at the same time, considerable technological superiority against products offered by the competition. The first model of this line, the DMC 64 V, was

shown at the in-house exhibition in Pfronten in February. At the trade fairs in Düsseldorf (METAV) and Stuttgart (AMB) the production line that has been developed in accordance with the modular organisation principle, was complemented by the larger machines, the DMC 104 v linear and DMC 144 v linear.

In addition, the DMC 165 v linear, that was exhibited last year and designed specifically for the tools manufacture and mould building industries, was taken to serial maturity. This machine with its linear drives in the three rotational axes is designed for fast high-precision 5-axis machining of complex large moulds and tools, allowing the site to gain access to a new market segment.

In the financial year 2002, DECKEL MAHO Geretsried continued to gear its existing research and development activities towards market requirements and future growth markets. Examples include the newly introduced controls for machines at the entry level. These control options have a strong sales potential, particularly in the Asian growth market, since they offer widely spread and accepted control technologies that we were not able to offer in the past.

Thanks to the expansion of the options in the tried and tested DMC-H production line, we were again able to secure orders, particularly from the motor and components supplying industries.

DECKEL MAHO Seebach GmbH, Seebach

In the reporting year, DECKEL MAHO Seebach GmbH spent € 6.8 million on research and development, which is 8% more than in the previous year (2001: € 6.3 million). The company employed 61 people in this area, which is 7% more compared with the previous year (2001: 57). In 2002 research and development activities focused on the expansion of the production line of traversing column machines by two new machines, the DMF 360 linear and DMF 500 linear. In line with the GILDEMEISTER group's strategy to push ahead the dynamic high-precision and, at the same time, erosion-resistant linear technology, the DMF models have linear drives in the X-axis. The DMF 360 linear was introduced to an interested specialist audience at the trade fairs, the METAV and the IMTS in Chicago. The machine has been produced in series since the end of 2002. The first prototype is being developed for the DMF 500 linear.

As a further development in the successful DMF 70 line, the new machining centre, DMC 70 eVolution, has an automatic pallet changer installed. As addition to the production line in conformity with market trends, the machine was met with great interest at major international trade fairs.

The newly developed DMP 60 v linear was successfully exhibited. It is the first product in a line of highly productive, vertical machining centres with very fast chip-to-chip tool changing times – was successfully put before the public. Following the completion of the prototype tests, assembly of the pilot lot began at the end of December 2002.

Together with the group company SAUER GmbH & Co. KG the ultrasonic line was expanded by the DMS 50 ultrasonic.

LASERTEC GmbH, Pfronten

In the reporting period, LASERTEC GmbH, with € 0.9 million, spent approximately the same amount on research and development as last year (2001: € 1 million). Eleven employees (previous year: ten) are working intensely on the innovation process in order to expand and safeguard the company's world-wide supremacy in the machining of filigree high-precision parts.

In the reporting year the process accuracy of the laser erosion machines, the DML 40 and the DML 60 HSC, continued to be technologically enhanced. Another focal point of the research activities was the development of the DML 80 that was exhibited at the Euroblech trade fair in Hanover in October. This newly developed machine for a wide variety of cutting and drilling applications is based on a standardised modular machine concept. With high precision and dynamics, it guarantees high flexibility thanks to the integration of different laser systems, allowing the implementation of a wide variety of customer requirements. Aeronautical engineering, for example, uses the DML 80 in a special application for complex drilling applications in the guide blades of turbines.

SAUER GmbH & Co. KG, Idar-Oberstein

In the reporting period, the majority-owned subsidiary SAUER GmbH & Co. KG that was acquired last year, spent € 0.2 million on research and development. The world-wide unique technology of this company allows GILDEMEISTER to access to the growth market for the machining of “advanced materials” such as ceramics, glass, silicon and cemented metal carbide. At the in-house exhibition in Seebach, the DMS 50 ultrasonic was exhibited and went into production during the reporting year. The company's innovative power is also evident in the new ultrasonic spindle. It enables borings with a nominal diameter of 70µ and a channel depth of up to 1.5 mm in silicon, thereby noticeably expanding the machining spectrum of micro components.

The further development of the controls strengthened the integration of the ultrasonic technology and gives customer lasting support through a technology data bank of “advanced materials” containing more than 100 future materials including the related machining parameter.

TURNING_ The 8 product lines turning from GILDEMEISTER are a globally unique range of turning machines for demanding users with suitable solutions for any requirement: from universal and vertical lathes, dual-spindle turning centres and multi-spindle automatic lathes to turning/milling centres for complex and complete machining of parts in a single work cycle. Turning machines from GILDEMEISTER feature state-of-the-art functionality, e.g., most advanced linear technology, and thus help raise productivity at our customer's end.

8 PRODUCT LINES – TURNING
IN THE GILDEMEISTER GROUP

01

NEF
Universal Turning Machines



NEF 280 M



NEF 320 K



NEF 520 K



NEF 320



NEF 520



NEF 720

02

CTX
cnc Universal Turning Machines



CTX 310



CTX 400 SERIE 2



CTX 500



CTX 600



CTX 700



CTX 320 *linear*



CTX 420 *linear*



CTX 520 *linear*



CTX 620 *linear*

03

CTV
Vertical Turning Machines



CTV 200 *linear*



CTV 250 *linear*



CTV 250 *linear* / LINKING

04

TWIN
Dual Spindle Turning Centres



TWIN 32



TWIN 42



TWIN 65



TWIN 102

05

SPRINT
Production Lathes



SPRINT 20 *linear*



SPRINT 32 *linear*

06

GD / GLD
cnc Longitudinal Lathes



GD 12 *linear*



GD 16



GD 20



GLD 20



GLD 25



GD 26



GD 32

07

GMC / GM
cnc Multi-Spindle Lathes
Multi-Spindle Lathes



GMC 20 ISM/*linear*



GMC 35 ISM/*linear*



GMC 55 ISM/*linear*



GMC 70 ISM



GM 16-6



GM 20-6



GM 35-6



GM 35-8



GM 42-6

08

GMX
Turning / Milling Centres



GMX 300 *linear*



GMX 400 *linear*



GMX 500 *linear*

8 PRODUCT LINES – MILLING
IN THE GILDEMEISTER GROUP

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01
DMU M / T
CNC Universal Milling Machines



02
DMU P/
DMU eVolution
CNC Universal Milling Machines
for 5-sided / 5-axes machining



03
DMC V
Vertical Machining Centres



04
DMC H
Horizontal Machining Centres



05
DMP U / DMC U
CNC Universal Machining Centres
for 5-sided / 5-axes machining



06
DMF
Travelling Column Machines



07
DMU FD / DMC FD
5-Axes Milling / Turning Centres



08
DMP V
Vertical Manufacturing Milling



PRODUCT LINES
LASERING/ULTRASONIC IN
THE GILDEMEISTER GROUP

01

DML
Laser Machines



DML 40



DML 40 S



DML 40 SI



DML 60 HSC



DML 80 FineCutting



DML 80 PowerDrill

02

DMS
Ultrasonic Machines



DMS 35 ultrasonic



DMS 50 ultrasonic



DMS 50-5 ultrasonic



DMS 70-5 ultrasonic

MILLING_ User-oriented technology, purposeful innovation and state-of-the-art product strategies. The name DECKEL MAHO is a synonym of most advanced milling technology not only in the GILDEMEISTER group. Our 8 product lines milling are setting new standards also internationally. CNC universal milling machines, vertical and horizontal machining centres as well as travelling column machines and turning/milling centres. High-end solutions from DECKEL MAHO open entirely new horizons in milling.

LASERING_ The future belongs to laser technology – the world over. The product range of our LASERTEC GmbH already today comprises machines for 3-dimensional lasering and – like DML 60 HSC – also for combined high-speed fine-milling and lasering. A new addition is the innovative DML 80 series for fine-cutting and drilling with laser.

ULTRASONIC_ GILDEMEISTER is among the internationally top-ranking companies also in this field. The DMS-ultrasonic series is capable of ultrasonic-assisted machining of advanced materials. In comparison with conventional processes, the innovative ultrasonic machine concept offers three to five times higher productivity, more precision and improved surface quality, plus substantially higher flexibility of part geometry.

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS OF
GILDEMEISTER AKTIENGESELLSCHAFT, BIELEFELD

PRELIMINARY NOTE_ In the Annual Report for the year 2002 GILDEMEISTER for the first time presents the figures based on IFRS.

As GILDEMEISTER Aktiengesellschaft is still obliged to prepare the Annual Report on the basis of the HGB German Commercial Code, the annual report and the notes for the financial year of GILDEMEISTER Aktiengesellschaft can no longer be compiled together with the Consolidated Annual Report and the Group notes.

The following Annual Financial Statements contain only the figures for the GILDEMEISTER group. The HGB-based annual financial statements of GILDEMEISTER Aktiengesellschaft and the Annual Report are available as separate report.

1 APPLICATION OF THE
REGULATIONS

The group annual report of GILDEMEISTER Aktiengesellschaft as at 31 December 2002 is the first to be prepared applying the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, Great Britain as applicable at the reporting date. All binding International Accounting Standards (IAS) and Interpretations of the International Financial Reporting Interpretations Committee/Standing Interpretations Committee (IFRIC/SIC) for the business year 2002 have been applied. The aim of this representation based on internationally recognized accounting standards is better international comparability and to increase our group's transparency for external monitors.

The requirements for exemption from the duty to prepare a group annual report according to German accounting regulations are fulfilled by GILDEMEISTER Aktiengesellschaft in accordance with Paragraph 292a HGB. The group annual financial statements and group annual report for submission to the Company Register and for publication in the Bundesanzeiger agree with the Directive of the European Union regarding group annual reporting (83/349/EWG), where this directive has been interpreted according to the interpretation in the German Accounting Standard No 1 (DRS 1) "Exempting group annual report according to paragraph 292 a HGB" of the Deutsche Rechnungslegungs Standards Committee e.V. (DRSC). For the exemption from the duty to prepare a group annual report according to German accounting regulations, the group annual report has been expanded with additional notes in accordance with paragraph 292 a HGB.

The transfer to the International Financial Reporting Standards (IFRS) took place on 1 January 2001, in order to facilitate comparability of the figures for the business year 2002.

The following notes cover information and notes which, along with the Balance Sheet, the Income statement, the Equity Capital Statement and the Funds Statement are to be included in appendix to the Group annual report according to IFRS. For a clearer and more comprehensible representation, we have summarised individual positions in the Balance Sheet and the Income statement; these are reported in the appendix separately with additional information.

The group currency is EURO. All amounts are given in thousand Euros (K€).

The group annual financial statements and group annual report of GILDEMEISTER Aktiengesellschaft as at 31 December 2002 have been submitted to the Company Register of the Bielefeld Local Court (HRB 7144) in accordance with paragraph 292 a HGB.

2 CONSOLIDATED
GROUP

Number of fully consolidated companies	31 Dec. 2002	31 Dec. 2001
Domestic	27	24
International	32	30
Total	59	54

The GILDEMEISTER group as at the reporting date, including GILDEMEISTER Aktiengesellschaft, comprises 60 (previous year: 56) companies, of which 59 (previous year: 54) have been included in the group annual report within the framework of full consolidation. Of the fully consolidated companies, GILDEMEISTER Aktiengesellschaft is directly or indirectly entitled to the majority of voting rights or otherwise holds a majority influence. This includes three special purpose entities. DMG Charlotte Inc., Charlotte, USA, as wholly-owned subsidiary of DMG America Inc., Charlotte, USA, did not have any operating business in the business year and is not included in the consolidation group.

In contrast to the previous HGB accounting, in business year 2001 Hermann SAUER GmbH & Co. KG, Stipshausen/Idar-Oberstein and Hermann SAUER Verwaltungs-GmbH, Stipshausen/Idar-Oberstein, purchased in 2001, were fully consolidated as at 1 November 2001 and the newly founded PCG Personnel Consulting GmbH, Erkelenz, and a special purpose entity were fully consolidated as at 31 December 2001.

Compared to business year 2001, the reporting group changed as a result of the first-time inclusion of the following companies:

- _ DMG France Sud S.A.S., Lyon, France,
- _ DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China, and
- _ GILDEMEISTER Beteiligungen Aktiengesellschaft, Bielefeld.

Two additional special purpose entities have also been included.

DMG France Sud S.A.S., Lyon, France, is fully consolidated from 1 January 2002, since it did not start operating business until early in the business year 2002 after the foundation of the company as a wholly-owned subsidiary of DMG France S.a.r.l., Les Ulis, France, in December 2001.

The consolidation group has not changed substantially compared to the previous year so that comparability with the previous year's group annual report is not affected.

There were no disposals or closures of businesses or parts of businesses in the completed business year.

Rateable consolidation or inclusion according to the Equity-method did not take place in the business year or in the previous business year.

A complete overview of all affiliated companies is included at the end of the appendix on pages 234 and 235.

3 CONSOLIDATION PRINCIPLES

The capital has been consolidated for all companies according to the Acquisition method (IAS 27 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" and IAS 22 "Business Combinations"). The procurement costs of the holdings have been offset against the group proportion of the equity capital of the consolidated subsidiary at the time of the purchase, which is typically also the time of first inclusion.

Any resulting difference is added to the asset and debts insofar as its current market value differs from the book value. A remaining asset or liability difference is reported as goodwill or as negative goodwill.

The proportion of the equity capital, to which the parent company is not entitled, is reported as “shares held by other shareholders”.

Mutual receivables and liabilities between the companies included in the group annual report have been offset against each other. Interim profits from intercompany work and services have been eliminated and deferred tax charges and refunds from consolidations affecting the results have been taken into account. Intercompany sales revenue has been offset against corresponding expenditure without affecting the results, as has all intercompany income.

The consolidation methods applied remained unchanged in respect of the figures for the business year 2002 for comparative purposes, compared to the previous year’s figures. Therefore there is no representation of the effect of the asset, financial and income situation.

4 ACCOUNTING AND VALUATION PRINCIPLES

The annual financial statements of the companies included in the group annual report, all of which have been prepared as at the reporting date of the group annual report, have been prepared according to IAS 27 “Consolidated Financial Statements and Accounting for Investments in Subsidiaries” according to standardised principles of accounting and valuation.

The annual reports prepared in accordance with specific national requirements have been adjusted to match the standard accounting and valuation principles of GILDEMEISTER Aktiengesellschaft, where they do not correspond to the IFRS and the valuation differences are substantial.

The principles of accounting and valuation have been maintained in respect of the figures for the business year 2002 for comparative purposes, compared to the previous year’s figures.

