

Fascination. Innovation.

GILDEMEISTER group ▶▶
Key Figures

▶▶
Sales Revenues
Order Intake
EBIT
Annual Profit / Loss
Employees

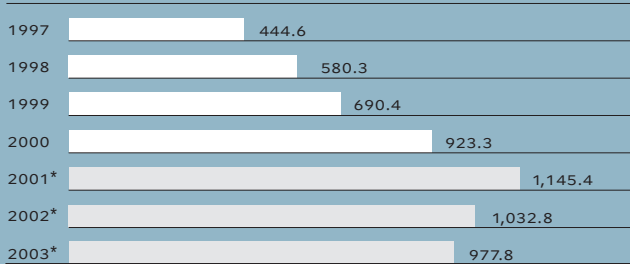
Key Figures

The Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft for the year ended 31 December 2003 were prepared in accordance with International Financial Reporting Standards (IFRS).

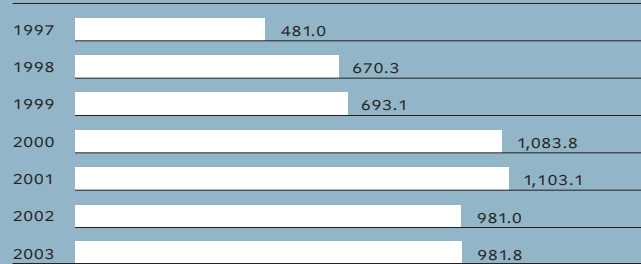
GILDEMEISTER group	2003	2002	Changes 2003 against 2002	
	€ M	€ M	€ M	%
Sales revenues				
Total	977.8	1,032.8	-55.0	-5
Domestic	475.7	491.7	-16.0	-3
International	502.1	541.1	-39.0	-7
% International	51	52		
Order intake				
Total	981.8	981.0	0.8	0
Domestic	457.0	455.6	1.4	0
International	524.8	525.4	-0.6	0
% International	53	54		
Order backlog*				
Total	332.8	328.8	4.0	1
Domestic	122.5	141.2	-18.7	-13
International	210.3	187.6	22.7	12
% International	63	57		
Investment	36.4	73.2	-36.8	-50
Staff costs	270.6	270.2	0.4	0
Employees	4,823	4,821	2	0
plus trainees	205	224	-19	-8
Total employees*	5,028	5,045	-17	0
EBITDA	71.1	54.9	16.2	
EBIT	34.7	17.2	17.5	
EBT	10.3	-7.5	17.8	
Annual profit/loss	-3.6	-18.7	15.1	

*Reporting date 31 Dec.