Preparation of the group financial statements according to IFRS requires assumptions to be made and estimates to be applied which affect the amount and accounting of the reported assets and debts, the income and expenditure and any potential liabilities. The assumptions and estimates mainly refer to determining commercial life, the accounting and valuation of provisions and the realisability of future tax refunds. The actual values can differ in individual cases from the assumptions and estimates. Changes are taken into account according for the results to IAS 8 “Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies” when better knowledge exists.

Intangible assets and tangible fixed assets

Useful life of assets

Software and other intangible assets	3 to 4 years
Development costs	3 to 5 years
Business value or goodwill	10 to 15 years
Office and factory buildings	10 to 50 years
Technical equipment and machinery	6 to 20 years
Factory and office equipment	2 to 20 years

Purchased and manufactured intangible assets have been capitalised according to IAS 38 “Intangible Assets” if it is likely that future economic benefit is connected with the use of the asset and the costs of the asset can be reliably determined. They have been reported at procurement or production costs reduced by scheduled linear depreciation corresponding to their life.

Development costs for machine tool projects have been capitalised at production costs, insofar as the clear reporting of expenditure required by IAS 38 “Intangible Assets” was possible, technical realisability and market have been secured and the expected realisation of future economic benefit has been documented. The production costs include the direct and indirect costs allocatable to the development phase. Capitalised development costs are subject to scheduled depreciation from start of production over the expected production life cycle. Research costs are recorded as expenditure in the period in which they are incurred.

In accordance with IAS 22 “Business Combinations”, the goodwill resulting from the initial consolidation has been capitalised and subject to scheduled depreciation over the expected life.

Tangible assets have been assessed at procurement or production costs, reduced by scheduled linear depreciation resulting from use. The depreciations have been made according to the linear method corresponding to use. Assets of limited value have been fully written off in the year of addition. There was no revaluation of the tangible assets according to IAS 16 “Property, Plant and Equipment”. There is no property held as a financial investment according to IAS 40 “Investment Property”.

The production costs of assets produced by the company include all costs directly allocatable to the production process and necessary parts of the production-based overheads. This includes production-related depreciations, rateable administration costs and the rateable costs for the social area.

Financing costs are not reported as part of the procurement or production costs in accordance with IAS 23 “Borrowing Costs” but are reported immediately as expenditure.

Leasing relationships, including assets leased within the framework of sale-and-leaseback transactions, have been taken into account as Finance Leases if they mainly transfer all risks and opportunities associated with the commercial property to the lessee. Leased assets, whose leasing agreements fulfil the criteria of a financial lease relationship according to IAS 17 "Leases", have been capitalised at procurement costs or at the lower present value of the minimum lease payment. The scheduled linear depreciations are based on the commercial life but no more than the term of the agreement. The corresponding payment obligations from future lease payments have been reported under liabilities.

For intangible assets (including the capitalised development costs and goodwill) and for the tangible assets, the intrinsic value of the book value is checked regularly in accordance with IAS 36 "Impairment of Assets". Where the realisable amount of the asset undercuts its book value, an unscheduled depreciation is performed. The realisable value is the higher of the two amounts from net disposal value and use value. In the case of the removal of reasons for an unscheduled depreciation, an appreciation is made to the procurement or production costs continued for scheduled depreciations.

Financial assets

Financial assets have been reported at procurement costs. In the reporting year, there were depreciations of € 2 κ. There were no appreciations.

Current assets

The inventory was assessed at procurement or production costs or at the lower net disposal value. Components of the production costs according to IAS 2 "Stocks" are production material and the rateable material and production overheads allocatable to production salaries, as well as rateable expenditure for administration and the social area. Financing costs are not reported as part of the procurement or production costs in accordance with IAS 23 "Borrowing Costs" but are reported immediately as expenditure. Inventory risks resulting from the duration of storage and reduced usability have been taken into account through discretionary reductions in value. Lower values on the reporting date due to reduced proceeds from disposals have been taken into account. Raw materials and supplies, as well as merchandise for resale have been assessed in accordance with the average method.

There were no long-term production orders not yet completed according to IAS 11 "Construction Contracts" as at the reporting date.

The receivables and other assets have been reported at the nominal value or at procurement cost. All foreseeable risks have been taken into account through corresponding write-downs.

The securities of the current assets are reported at procurement cost or at the lower market value as at the reporting date.

The valuation of liquid funds is at the nominal value.

Deferred taxes

Deferred taxes are assessed according to IAS 12 "Income Taxes" according to the concept of the accounting oriented liability method. According to this, deferred payments and prepaid expenses have been formed in principle for all accounting and valuation differences between the valuation approaches in terms of time in the trading accounts according to IFRS for group purposes and the valuation approach in terms of tax (temporary differences) and for the consolidation procedures. Moreover, capitalised deferred taxes have been reported for future asset benefits from taxable deferred losses. Capitalised deferred taxes for all deductible temporary differences and for taxable deferred losses, however, have only been taken into consideration to the extent that it is likely that future taxable income will be available, against which the temporary differences or not yet used deferred losses can be offset. The deferred taxes have been calculated based on revenue tax rates according to IAS 12 "Income Taxes" which apply or have been decided in the individual countries as at the time of realisation in accordance with the current legal situation. A balancing of asset-side and liability-side deferred taxes has only been carried out where statutory offsetting is possible. Asset-side and liability-side deferred taxes have not been subject to interest in compliance with the directions of IAS 12 "Income Taxes".

Provisions and liabilities

Pension provisions have been calculated according to the projected unit credit method in accordance with IAS 19 "Employee Benefits". With this method, not only the pensions known and vested rights purchased as at the reporting date but also the future expected increases in pensions and salaries, allowing for relevant factors, are taken into account. The calculation is based on actuarial profits and losses from changes in stock and differences between the assumptions made and the actual developments. Actuarial profits and losses are not offset for the results until they lie outside the range of 10% of the extent of the obligations. The spread is across the future average length of service of the employees.

According to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", other provisions have been formed if there is a current liability towards third parties, whose assertion of the claim is likely and the estimated amount of the necessary provisions can be reliably estimated. The likelihood of the claim must be above 50%. The most likely amount is forwarded to provisions. Calculation is according to the full-cost basis. Provisions, whose residual term is longer than one year have been subject to interest at the usual market conditions.

The liabilities have been reported at their repayment amounts. Liabilities from financing and leasing relationships have been reported at the amount of the cash value of the future leasing payments in Other Liabilities. Payments on account received from customers have been reported under Liabilities.

Derivative financial instruments

In order to secure risk positions arising from currency and interest rate fluctuations, derivative financial instruments such as forward currency transactions and interest swaps have been purchased. The hedging transactions cover interest rate fluctuations from booked property transactions and for currency risks and also for risks from pending deliveries and work and services. In order to hedge currency risks from the activities in the GILDEMEISTER group, only forward currency risks have been used. Interest rate hedging transactions (Swaps) are used to reduce the effect of interest rate changes on the financing costs for a variable interest investment loan. In the case of derivative financial instruments, the GILDEMEISTER group is exposed to a credit risk which arises from the non-fulfilment of the contractual agreements by the contractual partner. This credit risk is minimised by the fact transactions are only concluded with contractual partners with a first class creditworthiness.

According to IAS 39 “Financial Instruments: Recognition and Measurement”, all derivative financial instruments are reported as market value regardless of their purpose or reason.

Forward currency transactions are assessed individually at the forward rate on the reporting date and resulting price differences from the counter forward rate are recorded in the Income statement.

Market changes of the interest swap agreements, to which hedge accounting is applied, are reported in the equity capital. Since there are Cash-Flow-Hedges, the unrealised profits and losses for the amount of the underlying transaction covered (hedge-effective part) are initially reported in the equity capital without affecting the results. The (hedge-ineffective) part of the changes in market value not covered by the underlying transaction is immediately included in the result. A transfer to the Income statement occurs simultaneously with the effect on the result of the secured underlying transaction.

Derivative financial instruments are concluded and settled according to internal guidelines which bindingly determine the framework, the responsibilities, as well as the reporting and the controls.

Sales revenue

Sales revenue is reported corresponding to the criteria of IAS 18 “Revenue”. Charges billed to the customers for deliveries and work and services – reduced by revenue reductions, contractual penalties and discounts – are reported in the sales revenue. Sales revenue is reported when the goods or products have been delivered or services provided.

5 FOREIGN CURRENCY
CONVERSION

All annual financial statements of the group's overseas companies prepared in foreign currencies are translated according to the concept of the function currency (IAS 21 "The Effects of Changes in Foreign Exchange Rates"). Since all subsidiaries operate their business financially, economically and organisationally independently, this is the respective national currency. The assets and debts have been translated at the average exchange rate as at the reporting date and the expenditure and income at the annual average exchange rate. Conversion differences arising from these different conversion rates in the Balance Sheet and the Income statement have been treated neutrally. The exchange rate differences from the conversion of equity capital are offset against the equity capital.

Monetary positions (liquid funds, receivables and liabilities) in foreign currencies in the individual annual reports are reported at the exchange rate of the reporting date. Non-monetary positions in foreign currencies have been reported at the historical values. The differences from the conversion of monetary positions have been offset with effect on the result.

Accounting according to the provisions of IAS 29 "Financial Reporting in Hyper-inflationary Economies" was not necessary as there are no substantial subsidiaries in the GILDEMEISTER group domiciled in hyper-inflation countries

The exchange rates of major currencies have developed as follows:

Currencies	iso-Code	Exchange rate as at the reporting date = 1 €		Average exchange rate = 1 €	
		31 Dec. 2002	31 Dec. 2001	31 Dec. 2002	31 Dec. 2001
British Pound	GBP	0.65020	0.60880	0.62786	0.61970
Swiss Franc	CHF	1.45250	1.48050	1.46711	1.50890
Polish Zloty	PLN	4.00720	3.50680	3.85461	3.65390
Czech Krone	CZK	31.42000	31.99000	30.85308	33.68830
us-Dollar	USD	1.04150	0.88200	0.94532	0.89220
Canadian Dollar	CAD	1.63850	1.41020	1.48353	1.38520
Mexican Peso	MXN	10.74000	8.06000	9.17769	8.33080
Brazilian Real	BRL	3.71120	2.05740	2.80832	2.09740
Japanese Yen	JPY	124.19000	115.72000	117.91462	108.83080
Singapore Dollar	SGD	1.80860	1.63350	1.69129	1.60210
Malaysian Ringgit	MYR	3.97540	3.35490	3.59109	3.38690
Indian Rupee	INR	49.95000	42.59000	45.91462	42.14330
Chinese Renminbi	CNY	8.62470	7.30340	7.82555	7.38670
Taiwanese Dollar	NTD	36.29610	30.94000	32.64442	30.15590
Korean Won	KRW	1252.42000	1165.00000	1175.77308	1150.61670
Australian Dollar	AUD	1.84970	1.73320	1.74050	1.74150

6 SUBSTANTIAL
CHANGES FROM THE
CONVERSION FROM
HGB TO IFRS

The conversion from HGB to IFRS on 01 January 2001 was retroactive, assuming that the provisions of IFRS had always applied (SIC-8 “First- Time Application of IASS as the Primary Basis of Accounting”). The resulting differences compared to the group annual report according to HGB have been included in the equity capital or offset with same.

Compared to the accounting and valuation methods according to the Commercial Code, the following substantial changes have occurred for the GILDEMEISTER group:

- _ Different value for the stocks (IAS 2 “Stocks”),
- _ Deferred taxes formed based on the accounting oriented liability method (for so-called temporary differences) and for future asset benefits from taxable deferred losses (IAS 12 “ Income Taxes”),
- _ Return of taxable depreciations overseas (IAS 16 “Property, Plant and Equipment”),
- _ Change of the allocation of commercial ownership for financing leasing agreements (IAS 17 “Leases”),
- _ Valuation of the provisions for pensions according to the projected unit credit method (IAS 19 „Employee Benefits“),
- _ Currency conversion according to the concept of the functional currency (IAS 21 “The Effects of Changes in Foreign Exchange Rates”),
- _ Treatment of goodwill when acquiring a company (IAS 22 “Business Combinations”),
- _ Consolidation of special purpose entities (IAS 27 “Consolidated Financial Statements and Accounting for Investments in Subsidiaries” in conjunction with SIC-12 “Consolidation – Special Purpose Entities”),
- _ Omission of expenditure provisions due to a lack of external obligations and provisions, for which likelihood of the claim is less than 50%, and valuation of provisions at their most likely value (IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”),
- _ Capitalisation of development costs (IAS 38 “Intangible Assets”), and
- _ Reporting and market value valuation of derivative financial instruments (IAS 39 “Financial Instruments: Recognition and Measurement”).

As a result of the transfer from HGB to IFRS, the equity capital increased as at 31 December 2001 by € 26,821 κ. The following overview summarises the accounting and valuation differences between HGB and IFRS and carries the equity capital forward according to HGB as at 31 December 2001 to the first day of the subsequent business year (01 January 2002) whose accounts are in accordance with IFRS:

	€ κ
Equity capital as at 31 December 2001 according to HGB (incl. other shareholders' holdings)	215,129
(+) Capitalisation of development costs	11,789
(+) Effect of financing and leasing relationships	1,721
(-) Approach and valuation differences in the fixed assets	-3,232
(+) Inventory valuation	1,694
(+) Dissolution of write-downs on receivables	2,894
(+) Delimitation of deferred taxes (including deferred and accrued deferred taxes on deferred losses)	20,038
(-) Revaluation of provisions for pensions balanced with the removal of other provisions	-1,228
(-) Market valuation of financial instruments	-1,237
(-) Other accounting and valuation differences	-5,618
Equity capital as at 01 January 2002 according to IFRS (incl. other shareholders' holdings)	241,950

The consolidated annual profit 2001 according to IFRS is € 15,252 κ less than according to HGB, mainly as a result of the deferred tax charges. The following represents the transfer of the consolidated annual profit 2001 from HGB to IFRS:

	€ κ
Consolidated annual profit 2001 according to HGB	41,037
(+) Capitalisation of development costs	11,272
(-) Effect of financing and leasing relationships	-237
(-) Inventory valuation	-762
(+) Dissolution of write-downs on receivables	69
(-) Dissolution of capitalised deferred taxes	-19,888
(-) Revaluation of provisions for pensions balanced with the removal of other provisions	-4,558
(-) Other accounting and valuation differences	-1,148
Consolidated annual profit 2001 according to IFRS	25,785

Notes to the individual items of the Balance Sheet

7 INTANGIBLE ASSETS

Of the reported goodwill, € 72,327 k refers to the depreciation of the reduced capitalised difference from the capital consolidation and € 1,556 k refers to the depreciation of reduced goodwill from the individual annual reports. The goodwill is subject to scheduled depreciation over 10 years except for the goodwill of the holding acquired in GILDEMEISTER Italiana of € 58,965 k (previous year: € 50,596 k), which is depreciated over 15 years.

Compared to the previous year, there is additional goodwill of € 12,351 k as a result of the purchase of the remaining 14.0% of the shares in GILDEMEISTER Italiana S.p.A., Brembate di Sopra, Italy, at a purchase price of € 18,976 k by Holding Macchine Utensili S.p.A., Milan, Italy, in the business year 2002. Depreciation is linear over 15 years. In the reporting year, the depreciation was € 253 k.

GILDEMEISTER Aktiengesellschaft purchased an additional 39.0% of the shares in a & f Stahl- und Maschinenbau GmbH, Würzburg, from a minority shareholder at the purchase price of € 4,000 k. As a result, additional goodwill of € 3,732 k was gained. This is depreciated linearly over 10 years. In the business year, the depreciation was € 194 k.

Apart from this, in the reporting year, GILDEMEISTER Aktiengesellschaft increased its holding in FAMOT Pleszew S.A., Pleszew, Poland by another 3.0% to 99.0% at a purchase price of € 305 k. In conjunction with the purchase, there was additional goodwill of € 273 k, which is also subject to linear depreciation over 10 years. The depreciation in the reporting year was € 14 k.

Financing for the acquisitions was through the existing short-term credit lines and, in conjunction with the addition of the remaining shares in GILDEMEISTER Italiana S.p.A., through the use of a long-term loan which is repayable in quarterly instalments of € 1,445 k from June 2003. The 14.0% of the share capital of GILDEMEISTER Italiana S.p.A. is security for this.

In 2002, as in the previous year, there were no unscheduled write-downs on goodwill.

The capitalised development costs refer to new machine tool projects in the German and overseas production companies. The development costs capitalised by the end of the business year were € 19,711 k (previous year: € 11,789 k). The research and development costs directly recorded as expenditure in the business year 2002 were € 37.4 million (previous year: € 38.5 million).

Included in the amount for commercial proprietary rights and similar rights are, inter alia, purchased patents, utility-model patents and trademarks, as well as IT software. Rights and software are subject to scheduled depreciation over the life of three to four years.

No unscheduled depreciations or appreciations were necessary in the reporting year for intangible assets.

The development of the group's intangible assets is represented in the Consolidated Fixed Asset Movement Schedule. The investments are explained in the group annual report.

8 TANGIBLE ASSETS

The development of the group's tangible assets is represented in the Consolidated Fixed Asset Movement Schedule. The investments are explained in the group annual report.

The currency change between the reporting date and the change in fixed assets as a result of the addition to the consolidation group in the business year 2002 are reported in the Consolidated Fixed Asset Movement Schedule under "Other changes".

No unscheduled depreciations or appreciations were necessary in the reporting year for tangible assets.

Land and buildings are charged with mortgage rights as security for long-term bank loans.

Included in the tangible assets are leased assets totalling € 10,660 κ (previous year: € 8,748 κ) which, because of the design of the underlying leasing contracts, are allocated to the respective group company as the commercial owner ("Finance Lease").

The book value of the capitalised leasing objects are categorised as follows:

	31 Dec. 2002	31 Dec. 2001
	€ κ	€ κ
Land and buildings	4,073	2,789
Technical equipment and machinery	4,789	5,269
Other assets, operating and Business equipment	1,798	690
	10,660	8,748

9 FINANCIAL ASSETS

The development of the group's tangible assets is represented in the Consolidated Fixed Asset Movement Schedule. The market values correspond to the book values.

There were depreciations of € 2 κ in the reporting year. There were no appreciations.

An overview of the affiliated companies and information about domicile, equity capital, capital shares and the results for the business year 2002 can be found on pages 234 and 235 in a separate overview at the end of the group notes.

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

- _ GILDEMEISTER Drehmaschinen GmbH,
- _ DECKEL MAHO Pfronten GmbH,
- _ DECKEL MAHO Seebach GmbH.

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

- _DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- _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 am Main 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 BAZ GmbH DECKEL MAHO GILDEMEISTER,
- _DMG Service UFB GmbH DECKEL MAHO GILDEMEISTER,
- _DMG Service UFB Seebach GmbH DECKEL MAHO GILDEMEISTER,
- _DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER,
- _DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER.

Since 1 January 2002, DECKEL MAHO Pfronten GmbH has concluded a profit and loss transfer agreement with its wholly-owned subsidiary LASERTEC GmbH.

10 STOCKS

The stocks are categories in the Balance Sheet.

The stocks increased by € 997 κ compared to the previous year. Interim profits were made in the stocks from deliveries and work and services between group companies of € 15,134 κ. The difference compared to the previous year was consolidated to affect the results.

Of the stocks reported as at 31 December 2002, € 39,615 κ (previous year: € 32,564 κ) was reported at their net disposal values.

11 DEBTORS AND OTHER ASSETS

	Reported in the Balance Sheet as at 31 Dec. 2002	With a residual term of more than one year	Reported in the Balance Sheet as at 31 Dec. 2001
	€ κ	€ κ	€ κ
1. Trade debtors	295,265	0	299,398
2. Other assets	21,360	1,642	34,936
	316,625	1,642	334,334
Reported in the Balance Sheet as at 31 Dec. 2001		1,493	334,334

Existing individual risks have been taken into account through direct deductions. The market values of the receivables correspond to the reported values.

The other assets include the following positions:

	As at	As at
	31 Dec. 2002	31 Dec. 2001
	€ k	€ k
Tax refund claims	9,081	16,381
Accounts receivable debtors and payments on account	4,898	6,285
Security deposits and other security payments	1,191	961
Receivables from employees and former employees	1,110	845
Deutsche Factoring Bank	740	6,337
Re-insurance for social security for the employees	696	318
Short-term loans to third parties	443	98
Market value of derivative financial instruments	430	0
Others	2,771	3,711
	21,360	34,936

12 SECURITIES

The securities in the current assets include available-for-sale securities which are assessed at market prices. They are mainly held by GILDEMEISTER Italiana S.p.A., Brembate di Sopra, Italy.

13 CASH-IN-HAND, BUNDESBANK BALANCE AND OTHER BANK BALANCES

This refers overwhelmingly to balances held with financial institutions.

The development of liquid funds, which form the financial funds according to IAS 7 “Cash Flow Statements”, is represented in the Cash Flow Statement.

14 DEFERRED TAXES

The asset-side and liability-side deferred taxes are allocated to the following positions:

	31 Dec. 2002		31 Dec. 2001	
	Asset	Liability	Asset	Liability
	€ k	€ k	€ k	€ k
Fixed assets	3,831	15,936	3,412	9,903
Current assets	574	1,436	2,688	2,212
Provisions	3,454	403	4,112	235
Liabilities	8,275	7	4,624	45
Taxable deferred losses	23,785	-	11,180	-
Consolidations	5,418	2,667	6,417	0
	45,337	20,449	32,433	12,395
Balancing	-12,449	-12,449	-9,294	-9,294
Total	32,888	8,000	23,139	3,101

Included in the total amount of the reported capitalised deferred taxes of € 32,888 κ (previous year: € 23,139 κ) are capitalised tax reduction claims of € 23,785 κ (previous year: € 11,180 κ), which result from the expected use of existing deferred losses in subsequent years. The realisation of these deferred losses is guaranteed with sufficient security.

Capitalised deferred taxes have been written-down if a sufficiently high income cannot be expected in the future, taking into account all influencing factors. The estimates can be subject to change regardless of future developments. The taxable deferred losses amount to € 72,243 κ (previous year: € 41,292 κ), of which € 8,722 κ (previous year: € 5,383 κ) has not been taken into account.

15 ACCRUALS AND
DEFERRALS

Included in the prepayments and accrued income are mainly interest, rent and leases, as well as insurance premiums. The total capitalised amount of € 3,935 κ (previous year: € 4,939 κ) is due within one year.

16 EQUITY CAPITAL

The development of the individual components of the group equity capital for the business years 2002 and 2001 are represented in the Development of the group capital and the shares held by other shareholders.

Subscribed capital

The capital stock of GILDEMEISTER Aktiengesellschaft is € 75,086,510.20 and is divided into 28,879,427 bearer shares with a calculated nominal value of € 2.60 per share.

The executive board is authorised to increase the capital stock, with the consent of the supervisory board, to a nominal € 37,500,000.00 before 31 March 2006 by issuing new shares in exchange for cash or material deposits. This power can be exercised in instalments. The shareholders' statutory subscription rights are granted for at least € 29,000,000.00. In respect of up to € 7,500,000.00.

a) new shares can be issued in exchange for material deposits;

or

b) new shares can be issued in exchange for a cash payment which must not substantially undercut the market price at the time of setting.

In cases a) and b), the shareholders' statutory subscription rights shall be excluded by a resolution of the executive board.

In respect of another amount of up to € 1,000,000.00, new shares can be issued in exchange for cash deposits to employees of the company and to employees of affiliated companies; to this extent, the shareholders' statutory subscription rights shall also be excluded by a resolution of the executive board.

Capital reserves

The capital reserves include a surcharge for the issue of shares and has not changed compared to the previous year.

Revenue reserve

Statutory reserve

The statutory reserve remains unchanged compared to the previous year at € 680,530.00.

Other profit reserves

The profit reserves also include the results made in the past by the companies included in the group annual report, where they have not been paid out. Furthermore, the profit reserves include offsetting of liability-side differences from the capital consolidation of the subsidiaries consolidated before 01 January 1995 and the neutral adjustments within the framework of the initial application of IFRS. Finally, the differences from the neutral currency conversion of annual reported from overseas subsidiaries and the effects of the neutral valuation of financial instruments after taxes are also reported. The neutrally offset deferred taxes total € 894 κ (previous year: € 791 κ).

A detailed overview of the composition and change of the other profit reserves in the business year 2002 and in the previous year is represented in the Development of the group capital and the shares held by other shareholders.

Proposed appropriation of earnings

According to the Companies Act, the annual financial statements of GILDEMEISTER Aktiengesellschaft forms the basis of the profit appropriation for the business year. Therefore, the dividend payable to the shareholders depends on the balance sheet profit reported in the annual report of GILDEMEISTER Aktiengesellschaft.

GILDEMEISTER Aktiengesellschaft finished the business year 2002 with an annual profit of € 4,349 κ. At the General Meeting of Shareholders on 16 May 2003 it shall be proposed that the balance sheet profit of € 4,349 κ be carried forward.

17 SHARES HELD BY OTHER SHAREHOLDERS

Shares held by other shareholders include the external holdings in the consolidated equity capital of the included companies and in 2002 totalled € 1,193 κ (previous year: € 10,773 κ).

Compared to the business year 2001, the holdings of other shareholders has decreased substantially as a result of the acquisition of other holdings group companies. Save for a few exceptions, GILDEMEISTER Aktiengesellschaft directly or indirectly holds 100% of the shares (see Overview of Holdings, pages 234 and 235 of the group notes).

18 PROVISIONS FOR
PENSIONS

The provisions for pensions are formed for liabilities from vested rights and from current payments to entitled active and former employees of the companies of the GILDEMEISTER group and their dependants. Depending on the legal, economic and tax conditions of the respective country, there are various forms of pension insurance which are typically based on the employee's length of service and salary.

For the corporate pension provision, there is a distinction between contribution and payment based systems.

For Defined Contribution Plans, the respective company does not enter into any liabilities other than the payment of contributions to purpose-built funds. The expenditure for this in the business year 2002 totalled € 1,380 κ (previous year: € 1,322 κ).

For payment-based pension plans, the company is obliged to make the promised payments to active and former employees ("Defined Benefit Plans"), where there is a distinction between provision and funds financed systems.

In the GILDEMEISTER group, the provision commitments are financed through allocation to reserves. There are only insubstantial funds-financed pension commitments.

The amount of the pension liability ("Defined Benefit Obligation") has been calculated according to actuarial methods with an estimate of the relevant factors. Apart from assumptions about life expectancy, the following premises have been assumed in respect of the parameters to be set for the actuarial calculations:

	Germany		Other countries	
	2002	2001	2002	2001
	%	%	%	%
Interest rate	5.75	6.00	4.50-6.00	6.00
Salary trend	0.00	0.00	3.00-6.00	6.00
Pension trend	1.20	1.20	1.50	1.50

The salary trend includes expected future increases in salaries which are estimated annually depending on, inter alia, inflation and the length of service. Since the pension commitments entered into for German group companies are independent of salary increases, the salary trend has not been included in the calculation of the corresponding pension provisions.

Actuarial profits or losses can be incurred as a result of increases or decreases of the cash value of the payment oriented liabilities, the cause of which can be, inter alia, changes to the calculation parameters and changes to estimates in respect of the risk of the pension liabilities. The net value of the provisions for pensions can be derived as follows:

	31 Dec. 2002	31 Dec. 2001
	€ κ	€ κ
Cash value of the provisions-financed pension commitments	32,663	30,807
+ Cash value of the funds-financed pension commitments	395	0
= Cash value of the pension commitments	33,058	30,807
- Market value of planned assets	-949	0
= Cash value of pension commitments (after deduction of the planned assets)	32,109	30,807
- Balance of actuarial profit/loss not yet included in the balance sheet	-3,383	-937
= Net value of the balanced amounts on reporting date	28,726	29,870
Of which are pension provisions	29,328	29,870
Of which are assets (-)	-602	0

Of the pension provisions of € 29,328 κ (previous year: € 29,870 κ), € 28,514 κ (previous year: € 29,007 κ) was for German group companies; this corresponds to around 97.0% of the total amount.

In the business year 2002, there was a total expenditure of € 1,766 κ (previous year: € 2,450 κ), which comprises the following components:

	31 Dec. 2002	31 Dec. 2001
	€ κ	€ κ
Current expenditure for service	104	157
+ Correction of 2001 end value	0	568
+ Interest expenditure	1,725	1,725
- Expected asset income of the fund	-64	0
+ Actuarial profits (-) and losses (+)	1	0
= Total expenditure for payment-oriented pension plans	1,766	2,450

	31.12.2002	31.12.2001
	€ κ	€ κ
Balance sheet value as at 01 January	29,870	29,918
+ Personnel costs	1,766	2,450
- Pension payments made or allocation to funds	-2,911	-2,548
+ Asset transfers	1	50
= Balance sheet value as at 31 December	28,726	29,870
Pension provisions	29,328	29,870
Fixed assets (-)	-602	0

Included in the liabilities similar to pension liabilities are the provisions for future contributions to the pension insurance, which have also been calculated according to actuarial principles.