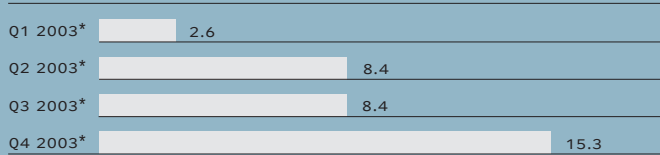
Sales Revenues
in € million



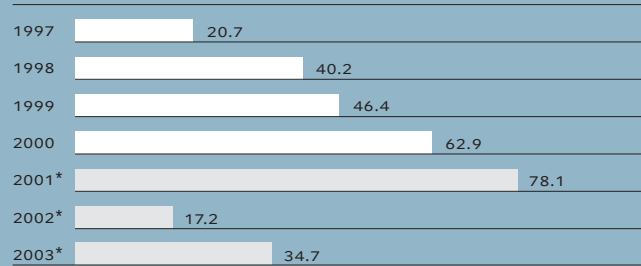
Order Intake
in € million



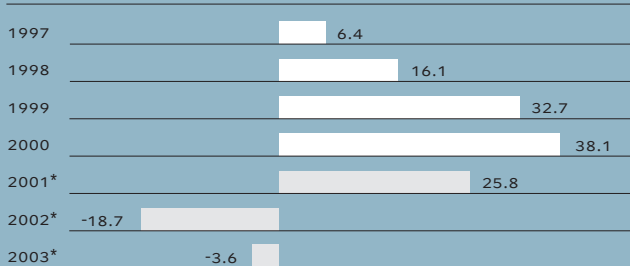
Quarterly result (EBIT)
in € million



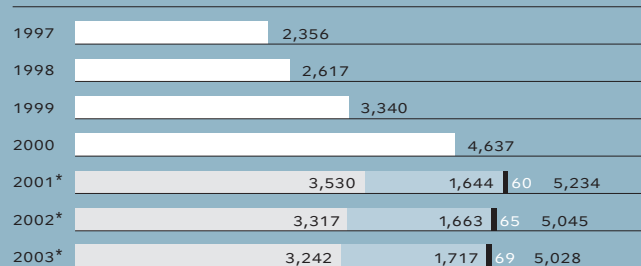
EBIT
in € million



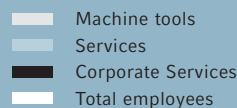
Annual Profit / Loss
in € million



Number of employees
incl. trainees



*in accordance with IFRS




GILDEMEISTER is one of the major manufacturers of metal cutting machine tools world-wide, whose range of products include both turning and milling technologies and future oriented “ultrasonic” and “laser” technologies. Our customers can rely on top quality, proficient technical services and state-of-the-art software products from a single source. 5,028 committed employees in eleven production plants and 50 national and international sales and services locations represent our formidable innovative power and a sales and service network covering all areas throughout the world. Our most important objectives are to strengthen the profitability of the company and increase shareholder value.

Crossing borders.

Progress doesn't happen just like that. Every day, the crossing of existing technological borders requires new ways of thinking and the courage which turns visions into innovations. It is our task to create real added value for our customers – with intelligent, innovative and sustainable solutions. By GILDEMEISTER.

Maximum Speed.





Extreme acceleration values. ▶▶ When maximum speed and highest precision are asked for, the answer can only be provided by GILDEMEISTER. Our highly dynamic linear drives only reach their limits at g-accelerations. And the result of these immense speeds ? An advance into new dimensions.

Linear drives ▶ **Maximum precision.**

Time factor. ▶▶ Linear drives offer highest precision and better durability thanks to the direct and smooth transmission of power. At speeds exceeding 100m/min surfaces are worked rapidly and perfectly to the tiniest detail. This provides an enormous time-saving factor in the process of production.