19 TAX PROVISIONS AND
OTHER PROVISIONS

The following is a statement of the main provisions:

	As at 31 Dec. 2002		As at 31 Dec. 2001	
	Total	Due within one year	Total	Due within one year
	€ κ	€ κ	€ κ	€ κ
Tax provisions for deferred taxes	19,324	19,324	14,076	14,076
Personnel costs	38,169	26,950	39,338	28,620
Risks from warranties and retrofittings	31,280	31,280	26,567	26,567
Selling expenses	11,992	11,761	13,966	13,917
Invoices not yet received	7,933	7,933	2,065	2,065
Legal and consulting fees, fee for the preparation of accounts	4,130	4,130	3,889	3,889
Anticipated losses related to incomplete contracts	920	920	624	624
Other	5,310	5,310	8,908	8,908
	99,734	88,284	95,357	84,590
Total	119,058	107,608	109,433	98,666

The tax provisions contain current taxes for income and revenue as well as other operating taxes which have been formed for the business years 2001 and 2002.

Included in the provisions for the group's personnel expenses is € 7,920 κ for old-age part-time work (previous year: € 8,133 κ) and € 3,299 κ for anniversary bonuses (previous year: € 2,585 κ). The provisions for anniversary bonuses and for part time retirement plans are subject to interest and are accrued at their cash value.

The other liabilities mainly include expenditure for outstanding set-up work, orders already billed and various other services.

The development of the other provisions can be seen in the Schedule of Provisions:

	As at 01 Jan. 2002	Additions	Use	Dissolution	Other changes	As at 31 Dec. 2002
	€ K	€ K	€ K	€ K	€ K	€ K
Tax provisions for deferred taxes	14,076	13,753	7,264	1,080	-161	19,324
Personnel costs	39,338	23,496	21,153	3,348	-164	38,169
Risks from warranties and retrofittings	26,567	14,893	9,090	1,065	-25	31,280
Selling expenses	13,966	10,540	8,899	3,400	-215	11,992
Invoices not yet received	2,065	7,154	1,559	365	638	7,933
Legal and consulting fees, fee for the preparation of accounts	3,889	3,855	2,812	772	-30	4,130
Anticipated losses related to incomplete contracts	624	920	426	198	0	920
Other	8,908	3,666	5,322	1,225	-717	5,310
	95,357	64,524	49,261	10,373	-513	99,734
Total	109,433	78,277	56,525	11,453	-674	119,058

The other changes include the change of the consolidation group, currency adjustments and book transfers.

20 LIABILITIES

	Balance sheet at 31 Dec. 2002	Of which due within 1 year	Of which due within 1 to 5 years	Of which due after 5 years	Balance sheet at 31 Dec. 2001
	€ K	€ K	€ K	€ K	€ K
1. Bank loans and overdrafts	324,223	204,315	101,844	18,064	280,821
2. Payments received on account	30,461	30,461	0	0	35,062
3. Trade creditors	131,296	130,221	1,075	0	113,686
4. Bills of exchange payable	13,149	13,149	0	0	14,799
5. Other creditors ^{2), 3)}	38,141	31,143	5,659	1,339	42,841
	537,270	409,289	108,578	19,403	487,209
Remaining terms at 31 Dec. 2001		358,902	110,996	17,311	487,209

1) Of which secured by mortgages: € 53,255 K (previous year: € 70.660 K)

2) Of which from taxes: € 10,729 K (previous year: € 16,102 K), as part of social security: € 6,421 K (previous year: € 6,655 K)

3) Market value derivative financial instruments: € 2,292 K (previous year: €: 2,027 K)

The main liabilities towards financial institutions are as follows:

	31 Dec. 2002				31 Dec. 2001			
	Currency	Book value in € K	Residual term in years	Effective Interest rate %	Currency	Book value in € K	Residual term in years	Effective Interest rate %
Loans	EUR	158,278	to 9	1.50 - 12.00	EUR	147,919	to 10	1.50 - 12.00
Loans	JPY	2,416	to 9	0.95 - 2.50	JPY	0		
Current account overdrafts	Various	163,529	to 1	3.00 - 12.00	Various	132,902	to 1	3.00 - 12.00
		324,223				280,821		

Included in the group's liabilities towards financial institutions is a loan with an original volume of € 80.0 million for the 67% of the share capital of GILDEMEISTER Italiana S.p.A., Brembate di Sopra, Italy, which is pledged to the lending banks. The loan as at 31 December 2002 is valued at € 50,909 K. Compared to the previous year, there is an additional loan in the liabilities towards financial institutions to finance the purchase of further holdings in GILDEMEISTER Italiana S.p.A., of € 18,783 K. Repayment shall be from business year 2003. For this loan, an additional 14.0% of the share capital of GILDEMEISTER Italiana S.p.A. has been pledged to the lender. In addition, fixed assets have been pledged by DECKEL MAHO Seebach GmbH, Seebach, to the lending banks for long-term loans.

The provision of the short-term working funds for GILDEMEISTER Aktiengesellschaft and – as part of the groups cash management – for all domestic subsidiaries is through several financial institutions. At the balance sheet, the available short-term credit facilities – to be used as either overdraft facility, credit by way of bank guarantee or acceptance credit – total € 180.0 million. The general consortium agreement (STUFF – **Short Term Unique Financial Facility**) has a term to 31 December 2003.

Shares in DECKEL MAHO Pfronten GmbH, Pfronten, DECKEL MAHO Seebach GmbH, Seebach, and DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld, totalling a nominal value of € 39,181 K have been pledged as first priority to an overseas banking consortium.

The overseas proportion of liabilities towards financial institutions totals around 60.0%.

All liabilities towards financial institutions of € 324,223 K correspond to their market value. For the other liabilities, the market value of the short-term liabilities and the medium and long-term liabilities correspond to the reported values. Liabilities, which arose after the reporting date are of little economic importance.

The liabilities from finance leasing arrangements total € 7,792 κ (previous year: € 7,027 κ). They are reported without allowing for the future interest expenditure under other liabilities. The total of all payments to be made in the future as a result of finance leasing arrangements is € 8,817 κ (previous year: € 8,260 κ).

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

	31 Dec. 2002	31 Dec. 2001
	€ κ	€ κ
Total of future minimum leasing payments		
Due in one year	4,400	2,348
Due between 1 and 5 years	4,225	4,598
Due in more than 5 years	192	1,315
	8,817	8,260
Interest included in the future minimum leasing payments		
Due in one year	398	490
Due between 1 and 5 years	598	692
Due in more than 5 years	29	51
	1,025	1,233
Cash value of future minimum leasing payments		
Due in one year	4,002	1,858
Due between 1 and 5 years	3,627	3,906
Due in more than 5 years	163	1,263
	7,792	7,027

21 DEFERRED INCOME

The deferred income results from the subgroup GILDEMEISTER Italiana of T€ 1,958 (previous year: T€ 2,013). It refers to the accrual of future interest income from a specific financing programme by the Italian State (Sabatini financing).

In addition, the investment subsidies of T€ 4,147 (previous year: T€ 2,387) granted from finds from the community task “Improving the regional Economic Structure” is reported according to IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”. In the business year 2002, investment subsidies of T€ 2,266 (previous year: T€ 1,836) were paid which are included in the deferred income. The deferred positions are dissolved corresponding to the scheduled depreciation of the investment purchased.

22 CONTINGENCIES AND
OTHER FINANCIAL
LIABILITIES

No provisions have been formed for the following possible liabilities, reported at their nominal value, because the risk of considered as unlikely:

	As at 31 Dec. 2002	As at 31 Dec. 2001
	€ K	€ K
Contingencies		
Bill commitments	19,971	19,042
Guarantees	14,396	8,034
Warranties	5,523	1,445
Other contingencies	9,709	8,909
	49,599	37,430

Other financial liabilities exist, notably from leasing and long-term rental agreements.

The total of the minimum leasing payments from rental and leasing agreements, which cannot be cancelled, (finance leasing and operating leasing agreements) comprise the following, listed by due date. The contracts have terms of between 2 and 23 years and in part include extension and purchase options.

	31 Dec. 2002	31 Dec. 2001
	€ K	€ K
Nominal total of future minimum leasing payments		
Due in one year	17,509	16,202
Due between 1 and 5 years	18,703	25,629
Due in more than 5 years	599	18,803
	36,811	60,634

For operating leasing agreements:

	31 Dec. 2002	31 Dec. 2001
	€ K	€ K
Nominal total of future minimum leasing payments		
Due in one year	13,111	13,855
Due between 1 and 5 years	14,478	21,031
Due in more than 5 years	405	17,488
	27,994	52,374

23 DERIVATIVE
FINANCIAL
INSTRUMENTS

There are no sub-letting agreements included in the total of future minimum leasing payments, which cannot be cancelled. No rental payments have been recorded which affect the results.

The order commitment for tangible assets is T€ 1,959 (previous year: T€ 2,784).

The nominal and market value of the existing derivatives as at the reporting date are as follows:

	Nominal value		Market value	
	31 Dec. 2002	31 Dec. 2001	31 Dec. 2002	31 Dec. 2001
	€ K	€ K	€ K	€ K
Forward currency transactions	33,269	0	430	0
Interest rate swaps	50,909	69,091	-2,292	-2,027
	84,178	69,091	-1,862	-2,027

The nominal values correspond to the unbalanced total of the currency and interest portfolio. The market values reported correspond to the price at which third parties would assume rights or duties from the financial instruments. The market values are the spot values of the derivative financial instruments, ignoring counter developments of the underlying transactions. The market values of the derivative financial instruments reported are calculated based on quoted market prices or by financial calculations based on usual market models.

All forward currency transactions entered into have a residual term of less than one year.

Interest rate swaps are used by Holding Macchine Utensili S.p.A., Milan, Italy and have a residual term of 4 years. They provide payment of fixed interest in a range from 5.41% to 5.42% p.a. against a 3-month Euribor as reference rate.

Notes to segmental reporting

24 NOTES TO SEGMENTS The business activities of the GILDEMEISTER group are divided into business segments as the primary reporting format and into regions as the secondary reporting segment within the framework of segmental reporting according to IAS 14 "Segment Reporting".

The business activities of the GILDEMEISTER group include the segments "Machine tools", "Services" and "Corporate Services". This segmentation follows the management and steering of the group. The individual companies are allocated to the segments depending on their commercial activity.

The segment "**Machine Tools**" includes the group's new machine business and comprises technologies from "turning", "milling" and "Lasering/Ultrasonic". This includes the lathes and turning machines of

- _ GILDEMEISTER Drehmaschinen GmbH, Bielefeld,
- _ GILDEMEISTER Italiana S.p.A., Brembate di Sopra, Italien,
- _ GRAZIANO Tortona S.p.A., Tortona, Italien,
- _ FAMOT Pleszew S.A., Pleszew, Polen,

the milling machines and machining centres of

- _ DECKEL MAHO Pfronten GmbH, Pfronten,
- _ DECKEL MAHO Seebach GmbH, Seebach,
- _ DECKEL MAHO Geretsried GmbH, Geretsried,

the laser machines of

- _ LASERTEC GmbH, Pfronten,

and the ultrasonic machines of

- _ Hermann SAUER GmbH & Co. KG, Stipshausen/Idar-Oberstein.

DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China, founded in 2002, produces both lathes and milling machines.

All machines produces are allocated to machine tools so that there is a high level of congruence between the business fields.

The "**Services**" segment is directly connected to machine tools across all areas and with its products and technical services forms an independent segment. It mainly includes DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld, and its subsidiaries.

Apart from remuneration for research and consultancy services, this includes the service and spare parts business, service products such as the DMG-Powertools (MF-Programmer 3D, DMG-Messenger and DMG-Netservice), training products and qualification services, application technology, set up and business with used machines. The procurement services of a & f Stahl- und Maschinenbau GmbH, Würzburg, and the components and tools of SACO S.p.A., Castelleone, Italy, also belong to this segment.

The **“Corporate Services”** segment includes GILDEMEISTER Aktiengesellschaft with its group-wide holding functions such as group strategy, product development, logistics and production, financing and controlling, personnel and marketing, as well as group-wide infrastructure. A further area is Key-Accounting for looking after large-scale customers which, in order to correspond to the increasing globalisation of international companies, has been concentrated across regions and products. Moreover, Holding Macchine Utensili S.p.A., Milan, Italy is allocated to this segment as a financing company for Italian production plants.

The definitions of terms of the individual segmental data correspond to the taxation basis for the value-based corporate governance of the GILDEMEISTER group. This is based on the same accounting and valuation methods as the consolidated annual report.

The segmental assets include the operating assets, including goodwill and prepayments and accrued income.

The segmental debts comprise external capital and financial debts, including provisions and deferred income.

The investments are additions to tangible assets and intangible assets.

The depreciations refer to the segmental assets and also include depreciations for goodwill from the capital consolidation.

The transfer column represents the elimination of intercompany receivables and liabilities, income and expenditure and results between the segments.

The secondary segmentation is based on the location of the group companies and is divided into the regions Germany, Europe, North America, Asia and Other Countries, which includes Mexico and Brazil.

Notes to the cash flow statement

26 CASH FLOW STATEMENT

All payment flows for a business year are included in the cash flow statement according to IAS 7 "Cash Flow Statements" in order to represent the inflow and outflow of liquid funds. The payment streams are divided into current business and investment and financing.

The financial funds in the cash flow statement include all liquid funds reported in the balance sheet, i.e. cash on hand, Bundesbank balance and balances held with financial institutions, where these are available within 3 months. The cash flow from current business has been calculated indirectly by increasing the consolidated annual report by expenditure for which there is no payout and by reducing it by income from which no payments were received. The effects of currency conversion and changes to the consolidation group have been adjusted. By contrast, the cash flow from investments and financing activities has been calculated based on payments.

The financial investments of the business year 2002 mainly include the purchase of the remaining 14.0% of the shares in GILDEMEISTER Italiana S.p.A., Brembate di Sopra, Italy, at a purchase price of T€ 18,976 and the acquisition of shares in a & f Stahl- und Maschinenbau GmbH, Würzburg, of 39.0% at a purchase price of T€ 4,000 and FAMOT Pleszew S.A., Pleszew, Poland, of 3.0% at a purchase price of T€ 305.

The interest expenditure (T€ 25,361) and the interest income (T€ 2,414) correspond to the interest expenditure and interest income except for interest amounts forwarded to provisions.

The revenue taxes paid in business year 2002 totalled T€ 13,595.

Notes to the individual accounts in the income statement

27 SALES REVENUES

The fees for deliveries and work and services assigned by customer – reduced by income reductions, contractual penalties and discounts – are reported in the sales revenue.

This is represented as follows, divided by sales region:

	2002	2001
	€ K	€ K
Germany	491,719	567,900
EU (without Germany)	284,579	330,834
USA	65,811	81,309
Asia	93,214	72,156
Other countries	97,491	93,191
	1,032,814	1,145,390

The sales revenue is explained extensively in the section “Segmental reporting” in the Annual Report.

28 OTHER CAPITALISED PAYMENTS

The other capitalised payments are mainly from the capitalisation of development costs for machine tool projects according to IAS 38 “Intangible Assets”.

29 OTHER OPERATING REVENUES

	2002	2001
	€ K	€ K
Revenue unrelated to accounting period		
Retransfer of reserves	10,373	5,049
Retransfer of value adjustments	1,080	1,398
Profit on asset disposals	385	243
Receipt of payment for written-off delinquent accounts	42	15
Other revenues unrelated to accounting period	1,167	767
	13,047	7,472
Other operative revenues		
Changes in exchange rates	4,266	4,730
Use of provisions	2,882	4,834
Cost allocation and reimbursements of expenses	1,657	2,148
Letting and leasing	725	320
Payment of damages	532	308
Retransfer of asset-based bonuses	506	314
Bonus and allowances	157	433
Write-up of current assets	0	144
Other	2,483	898
	13,208	14,129
Total	26,255	21,601

30 COSTS OF MATERIALS The purchased services mainly refer to expenses for external production.

31 PERSONNEL COSTS The expenses for pensions for business year 2002 totalled € 1,421 κ (previous year: € 2,047 κ) for the group.

The total income for the active employees of the executive board was € 1,385 κ (previous year: € 1,781 κ) including € 450 κ of variable bonuses (previous year: € 930 κ). Because of reduced bonuses for business year 2001, provisions of € 163 κ were dissolved in the reporting year for this. € 642 κ (previous year: € 694 κ) was paid to former members of the board and their surviving dependants.

Pension provisions of € 6,731 κ (previous year: € 6,797 κ) have been formed for former board members and their surviving dependants.

Advances and loans to members of bodies were not granted. No contingencies were made for this group of people.

There are no share option programmes or similar share-based incentive systems. Thus there are no share option programmes or comparable remuneration components with long-term incentives for members of the bodies. There was no announcement regarding the purchase or sale of shares of purchase or sale rights (e.g. options) and rights which depend directly on the stock market price of the company by members of the executive or supervisory boards or by persons close to them.

No remuneration or similar benefits were paid by companies of the GILDEMEISTER group for services personally provided, in particular, consultancy and brokering services, to members of the bodies.

The number of persons employed has developed as follows compared to the previous year:

	Average level		Level as at reporting date	
	2002	2001	2002	2001
Waged earners	1,891	2,004	1,830	2,027
Salary earners	3,021	2,914	2,991	3,003
Trainees	199	185	224	204
	5,111	5,103	5,045	5,234

32 OTHER OPERATING
CHARGES

	2002	2001
	€ κ	€ κ
Expenses unrelated to the accounting period		
Losses from fixed-assets disposals	280	529
Other taxes	17	56
Other expenses unrelated to the accounting period	1,052	1,005
	1,349	1,590
Other operating costs		
Marketing and trade fairs	22,537	24,866
Travelling and entertainment expenses	18,951	19,841
Other external services	17,654	20,781
Rentals and leases	17,147	16,580
Freight out, packaging	17,085	17,516
Sales commissions	16,037	18,528
Costs of preparation of accounts, legal and consultancy fees	13,874	9,497
Transfer to reserves	10,146	15,881
Stationery, post and telephone expenses	8,983	9,164
Exchange rate and currency losses	8,795	3,136
Other personnel costs	4,767	6,353
Losses from the decline in economic usefulness of current assets items	4,241	4,387
Insurance	3,129	2,832
Investor Relations	1,246	2,308
Monetary transactions and capital procurement	1,703	1,278
Other taxes	792	765
Licences and trademarks	620	366
Other	8,786	10,347
	176,493	184,426
Total	177,842	186,016

Transfers to reserves result mainly from expenditure for guarantee work, improvements and losses from pending transactions. In the business year 2002, remuneration to the supervisory board was € 135 κ (previous year: € 351 κ).

- 33 OTHER INTEREST RECEIVABLES AND SIMILAR INCOME For the entire group, interest and similar income of € 2,414 κ arose (previous year: € 2,394 κ).
- 34 INTEREST PAYABLE AND SIMILAR CHARGES € 25,361 κ (previous year: € 24,057 κ) relates to interest costs mainly for interest for the group's loans.
Included in interest and similar charges is € 1,725 κ (previous year: € 1,725 κ) for the interest from the transfer to pension provisions.
- 35 EXTRAORDINARY CHARGES AND INCOME In the business year 2002 there was no extraordinary expenditure or income.
- 36 TAXES ON PROFIT (LOSS) This account includes current and deferred tax expenditure and income, as follows:

	2002	2001
	€ κ	€ κ
Current taxes	19,781	9,064
Deferred taxes	-8,568	19,888
	11,213	28,952

Current taxes include corporation and commercial tax for domestic companies and comparable revenue-dependent taxes for overseas companies, which have been calculated based on the proposed profit allocations. The calculation is according to the tax regulations applicable to the individual companies. € 1,160 κ (previous year: € 1,015 κ) resulted from tax refunds in business year 2002 for previous years. There are also late tax payments of € 3,391 κ (previous year: € 498 κ) for previous years.

Deferred tax income not related to this period of € 472 κ (previous year: € 0 κ) is offset by deferred tax charges not related to this period of € 5,441 κ (previous year: € 0 κ).

The current income tax has been reduced by € 384 κ (previous year: € 0 κ) as a result of the use of previously ignored deferred losses from previous periods. In addition, there was a reduction of the deferred tax charges of € 418 κ (previous year: € 0 κ) due to previously ignored taxable losses from previous periods.

Depreciations on capitalised deferred taxes from deferred losses formed in previous years of € 3,662 κ (previous year: € 0 κ) have been made.

There were no current taxes in conjunction with extraordinary positions and the transfer of business areas in the business year. Based on the maintenance of accounting methods, there was no additional tax charge or income. There have not been any substantial errors in the past so that no influence arose.

The deferred taxes are calculated based on the current legal situation applicable to or expected for the individual countries at the time of realisation. In Germany, there were no substantial effects to the deferred taxes resulting from the changes through the Flood Solidarity Surcharge Act of 19 September 2002, with which the corporation tax rate increased from 25% to 26% for a limited period of one year. Allowing for commercial revenue tax and the solidarity surcharge, this gives a tax rate for German countries of 39% (previous year: 39%). The tax rates overseas lie between 22% and 42%.

The neutral deferred taxes on the asset and liability sides of the balance sheet recorded in the equity capital as at the reporting date are € 894 κ (previous year: € 791 κ). The revenue tax charge in the business year 2002 of € 11,213 κ (previous year: € 28,952 κ) is € 14,136 κ higher (previous year: € 7,604 κ higher) than the expected revenue tax income of € 2,923 κ (previous year: revenue tax charge € 21,348 κ), which would theoretically arise for the German tax rate of 39% (previous year: 39%) at a group level.

The difference between the current and expected revenue tax charge is due to the following:

	2002	2001
	€ κ	€ κ
Result of ordinary business before taxes	-7,496	54,737
GILDEMEISTER revenue tax in percent	39	39
Theoretical tax income/charge	-2,923	21,348
Tax effects of the following influences		
Adjustment due to different tax rate	705	-40
Tax reduction due to tax exempt revenues	-1,514	-124
Depreciation on goodwill from capital consolidation	2,118	1,795
Deferred taxable losses	4,902	3,178
Tax increase in non-deductible expenditure	3,440	2,521
Late tax payments or refunds for previous years	2,231	-517
Other adjustments	2,254	791
Taxes on income and revenue	11,213	28,952

37 PROPORTION OF
RESULTS DUE TO
OTHER SHARE-
HOLDERS

Other shareholders are entitled to a profit of € 347 κ (previous year: € 1,113 κ).

38 EARNINGS PER
SHARE

According to IAS 33 “Earnings per Share”, the basic earnings per share is calculated by dividing the group results – without profit due to other shareholders – by the average number of shares as follows:

		2002	2001
Group results	€ κ	-19,057	24,672
without profit due to other shareholders	(Number of shares)	28,879,427	28,879,427
Earning per share	€	-0.66	0.85

Diluted Earnings per Share were not calculated either in business year 2002 or in the previous year.

Other notes

- 39 EVENTS AFTER THE REPORTING DATE There were no substantial events after the reporting date or they are included in the Business Development section of the group annual report.
- 40 INFORMATION ABOUT RELATIONSHIPS TO CLOSELY RELATED COMPANIES AND PERSONS Closely related companies and persons as defined in IAS 24 “Related Party Disclosures” are mainly members of the executive board and the supervisory board and the companies of the GILDEMEISTER group, including non-consolidated subsidiaries.
Sales and income between the related companies are activated at usual market prices (“at arm’s length”).
- 41 CORPORATE GOVERNANCE The Corresponding Declaration according to Para. 161 Companies Act of 19 December 2002 has been submitted and is available to the shareholders on our website at www.gildemeister.com.

Affiliated Companies

	Equity capital ¹⁾		Participation ratio	Profit for the financial year 2002 ¹⁾
	National currency	€ k		
Production plants and procurement/components				
GILDEMEISTER Drehmaschinen GmbH, Bielefeld ^{2/1)}		16,650	100.0	0
Holding Macchine Utensili S.p.A., Milan, Italy		25,452	100.0	-6,755
GILDEMEISTER Italiana S.p.A., Brembate di Sopra, Italy ⁴⁾		42,882	100.0	-14,543
GRAZIANO Tortona S.p.A., Tortona, Italy ⁵⁾		3,617	100.0	
SACO S.p.A., Castelleone, Italy ⁵⁾		9,049	100.0	
GILDEMEISTER Italiana s.r.o., Zlín, Czech Republic ⁵⁾	CZK K	-12,962	-413	100.0
DECKEL MAHO Pfronten GmbH, Pfronten ^{2/1)}		26,000	100.0	0
LASERTEC GmbH, Pfronten ^{3/10/1)}		4,487	100.0	0
DECKEL MAHO Geretsried GmbH, Geretsried ¹⁾		21,865	100.0	0
DECKEL MAHO Seebach GmbH, Seebach ^{2/1)}		8,363	100.0	0
FAMOT Pleszew S.A., Pleszew, Polen	PLN K	4,350	1,086	99.0
Hermann SAUER GmbH & Co. kg, Stipshausen/Idar-Oberstein ¹⁾		908	50.5	806
Hermann SAUER Verwaltungs-GmbH, Stipshausen/Idar-Oberstein ¹⁾		28	50.2	1
DECKEL MAHO GILDEMEISTER (Shanghai)				
Machine Tools Co., Ltd., Shanghai, China	CNY K	22,825	2,646	100.0
a & f Stahl- und Maschinenbau GmbH, Würzburg ¹⁾		813	90.0	626
Sales and service companies				
DMG Vertriebs und Service GmbH				
DECKEL MAHO GILDEMEISTER, Bielefeld ¹⁾		9,130	100.0	-6,595
(Group financial statements)				
DMG Stuttgart Vertriebs und Service GmbH				
DECKEL MAHO GILDEMEISTER, Leonberg ^{6/7/1)}		3,000	100.0	
DMG München Vertriebs und Service GmbH für Werkzeugmaschinen				
DECKEL MAHO GILDEMEISTER, Munich ^{6/7/1)}		600	100.0	
DMG Hilden Vertriebs und Service GmbH				
DECKEL MAHO GILDEMEISTER, Hilden ^{6/7/1)}		800	100.0	
DMG Bielefeld Vertriebs und Service GmbH				
DECKEL MAHO GILDEMEISTER, Bielefeld ^{6/7/1)}		300	100.0	
DMG Berlin Vertriebs und Service GmbH				
DECKEL MAHO GILDEMEISTER, Berlin ^{6/7/1)}		301	100.0	
DMG Frankfurt am Main Vertriebs und Service GmbH				
DECKEL MAHO GILDEMEISTER, Bad Homburg ^{6/7/1)}		307	100.0	
DMG Italia S.r.l., Gorgonzola, Italy ⁶⁾		1,054	100.0	
DMG France S.a.r.l., Les Ulis, France ⁶⁾		3,930	100.0	
DMG France Sud S.A.S, Lyon, France ⁹⁾		793	100.0	
DMG Büll & Strunz GmbH, Wiener Neudorf, Austria ⁶⁾		1,178	51.0	
DMG (Schweiz) AG				
DECKEL MAHO GILDEMEISTER, Dübendorf, Switzerland ⁶⁾	CHF K	7,817	5,382	100.0
DMG (U.K.) Ltd., Luton, Great Britain ⁶⁾	GBP K	540	831	100.0
DMG Nederland B.V., Veenendaal, Netherlands ⁶⁾		3,122	100.0	
DMG Belgium B.V.B.A., Zaventem, Belgium ⁶⁾		783	100.0	
DECKEL MAHO GILDEMEISTER Iberica S.L., Berriz, Spain ⁶⁾		1,026	100.0	
DMG Czech s.r.o., Brno, Czech Republic ⁶⁾	CZK K	46,078	1,467	100.0
DMG Polska Sp.z o.o., Pleszew, Poland ⁶⁾	PLN K	5,990	1,495	100.0

Affiliated Companies

	Equity capital ¹⁾		Participation ratio in %	Profit for the financial year 2002 ¹⁾ € κ
	National currency	€ κ		
Sales and service companies (cont.)				
DMG America Inc., Charlotte, USA ⁶⁾	USD K	9,870	9,477	100.0
DMG Charlotte Inc., Charlotte, USA ⁸⁾	USD K	1	1	100.0
DMG Chicago Inc., Schaumburg, USA ⁸⁾	USD K	90	87	100.0
DMG Houston Inc., Houston, USA ⁸⁾	USD K	169	163	100.0
DMG Los Angeles Inc., Los Angeles, USA ⁸⁾	USD K	43	41	100.0
DMG Canada Inc., Toronto, Kanada ⁶⁾	CAD K	1,276	779	100.0
DECKEL MAHO GILDEMEISTER Brasil Ltda., São Paulo, Brasil ⁶⁾	BRL K	208	56	100.0
DECKEL MAHO GILDEMEISTER México, S.A. de C.V., Monterrey, Mexico ⁶⁾	MXN K	2,250	210	100.0
DMG Asia Pacific Pte. Ltd., Singapore ⁶⁾	SGD K	252	139	100.0
DMG Malaysia SDN BHD, Puchong/Kuala Lumpur, Malaysia ⁶⁾	MYR K	1,762	434	100.0
DMG Technology Trading (Shanghai) Co. Ltd., Shanghai, China ⁶⁾	CNY K	2,538	294	100.0
DMG DECKEL MAHO GILDEMEISTER (India) Pvt. Ltd., Bangalore, India ⁶⁾	INR K	10,260	205	100.0
Nippon DMG K.K., Yokohama, Japan ⁶⁾	JPY K	2,135	17	100.0
DMG Machinery Taiwan Ltd., Taichung, Taiwan ⁶⁾	NTD K	121	3	100.0
DMG Korea Ltd., Seoul, Korea ⁶⁾	KRW K	89,273	71	100.0
DMG Service Dreher GmbH				
DECKEL MAHO GILDEMEISTER, Bielefeld ^{6/7/11)}			1,500	100.0
DMG Service BAZ GmbH				
DECKEL MAHO GILDEMEISTER, Geretsried ^{6/7/11)}			1,000	100.0
DMG Service UFB GmbH				
DECKEL MAHO GILDEMEISTER, Pfronten ^{6/7/11)}			1,500	100.0
DMG Service UFB Seebach GmbH				
DECKEL MAHO GILDEMEISTER, Seebach ^{6/7/11)}			110	100.0
DMG Gebrauchtmachines GmbH				
DECKEL MAHO GILDEMEISTER, Geretsried ^{6/7/11)}			2,517	100.0
DMG Trainings-Akademie GmbH				
DECKEL MAHO GILDEMEISTER, Bielefeld ^{6/7/11)}			271	100.0
Other				
GILDEMEISTER Beteiligungen Aktiengesellschaft, Bielefeld ¹¹⁾			51	100.0
PCG Personnel Consulting GmbH, Erkelenz ¹¹⁾			68	51.0
MITS Grundstücks-Vermietungs Gesellschaft mbH & Co. Objekt Bielefeld KG, Düsseldorf ¹²⁾			-	98.0
BIL Leasing GmbH & Co 736 KG, München ¹³⁾			-	
BIL Leasing GmbH & Co 748 KG, München ¹⁴⁾			-	

1) The values correspond to the annual reports prepared according to the country-specific regulations and do not show the contribution to the consolidated report. The foreign value conversions are at the exchange rate as at the reporting date for the equity capital

2) With management and profit and loss transfer agreement to GILDEMEISTER Aktiengesellschaft

3) Holding in DECKEL MAHO Pfronten GmbH

4) Holding in Holding Macchine Utensili S.p.A.

5) Holding in GILDEMEISTER Italiana S.p.A.

6) Holding in DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER

7) With management and profit and loss transfer agreement to DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER

8) Holding in DMG America Inc.

9) Holding in DMG France S.a.r.l.

10) With management and profit and loss transfer agreement to DECKEL MAHO Pfronten GmbH

11) The German subsidiary has fulfilled the conditions for inclusion in the exempt regulation required according to Section 264 para. 3 HGB and therefore waives disclosure of its annual documents.

12) Proportion of voting rights 49.0%, Special Purpose Entity of GILDEMEISTER Aktiengesellschaft

13) Special Purpose Entity of DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bad Homburg, without capital proportion

14) Special Purpose Entity of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg, without capital proportion

Corporate Directory

- Supervisory Board seats according to Par. 100 AktG
- * Membership in comparable domestic and overseas committees companies

Supervisory Board

Dr.-Ing. Manfred Lennings,
Essen,
Chair,
Independent industry consultant

- Bayer AG, Leverkusen (until 26 April 2002)
- Deutsche Post AG, Bonn
- IVG Immobilien AG, Bonn
- * Heitkamp-Deilmann-Haniel GmbH, Herne, Vorsitz

Harry Domnik,
Bielefeld,
Deputy chair,
1st representative of IG Metall office,
Bielefeld

* ThyssenKrupp Umformtechnik GmbH,
Ludwigsfelde

Gerhard Dirr,
Vils/Austria,
Works council chair of
DECKEL MAHO Pfronten GmbH, Pfronten

Alfred Geißler,
Pfronten,
Management representative

Prof. Dr.-Ing. Peter-Jürgen Kreher,
Grünwald,
Senior Advisor Droege & Comp.,
Düsseldorf

- Dürkopp Adler AG, Bielefeld, Deputy chair
- * DST Werkzeugmaschinenbau GmbH, Mönchengladbach
- * Burton Holding GmbH, Melle/Buer, Chair
- * Albert Ziegler GmbH & Co. KG, Giengen/Brenz, Chair

Arno Kruck,
Bielefeld, (until 31 Jan. 2003)
Chair of works council at
DMG Vertriebs und Service GmbH
DECKEL MAHO GILDEMEISTER, Bielefeld

Heinz-Dethlef Rother,
Bielefeld, (until 1 Feb. 2003)
Chair of works council at
DMG Vertriebs und Service GmbH
DECKEL MAHO GILDEMEISTER, Bielefeld

Prof. Dr.-Ing. Walter Kunerth,
Zeitlarn,
Independent industry consultant

- Basler AG, Ahrensburg, Chair
- Götz AG, Regensburg, Chair
- Paragon AG, Delbrück, Chair
- * Autoliv Inc., Stockholm
- * Suspa Holding GmbH, Altdorf, Chair

Hans Henning Offen,
Großhansdorf,
Former deputy chair of
Westdeutsche Landesbank Girozentrale,
Düsseldorf/Münster

- Kaufhof Warenhaus AG, Cologne
- RWE Plus AG, Essen
- Trienekens AG, Viersen (until 29.07.2002)
- TUI AG, Hannover/Berlin
- ThyssenKrupp Materials AG, Düsseldorf
- WestIntell AG, Düsseldorf, Chairman
- WestLB (Europa) Holding AG, Düsseldorf (until 28 May 2002)
- * Banque d'Orsay, Paris (until 10 Sep. 2002)
- * Familienstiftung Schwarz, Neckarsulm

Peter Oxfart,
Creuzburg,
Chair of works council at
DECKEL MAHO Seebach GmbH, Seebach

Dr. jur. Rupert Pfeffer,
Geretsried,
Chair of the executive board at
LfA Förderbank Bayern i. R., Munich

- König Ludwig Musical AG & CO. KG,
Füssen

Günther Johann Schachner,
Peiting,
Board member of IG Metall Frankfurt,
1st representative of IG Metall office,
IG Metall-Verwaltungsstelle, Weilheim

Hans Peter Schreib,
Attorney, Düsseldorf,
Member of the Präsidium der Deutschen
Schutzvereinigung für Wertpapierbesitz
e.V. (DSW), Düsseldorf

- K + S AG, Kassel
- Metro AG, Köln

Executive Board

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

Dr.-Ing. Raimund Klinkner,
Bielefeld,
Deputy Chair (since 1 Jan. 2003)

- Dürkopp Adler AG, Bielefeld

Dipl.-Kfm. Dieter Schäfer,
Steinhagen

Dipl.-Kfm. Michael Welt,
Pfronten (since 1 Jan. 2003)

- Staufen Akademie
Beratung und Beteiligung AG,
Bad Boll

Consolidated Income Statement
for the period from 1 January to 31 December 2002
of GILDEMEISTER Aktiengesellschaft, Bielefeld

	App.	2002		2001
		€	€	€
1. Sales revenues	27		1,032,814,223	1,145,389,577
2. Increase in finished goods and work in progress			3,969,693	43,074,531
3. Other capitalised payments	28		9,814,819	10,159,188
4. Other operating income	29		26,254,602	21,601,435
			1,072,853,337	1,220,224,731
5. Cost of materials	30			
a) Cost of raw materials and consumables and goods for resale		466,066.779		518,664,118
b) Costs of purchased services		103,855,300	569,922,079	128,316,892
6. Personnel costs	31			
a) Wages and salaries		226,630,161		232,626,685
b) Social contributions and pension and other benefits		43,525,840	270,156,001	41,525,369
7. Depr. of fixed assets			37,757,207	34,951,902
8. Other operating charges	32		177,842,485	186,015,611
9. Other interest receivable and similar income	33		2,414,000	2,394,410
10. Interest payable and other similar charges	34		27,085,637	25,781,364
11. Profit on ordinary activities				54,737,200
12. Taxes on profit	36			28,952,006
13. Annual loss (prev. year: annual profit)			18,709,515	25,785,194
14. Profit share of other shareholders	37			-1,113,011
15. Annual loss (prev. year: annual profit) to GILDEMEISTER				24,672,183
16. Profit carried forward (prev. year: loss carried forw.)				370,724
17. Income from earnings reserves				0
18. Net profit for the year				24,301,459
Earnings per share according to IAS 33				0.85
				-0.66

**Group Balance Sheet as at 31 December 2002
of GILDEMEISTER Aktiengesellschaft, Bielefeld**

Assets	App.	As at 31 Dec. 2002		As at
		€	€	31 Dec. 2001 €
A. Fixed assets				
I. Intangible assets	7			
1. Goodwill		73,883,164		64,618,196
2. Development costs		19,711,170		11,789,371
3. Industrial property and similar rights		6,001,440		6,546,107
4. Payments on account		1,760,616		2,145,314
			101,356,390	85,098,988
II. Tangible assets	8			
1. Land and buildings		124,948,331		101,925,859
2. Technical equipment and machinery		22,930,158		26,337,591
3. Other equipment, factory and office equipment		25,512,976		27,390,592
4. Payments on account and construction in progress		1,090,053		6,570,729
			174,481,518	162,224,771
III. Financial assets	9			
1. Shares in affiliated companies		87,793		0
2. Securities		355,115	442,908	309,775
			276,280,816	247,633,534
B. Current assets				
I. Stocks	10			
1. Raw materials and consumables		69,022,576		74,941,833
2. Work in progress		90,628,502		84,647,970
3. Finished goods and goods for resale		88,851,507		88,471,247
4. Payments on account		2,265,624		1,710,277
			250,768,209	249,771,327
II. Debtors and other assets	11			
1. Trade debtors		295,265,443		299,398,448
2. Other assets		21,359,665		34,935,970
			316,625,108	334,334,418
III. Securities	12		177,656	2,330,602
IV. Cash in hand, Bundesbank balances and bank balances	13		17,689,040	15,277,674
C. Deferred taxes	14		32,887,802	23,138,848
D. Prepaid expenses	15		3,934,674	4,939,234
			898,363,305	877,425,637

Equity and liabilities	App.	As at 31 Dec. 2002		As at
		€	€	31 Dec. 2001 €
A. Equity	16			
I. Subscribed capital			75,086,510	75,086,510
II. Capital reserves			48,734,269	48,734,269
III. Revenue reserves				
1. Statutory reserves			680,530	680,530
2. Other revenue reserves			69,322,876	82,373,970
IV. Net profit for the year			0	24,301,459
			193,824,185	231,176,738
B. Shares held by other shareholders	17		1,193,154	10,773,278
C. Provisions				
1. Provisions for pensions	18	29,327,719		29,869,657
2. Tax provisions	19	19,324,439		14,075,654
3. Other provisions	19	99,733,735		95,356,706
			148,385,893	139,302,017
D. Creditors	20			
1. Bank loans and overdrafts		324,223,113		280,821,048
2. Payments received on account of orders		30,461,347		35,062,136
3. Trade creditors		131,296,022		113,685,690
4. Bills of exchange payable		13,148,476		14,799,235
5. Other creditors		38,141,449		42,841,287
			537,270,407	487,209,396
E. Deferred taxes	14		8,000,348	3,100,985
F. Deferred income	21		9,689,318	5,863,223
			898,363,305	877,425,637

**Development of the group capital and the shares held by other shareholders
of GILDEMEISTER Aktiengesellschaft, Bielefeld, for the period from 01 January 2001 to 31 December 2002**

	Revenue reserves								
	Subscribed Capital	Capital reserves	Revenue reserves	Differenc. from Currency conversion	Market valuat. of financial derivatives	Net profit/ loss	Group equity capital	Shares in other shareholders	Total
	€ k	€ k	€ k	€ k	€ k	€ k	€ k	€ k	€ k
As at 01 Jan. 2001	75,087	48,734	81,745	5,242	0	16,867	227,675	14,264	241,939
Dividend						-17,238	-17,238	-1,108	-18,346
Annual profit						24,672	24,672	1,113	25,785
Currency changes				-2,695			-2,695		-2,695
Change to market value of derivatives					-1,237		-1,237		-1,237
Consolidation measures/ other changes								-3,496	-3,496
As at 31 Dec. 2001	75,087	48,734	81,745	2,547	-1,237	24,301	231,177	10,773	241,950

	Revenue reserves								
	Subscribed Capital	Capital reserves	Revenue reserves	Differenc. from Currency conversion	Market valuat. of financial derivatives	Net profit/ loss	Group equity capital	Shares in other shareholders	Total
	€ k	€ k	€ k	€ k	€ k	€ k	€ k	€ k	€ k
As at 01 Jan. 2001	75,087	48,734	81,745	2,547	-1,237	24,301	231,177	10,773	241,950
Dividend						-17,328	-17,328	-755	-18,083
Annual profit						-19,057	-19,057	347	-18,710
Currency changes				-3,012			-3,012		-3,012
Change to market value of derivatives					-161		-161		-161
Income from earnings reserve			-12,084			12,084	0		0
Consolidation measures/ other changes			2,205				2,205	-9,172	-6,967
As at 31 Dec. 2002	75,087	48,734	71,866	-465	-1,398	0	193,824	1,193	195,017

**Group cash flow Statement for
GILDEMEISTER Aktiengesellschaft, Bielefeld**

	2002	2001	Changes against prev. year
	€ k	€ k	€ k
Cash flow from current operations			
1. Annual loss for the year (prev. year: profit for the year)	-18,710	25,785	-44,495
2. Fixed asset depreciation	37,757	34,952	2,805
3. Changes in deferred taxes	-4,849	18,579	-23,428
4. Changes in long-term provisions	-41	5,801	-5,842
5. Other income affecting payments	-506	-314	-192
6. Changes in short-term provisions	14,024	24,944	-10,920
7. Profit/loss from disposal of fixed assets	-105	287	-392
8. Increase/decrease in stocks, trade debtors and other assets	19,915	-84,227	104,142
9. Change in trade creditors and other liabilities	185	5,653	-5,468
	47,670	31,460	16,210
Cash flow from investment activities			
1. Receipts from tangible fixed assets disposals	4,766	6,520	-1,754
2. Payments for investments in tangible fixed assets	-38,706	-52,583	13,877
3. Payments for investments in intangible fixed assets	-14,493	-15,084	591
4. Payments for investments in financial assets	-23,484	-9,550	-13,934
5. Receipts from financial assets disposals	28	0	28
	-71,889	-70,697	-1,192
Cash flow from financing activity			
1. Receipts from borrowing (finance) loans	43,402	47,974	-4,572
2. Distribution of dividend to shareholders	-17,328	-17,238	-90
3. Distribution of dividend to other company members	-755	-1,108	353
4. Receipt from investment allowance	2,266	1,481	785
5. Receipts from other company members	0	245	-245
	27,585	31,354	-3,769
Changes affecting payments	3,366	-7,883	11,249
Consolidation and exchange rate related changes not affecting payments	-955	-935	-20
Liquid funds as at 1 January	15,278	24,096	-8,818
Liquid funds as at 31 December	17,689	15,278	2,411

CONSOLIDATED FINANCIAL STATEMENTS OF
GILDEMEISTER AKTIENGESELLSCHAFT, BIELEFELD

Consolidated fixed asset movement schedule

As at 31 December 2002 for GILDEMEISTER Aktiengesellschaft, Bielefeld

Aquisition and production costs

	As at 01 Jan. 2002	Other changes	Additions	Disposals	Book transfers	As at 31 Dec. 2002
	€	€	€	€	€	€
I. Intangible assets						
1. Goodwill	89,097,854	0	16,311,245	0	0	105,409,099
2. Development costs	11,874,315	0	10,139,376	29,624	0	21,984,067
3. Industrial property and similar rights	32,421,558	-111,819	4,032,359	341,089	1,531,343	37,532,352
4. Payments on account	2,145,314	0	320,921	83,468	-66,902	2,315,865
	135,539,041	-111,819	30,803,901	454,181	1,464,441	167,241,383
II. Tangible assets						
1. Land and buildings	135,932,468	-1,157,780	24,259,324	118,902	4,758,340	163,673,450
2. Technical equipment and machinery	61,266,347	-1,239,716	3,274,074	2,967,357	526,991	60,860,339
3. Other equipment, factory and office equipment	80,797,836	-971,069	12,886,724	10,352,405	-1,300,324	81,060,762
4. Payment on account and construction in progress	6,570,729	-68,361	1,764,608	1,727,475	-5,449,448	1,090,053
	284,567,380	-3,436,926	42,184,730	15,166,139	-1,464,441	306,684,604
III. Financial assets						
1. Shares in affiliated companies	0	0	87,793	0	0	87,793
2. Securities	309,775	0	74,884	27,903	0	356,756
	309,775	0	162,677	27,903	0	444,549
Total fixed assets	420,416,196	-3,548,745	73,151,308	15,648,223	0	474,370,536

Net book value

Depreciation	As at 01 Jan. 2002	Other changes	Additions	Disposals	Book transfers	As at 31 Dec. 2002	As at 31 Dec. 2002	As at 31 Dec. 2001
	€	€	€	€	€	€	€	€
I. Intangible assets								
1. Goodwill	24,479,658	0	7,046,277	0	0	31,525,935	73,883,164	64,618,196
2. Development costs	84,944	0	2,187,953	0	0	2,272,897	19,711,170	11,789,371
3. Industrial property and similar rights	25,875,451	-75,603	4,883,182	260,209	1,108,091	31,530,912	6,001,440	6,546,107
4. Payments on account	0	0	555,249	0	0	555,249	1,760,616	2,145,314
	50,440,053	-75,603	14,672,661	260,209	1,108,091	65,884,993	101,356,390	85,098,988
II. Tangible assets								
1. Land and buildings	34,006,609	-265,882	5,046,443	62,051	0	38,725,119	124,948,331	101,925,859
2. Technical equipment and machinery	34,928,756	-644,365	5,755,669	2,228,466	118,587	37,930,181	22,930,158	26,337,591
3. Other equipment, factory and office equipment	53,407,244	-504,943	12,280,793	8,408,630	-1,226,678	55,547,786	25,512,976	27,390,592
4. Payment on account and construction in progress	0	0	0	0	0	0	1,090,053	6,570,729
	122,342,609	-1,415,190	23,082,905	10,699,147	-1,108,091	132,203,086	174,481,518	162,224,771
III. Financial assets								
1. Shares in affiliated companies	0	0	0	0	0	0	87,793	0
2. Securities	0	0	1,641	0	0	1,641	355,115	309,775
	0	0	1,641	0	0	1,641	442,908	309,775
Total fixed assets	172,782,662	-1,490,793	37,757,207	10,959,356	0	198,089,720	276,280,816	247,633,534

Segmental reporting relating to the consolidated financial statements 2002
of GILDEMEISTER Aktiengesellschaft, Bielefeld

Segmentation by business segments

	„Machine Tools“				„Services“				„Corporate Services“				Transition		Group		Changes against the previous year			
	2002	2001	Changes against the previous year		2002	2001	Changes against the previous year		2002	2001	Changes against the previous year		2002	2001	2002	2001	€ K	€ K	€ K	%
	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	€ K	€ K	€ K	€ K	%
Sales revenues with third parties	768,552	875,944	-107,392	-12.3	263,644	268,449	-4,805	-1.8	618	997	-379	-38.0	0	0	1,032,814	1,145,390	-112,576	-9.8		
EBITDA	43,019	85,238	-42,219	-49.5	17,681	34,351	-16,670	-48.5	-7,918	-5,948	-1,970	-33.1	2,151	-565	54,933	113,076	-58,143	-51.4		
EBIT	16,235	62,621	-46,386	-74.1	10,528	27,472	-16,944	-61.7	-11,738	-11,404	-334	-2.9	2,151	-565	17,176	78,124	-60,948	-78.0		
Net interest income	-15,865	-13,525	-2,340	-17.3	-6,091	-5,452	-639	-11.7	-2,716	-4,410	1,694	38.4	0	0	-24,672	-23,387	-1,285	-5.5		
Profit/loss on ordinary business	369	49,096	-48,727	-99.2	4,437	22,020	-17,583	-79.9	-14,453	-15,814	1,361	8.6	2,151	-565	-7,496	54,737	-62,233	-113.7		
Taxes on income	-7,424	-31,102	23,678	-76.1	-2,826	-5,225	2,399	-45.9	-963	5,441	-6,404	-117.7	0	1,934	-11,213	-28,952	17,739	-61.3		
Profit/loss for the year	-4,022	19,880	-23,902	-120.2	-1,679	13,462	-15,141	-112.5	-15,490	-10,373	-5,117	-49.3	2,481	2,816	-18,710	25,785	-44,495	-172.6		
Segmental assets	689,167	680,809	8,358	1.2	352,763	350,764	1,999	0.6	496,155	474,924	21,231	4.5	-639,722	-629,072	898,363	877,425	20,938	2.4		
Segmental debts	501,098	504,687	-3,589	-0.7	336,139	329,416	6,723	2.0	238,785	207,349	31,436	15.2	-372,676	-405,976	703,346	635,476	67,870	10.7		
Investments	46,016	64,167	-18,151	-28.3	24,203	14,999	9,204	61.4	37,623	18,819	18,804	99.9	-34,691	-23,519	73,151	74,466	-1,315	-1.8		
Depreciation	26,784	22,617	4,167	18.4	7,153	6,879	274	4.0	3,820	5,456	-1,636	-30.0	0	0	37,757	34,952	2,805	8.0		
Employees	3,366	3,530	-164	-4.6	1,614	1,644	-30	-1.8	65	60	5	8.3	0	0	5,045	5,234	-189	-3.6		

Segmentation by regions

	Germany				Rest of Europe				North America				Asia				Rest of world				Transition		Group		Changes against the previous year	
	2002	2001	Changes against the previous year		2002	2001	Changes against the previous year		2002	2001	Changes against the previous year		2002	2001	Changes against the previous year		2002	2001	Changes against the previous year		2002	2001	€ K	€ K	€ K	%
	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	€ K	€ K	%
Sales revenues with group companies	534,624	590,749	-56,125	-9.5	89,669	73,900	15,769	21.3	3,811	3,336	475	14.2	9,294	13,368	-4,074	-30.5	615	86	529	615.1	-638,013	-681,439	0	0	0	
Sales rev. with third parties	615,082	665,429	-50,347	-7.6	310,343	367,263	-56,920	-15.5	62,216	74,292	-12,076	-16.3	45,173	38,174	6,999	18.3	0	232	-232	-100.0	0	0	1,032,814	1,145,390	-112,576	-9.8
Segmental assets	1,156,783	1,117,333	39,450	3.5	528,080	519,852	8,228	1.6	49,977	56,664	-6,687	-11.8	57,858	32,604	25,254	77.5	440	257	183	71.2	-894,775	-849,285	898,363	877,425	20,938	2.4
Investments	61,763	77,848	-16,085	-20.7	39,824	13,587	26,237	193.1	181	698	-517	-74.1	5,640	2,291	3,349	146.2	988	58	930	1,603.4	-35,245	-20,016	73,151	74,466	-1,315	-1.8

Audit opinion

We have audited the annual financial statements of GILDEMEISTER Aktiengesellschaft, Bielefeld, comprising the balance sheet, consolidated income statement, equity capital change statement and cash flow statement and notes for the financial year from 1 January to 31 December 2002. That the preparation and content of the group financial statements and the annual report comply with the provisions of the International Financial Reporting Standards (IFRS) is the responsibility of the Company's Executive Board. It is our duty to issue an assessment of the annual financial statements based on the audit carried out by us.

We have undertaken our audit in accordance with the German statutory provisions and taking into consideration the German Principles of Accounting defined by the Institute of Auditors in Germany (IDW). According to these, the audit must be arranged and carried out such that it can be determined with sufficient certainty whether the group annual financial statements are free from substantial errors. When determining how to carry out the audit, the knowledge of the business area and the economic and legal environment of the company, as well as the expectations in respect of possible errors must be taken into consideration. As part of the audit, documentation regarding the valuation approach and information in the group annual report were assessed by looking at random samples. The audit includes an assessment of the accounting principles applied and the main estimates by the executive board as well as an assessment of the overall representation of the group annual report. It does not include the Correspondence Declaration included in the situations report according to s. 161 Companies Act. We are of the opinion that our audit forms a sufficiently secure basis for our assessment.

In our opinion, the group financial statements, in accordance with the International Financial Reporting Standards, provide an image of the asset, financial and income situation of the group corresponding to the actual situation and the payment streams of the financial year.

Our audit, which covered the group situation report prepared by the Executive Board for the period from 1 January to 31 December 2002 did not lead to any objections. In our opinion, the group annual report provides an appropriate representation of the situation of the group and the risks of the future developments. Moreover, we confirm that the group financial statements and the group annual report for the business year from 1 January to 31 December 2002 fulfil the requirements for exemption of the company from preparing a group annual report and group financial statements according to German law.

Berlin and Frankfurt am Main, 27 March 2003

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Luther
Auditor

Droste
Auditor

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Commercial glossary

Accruals and deferrals	Figures in the reporting period that affect the profit or loss of a period after the balance sheet date
Affiliated companies	cf. subsidiaries
Borrowed capital	Summarising term for provisions, creditors and deferred income shown on the liabilities side of a balance sheet
Business on a commission basis	DMG Vertriebs und Service GmbH and its subsidiaries receive a commission for arranging an order with the production companies. They act in their own name and on account of a third-party
Cash flow	Flow of financial funds from current business activities over a period, adjusted by significant charges and income not affecting payment
CONSOB	„Commissione Nazionale per le Società e la Borsa“, Italian stock market supervisory authority
Current assets	Assets for the short-term operation of the business
DAX	German stock market index. Calculation is based on the weighted prices of 30 standard German share values of maximum quality
Deferred taxes	Inter-period differences between calculated taxes on profit or loss from a commercial and tax balance sheet, with the object of showing tax expenditure in accordance with the correct commercial result
Dow-Jones-Index	Stock market index for the 30 major American quoted securities.
DVFA/SG result	Computational formula jointly developed by the Commission of Methodology of the German Association for Financial Analysis and Financial Consulting (Deutsche Vereinigung für Finanzanalyse und Anlageberatung e. V. = DVFA) and the “External Financial Reporting” working group of the Schmalenbach Society – German Society for Business Management (Arbeitskreis “Externe Unternehmensrechnung” Schmalenbach Gesellschaft – Deutsche Gesellschaft für Betriebswirtschaft e. V. = SG) with the aim of establishing the most objective standard of comparison possible for the assessment of corporate earnings power by adjusting the net income/loss for the year for expense and income from special effects (cf. cash flow in accordance with DVFA/SG).
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EBIT	Earnings before interest and taxes
EBT	Earnings before taxes
EGG	Profit/loss on ordinary activities
Equity / equity capital	Funds made available to a company by its owners through deposit and/or contributions or through retained profits
Equity return	Annual net profit to equity ratio

EURO-STOXX 50	Index consisting of the 50 major companies from the EU states (the so-called Blue Chip companies), weighted by market capitalisation, trading volume and industry
Fixed assets	Assets intended for use on a continuing basis
Flow of funds analysis	Statement of the movement of liquid funds/flow of funds taking into account the sources and application of funds during the financial year
Factoring	Purchase or sale of outstanding trade debts
Finance Lease	Basically, a leasing relationship where all ownership-related risks and rewards of an asset are transferred. The right of ownership may eventually be transferred or not.
Free Float	Part of the share capital in portfolio investments
FTSE – 100	Abbreviation for the Financial Times Stock Exchange 100 stock index. It includes the 100 major quoted securities in Great Britain.
Gearing	Net indebtedness to equity ratio
General Standard	Listing segment of the Deutsche Börse for companies complying with the standards for transparency as laid down in the German legislation.
Goodwill	Excess of cost of an acquired company over the sum of the company's individual assets minus debts at the time of acquisition
IFRS (IAS)	International Accounting Standards. Internationally applicable standards defined by the International Accounting Standards Board (IASB) for external corporate reporting aimed at reaching world-wide harmonisation of accounting
KonTraG	German Corporate Control and Transparency Law
Letter of comfort	Formal obligation – for example by a parent company in favour of the subsidiary – to a bank to secure a loan
Loan capital	cf. borrowed capital
Market capitalisation	Current price of a listed company. Determined by the share's market value multiplied by the total number of shares
MDAX	The Mid-Cap DAX consists of the 70 major companies in German according to trade volume and market capitalisation. It thereby includes the values of the DAX 100 that are not included in the DAX 30
NASDAQ	National Association of Securities Dealers Automated Quotations is an electronic trading system run by NASD.

	Trading of young dynamic companies from growth industries
NEMAX 50	The New Market Index includes the 50 major share values in the New Market
Net indebtedness	Balance of interest-bearing asset and debit items (amounts owed to banks and bills payable minus current asset securities and liquid funds)
Nikkei	Japanese stock index. Criterion is the market capitalisation rate
Outside capital	cf. borrowed capital
Return on total capital employed	Ratio of earnings before tax and interest on borrowed capital to average total capital
ROCE	EBIT to total capital, reserves and net indebtedness ratio (return on capital employed)
ROI	Earnings before taxes to average total capital ratio (return on investment)
SDAX	Stock index daily representing the 100 strongest SMAX values
SMAX	“Small Cap Exchange”: was positioned in April 1999 by Deutsche Börse AG below the MDAX as a new stock market tier; members: small and medium-sized stock corporations from traditional industries (such as Engineering and Automotive Suppliers)
Subsidiaries	All companies that are directly or indirectly controlled by a parent company due to a majority holding interest and/or a central management
Three major global markets	The three global markets, America, Asia and Europe
Trading for own account	DMG Vertriebs und Service GmbH and its subsidiaries sell machines bought from the production companies in their own name and on their own account
Xetra trading system	Electronic stock exchange trading system

Technical glossary

- Benchmark** External or in-house comparison of companies or departments with the help of selected key figures.
- Cavity (micro-cavity)** A cavity is a small hollow mould
- cnc-Nettraining** Controls based on the Microsoft Windows operating system (such as MILL PLUS IT, TURN PLUS IT) that enable interactive training via the Internet directly at the machine or a programming location similar to a machine. In the cnc-Nettraining a trainer communicates with students at any customer location
- coSupply** coSupply means the highly efficient supply partnerships at GILDEMEISTER, characterised by the three functions: "communication", "co-operation" and "competence"
- DMG-Netservice** Interactive online remote access to the control of machines for fault analysing and programming support
- DMG-Messenger** Control-integrated service product for messages per SMS/Email suitable for any identifiable machine status, status modification and event
- Double-Sourcing** Double-Sourcing is procurement from two supply sources
- E-Business/
E-Commerce** The whole range of electronic Internet-supported communication between companies and end user. It is essentially the exchange of business information without paper. Applications range from relaying information through to sales to word-wide simultaneous auctions between partners via the Internet
- ERP-System** Standard application software that is intended to be used in, and adapted to, a variety of organisational conditions in various companies
- eSupply** Interactive electronic interfacing of suppliers with the GILDEMEISTER ERP system for the transfer of production-orientated demand information
- Intranet** Based on Internet technology, the Intranet is a network for company-internal communication protected from external dangers
- ISO standard specification
9001: 2000** The ISO standard specification 9001: 2000 is the revised ISO standard specification that has been in effect since December 2000. It is an international guide for the setting up of process-orientated quality management
- IT connectivity** Internet and telecommunication supported connection of machines with remote maintenance and monitoring services and user notification
- KANBAN prinzipl,
(KANBAN, japanese = Card)** The Kanban principle is a simple method for the supply of materials. For example, a frequently used Kanban system provides two containers with assembly material. When the second container is started, the first, empty container is automatically sent back to the store room to be re-filled or, alternatively, sent to a supplier. Further controlling of the process via the DV system is not necessary
- Kinematics** Area in mechanics; dealing with the geometric relationships between bodies in motion dependant on time, without looking into the causing forces.
- kvp (CIP)** Continuous Improvement Process (also: Kaizen), a method for the constant improvement of processes and procedures

Laser technology/ laser beam machining	Laser beam machining is an eroding process for machining metallic materials and materials that are not easily machineable, such as heavy-duty ceramics, silicon or cemented metal carbide, using a spot-beam with a high energy level. With this process it is possible to create filigree cavities and perform laser fine cutting or drilling tasks in the 2-D and 3-D areas
Lifecycle customer care	Comprehensive range of services for the customer from consulting through to making a quotation for a new machine to the repurchasing of the used machine
Linear drive technology	Linear drive technology uses a new, electro-magnetic 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. Until now the feed motion of the machining axes was created through recirculating ball screws. In this process a ball sleeve attached to the machine slide runs on the turning spindle like a screw nut on a thread
MillPlus - MILLPlus IT	Variants of the MillPlus machine control, standing for a Windows-based implementation. They are associated with a great openness of the control to network services, Internet and external applications.
Monobloc construction	Unlike a construction, where the where the machine frame consists of several components (bed, stand, etc.), the core of a machine in monobloc construction is formed by a rigid and compact basic body
PULL (performance of production and logistics)	PULL s a programme that has been used throughout the GILDEMEISTER group since June 1998 with the aim of increasing the individual companies' production efficiency and logistical performance and improving the production-related areas such as materials management, receipt of goods and stock of goods
SAM (Serial start-up management)	System-supported method for recording, communication, processing and management of start-up specific tasks with the aim of taking new machines to serial maturity faster
Supply-Chain-Management (SCM)	Usually used as a generic term for the optimisation of supply chains. SCM pursues its goals, both within one company and across group companies, by utilising suitable ideas. Main goals include: the creation of transparency and reduction of information obstacles, an integrated value-added chain orientation, the improved continuity of the materials, information and cash flows, or the optimisation of complexity.
Total customer support	This term covers an extended range of services such as preparatory work for investments, setting up of machines, training (for example, CNC Nettraining) and comprehensive service packets such as an optimal supply of spare and expendable parts, all intended to ensure complete customer satisfaction
Transshipment point programme	A logistical programme where a service provider brings together incoming freights of various suppliers at one place (transshipment point, TSP) and simultaneously delivers them to the plants in time for production. Outgoing freights are transhipped in a similar way
VPN	Virtual VPN are virtual nets of private data connections that transport data via public nets (such as the Internet) which cannot be read by third parties. These nets facilitate a specific exchange of data between customers and suppliers via secure and encoded data connections
Web Kanban	Electronic Kanban process where a supplier is provided with an updated online image of the place of consumption for the goods to be supplied by him via Internet transmission

EXPLANATORY NOTES TO RATIOS

Balance sheet ratios (in %)

Capitalisation ratio of fixed assets

Fixed assets : total assets x 100

Labour intensity of current assets

Current assets : total assets x 100

Equity ratio

Equity capital : total capital x 100

Ratio of outside capital to total capital

Outside capital : total capital x 100

Assets and liabilities structure

Fixed assets : current assets x 100

Capital structure

Equity capital : outside capital x 100

Ratios pertaining to financial position

Cash ratio

Cash : short-term liabilities x 100

Ratio of financial current assets to short-term liabilities

(cash + short-term receivables) :
short-term liabilities x 100

Current ratio

(cash + short-term receivables + stocks) :
short-term liabilities x 100

Structural analysis ratios

Turnover rate of raw materials and consumables

Cost for raw materials and consumables :
Stock of raw materials and consumables

Turnover rate of stocks

Sales revenues : stocks

Turnover rate of trade debtors

Sales revenues + VAT : average trade debtors

Total capital-sales ratio

Sales revenues : total capital

Working Capital

Current assets - short-term liabilities

Efficiency ratios (in %)

Equity return

Profit for the year : book equity capital
as at 1 January x 100

Return on total investment

Profit for the year before tax and interest on outside
capital : average total capital x 100

Percentage return on sales (EBIT)

EBIT: sales revenues x 100

Percentage return on sales (EGG)

profit/loss on ordinary activities :
sales revenues x 100

Productivity ratios (in %)

Intensity of materials

Cost of materials : gross performance x 100

Intensity of staff

Staff costs : gross performance x 100

MULTIPLE YEAR OVERVIEW

Multiple year >>
overview

		HGB					IFRS		Changes against prev. year in %
GILDEMEISTER group		1996	1997	1998	1999	2000	2001	2002	
Sales	€ κ	423,384	444,543	580,328	690,363	923,298	1,145,390	1,032,814	-10
Domestic	€ κ	225,551	249,357	340,361	408,987	483,363	567,900	491,719	-13
International	€ κ	197,833	195,186	239,967	281,376	439,935	577,490	541,095	-6
% International	%	47	44	41	41	48	50	52	
Total result	€ κ	424,547	447,319	583,558	700,012	912,884	1,198,623	1,046,599	-13
Personnel costs	€ κ	121,710	126,877	145,786	171,405	212,544	274,152	270,156	-1
Financial result	€ κ	-10,153	-11,339	-10,562	-11,903	-18,681	-23,387	-24,672	5
Profit/loss on ordinary activities	€ κ	669	9,371	29,615	34,452	44,192	54,737	-7,496	-114
Profit/loss for the year	€ κ	3,925	6,433	16,142	32,663	38,079	25,785	-18,710	-173
Figures for profit/loss									
EBITDA	€ κ	20,070	28,097	50,137	61,302	88,365	113,076	54,933	-51
EBIT	€ κ	10,821	20,710	40,177	46,356	62,873	78,124	17,176	-78
EBT	€ κ	8,049	7,243	17,015	34,452	44,192	54,737	-7,496	-114
Result before shares of third parties	€ κ	1,735	6,810	17,991	33,586	39,667	24,672	-19,057	-177
Fixed assets	€ κ	47,967	54,162	73,939	98,234	210,486	247,634	276,281	12
Intangible assets	€ κ	8,341	11,140	16,327	18,676	80,179	85,099	101,356	
Tangible assets	€ κ	39,375	42,771	57,497	79,452	130,300	162,225	174,482	
Financial assets	€ κ	251	251	115	106	7	310	443	
Current assets	€ κ	221,163	234,019	279,835	320,830	490,050	629,792	622,082	-1
Stocks	€ κ	122,385	116,819	123,908	124,973	160,420	249,771	250,768	
Accounts rec. inc. def. taxes, prepaym. and accrued income	€ κ	91,819	108,723	147,366	182,270	305,534	364,743	353,625	
Capital resources	€ κ	6,959	8,477	8,561	13,587	24,096	15,278	17,689	
Equity capital*	€ κ	44,114	46,179	81,582	107,174	195,687	231,177	193,824	-16
Subscribed capital	€ κ	48,697	48,697	55,453	56,398	75,087	75,087	75,087	
Capital reserve	€ κ	0	0	13,513	12,568	48,734	48,734	48,734	
Reserves	€ κ	0	0	681	19,793	39,068	83,055	70,003	
Net profit/loss for the year	€ κ	-8,086	-6,579	6,713	13,202	18,455	24,301	0	
Shares held by other shareh.	€ κ	3,503	4,061	5,222	5,213	14,343	10,773	1,193	-89
External capital	€ κ	225,016	242,002	272,192	311,890	504,849	635,476	703,346	11
Particip. certificate capital	€ κ	2,851	7,669	0	0	0	0	0	
Special account for investment allowances	€ κ	144	66	50	1,632	1,219			
Provisions	€ κ	60,154	57,434	62,141	81,472	113,928	139,302	148,386	
Accounts payable inc. def. taxes, accruals and deferred income	€ κ	161,867	176,833	210,001	228,786	389,702	496,174	554,960	
Balance sheet total	€ κ	269,130	288,181	353,774	419,064	700,536	877,426	898,363	2

*up to 2000 inc. shares held by other company members

GILDEMEISTER group	HGB						IFRS		Changes against prev. year in %
	1996	1997	1998	1999	2000	2001	2002		
Balance sheet ratios									
Capitalisation ratio									
of fixed assets	%	17.8	18.8	20.9	23.4	30.1	28.2	30.8	9
Working intensity									
of current assets	%	82.2	81.2	79.1	76.6	69.9	71.8	69.2	-4
Equity ratio	%	16.4	16.0	23.1	25.6	27.9	26.3	21.6	-18
External capital ratio	%	83.6	84.0	76.9	74.4	72.1	73.7	78.4	6
Assets structure	%	21.7	23.1	26.4	30.6	43.0	39.3	44.4	13
capital structure	%	19.6	19.1	30.0	34.4	38.8	35.8	27.5	-23
Financial ratios									
Cash ratios	%	4.1	4.8	4.2	5.8	7.0	3.5	3.6	3
Ratio of financial current assets to short-term liabilities	%	58.2	66.1	75.0	81.2	91.5	80.7	67.1	-17
Current ratio	%	131.0	132.9	135.5	134.3	137.9	130.2	111.4	-14
Employees (31 Dec.)		2,324	2,356	2,617	3,340	4,637	5,234	5,045	-4
Investments	€ κ	6,511	13,500	29,798	37,601	39,490	80,188	73,151	-9
Depreciation	€ κ	9,248	7,388	9,960	14,946	25,492	34,952	37,757	8
Ratios on structure analysis									
Turnover rate of raw materials and suppliers		3.9	4.9	5.1	6.3	5.9	6.9	6.8	-2
Turnover rate of inventory		3.5	3.8	4.7	5.5	5.8	4.6	4.1	-11
Turnover rate of receivables		5.7	5.2	5.2	5.0	4.0	4.1	3.8	-7
Turnover rate of capital		1.6	1.5	1.6	1.6	1.3	1.3	1.1	-15
Working Capital	€ κ	88.4	91.2	112.0	137.1	231.0	236.6	182.3	-23
Profitability ratios									
Return on equity	%	6.7	14.6	35.0	40.0	35.5	11.4	-8.1	-171
Return on total assets	%	7.0	7.5	8.7	12.1	11.5	9.7	2.2	-77
Profit on sales (EBIT)	%	2.6	4.7	6.9	6.7	6.8	6.8	1.7	-75
Profit on sales (EGG)	%	0.2	2.1	5.1	5.0	4.8	4.8	-0.7	-115
Productivity ratios									
Material intensity	%	54.5	56.4	54.9	55.0	53.1	54.0	54.5	1
Personnel intensity	%	28.7	28.4	25.0	24.5	23.3	22.9	25.8	13

FINANCIAL CALENDAR

31 March 2003	Press conference on Financial Statements
31 March 2003	Publication of Annual Report 2002
01 April 2003	Discussion with analysts
08 May 2003	1 st Quarterly Report 2003 (1 January to 31 March)
16 May 2003	General meeting of shareholders at 10am at the town hall in Bielefeld
07 August 2003	2 nd Quarterly Report 2003 (1 April to 30 June)
11 November 2003	3 rd Quarterly Report 2003 (1 July to 30 September)
10 February 2004	Press release on provisional figures for the financial year 2003
14 May 2004	General meeting of shareholders at 10am at the town hall in Bielefeld

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