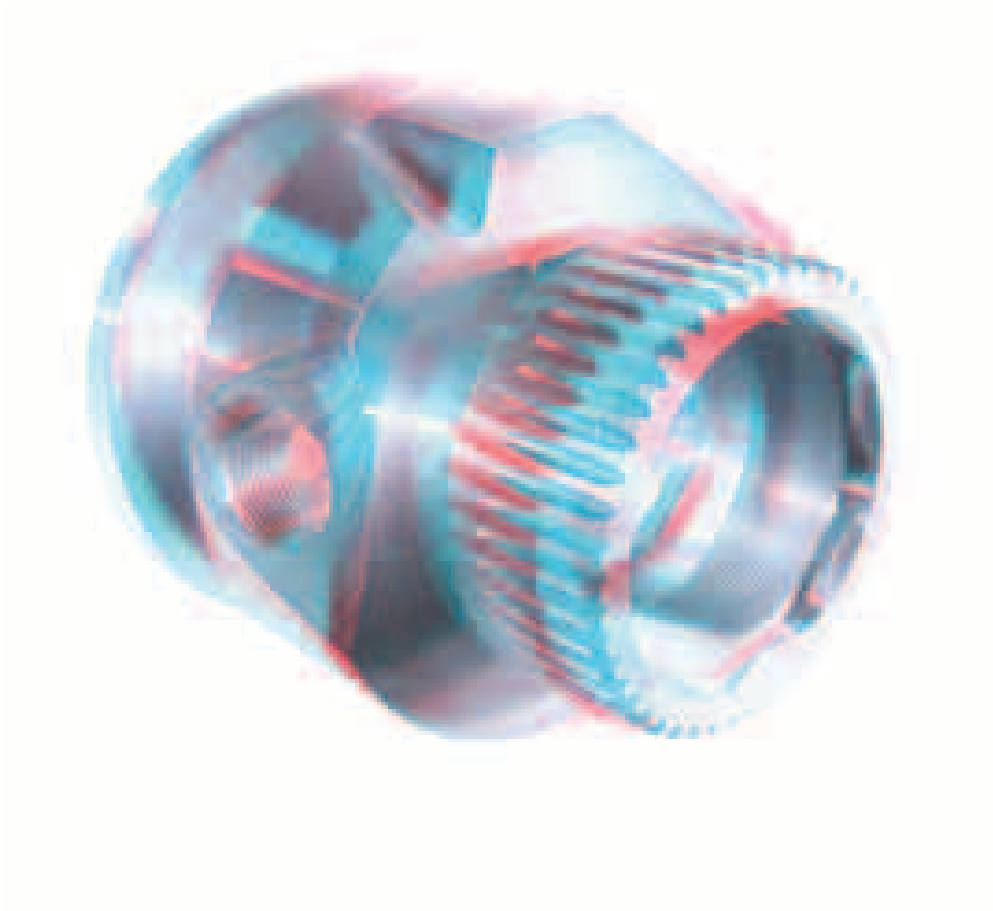


3D-controls ▶▶ **See more.**

▶▶ New perspectives provide new opportunities. 3D-controls with state-of-the-art software technology offer maximum precision and optimal user-comfort through simple programming. New dimensions provide extra transparency and security for smooth manufacturing processes.



What you see is what you understand. ▶▶ He who sees the most when programming, knows how to accomplish optimal results. A high-tech control is the requirement for quality in the high-end area. Innovative solutions in hard and software don't happen by chance, but are provided by GILDEMEISTER.




Working with higher precision.

Laser technology ▶ Trend-setting ideas.

The future leads the way. ▶▶ Perspectives change along with the demands. Thanks to our continuous re-adaptation, we gain new views and insights. And can therefore develop innovative technologies that will still be up-to-date tomorrow. The range of services provided by GILDEMEISTER therefore includes laser technology – which enables the machining of metal parts at unequalled precision and speed.



Technology for the future.



Laser precision in record time. ▶▶ That which yesterday appeared utopian, is the order of the day today: Machines for 3 dimensional laser beam machining. At maximum speeds and with the highest precision. Laser technology by GILDEMEISTER. Used for 3D machining of contours, fine cutting and boring.

Services ▶ Recognise problems.



▶

Solve problems.

Production running at full speed. ▶▶ A machine failure at this point would result in unnecessary costs. Therefore GILDEMEISTER has developed a whole range of innovative Powertools. Our products range from software to production monitoring and online fault elimination systems through to the intelligent Service Agent early warning system. Powertools provide better security, and thereby optimised production processes.





Save time.

◀◀ Key Figures

- 5 GILDEMEISTER in Brief
- 7 Fascination. Innovation.

26 Report:
Supervisory Board/
Executive Board

- 26 Report of the Supervisory Board
- 35 The Supervisory Board
- 36 The Executive Board
- 37 To Our Shareholders
- 41 The Year 2003

44 Business Report:
General Economic Situation
Corporate Situation

- 44 Group Annual Report of GILDEMEISTER Aktiengesellschaft
- 44 BUSINESS REPORT
- 44 General Economic Situation
- 45 Overall Economic Development
- 48 Development of the Machine Tool Manufacturing Industry
- 54 Company Situation and Operational Performance
- 56 Sales revenues
- 58 Order Intake
- 60 Order backlog
- 61 Results, Assets and Financial Position
- 72 GILDEMEISTER Share
- 77 Corporate Governance
- 79 Risk Reporting
- 83 Investments
- 86 Group Structure
- 88 Organisation and Administration
- 89 Legal Corporate Structure
- 91 Procurement
- 96 Production and Logistics, Products and Services
- 102 Employees
- 105 Marketing / Public Relations
- 108 Segmental Reporting
- 108 "Machine Tools"
- 112 "Services"
- 114 "Corporate Services"

116	Supplement/ Forecast/ Research and Development	148	Annual Financial Statements
116	Group Annual Report ctd.	148	Annual Financial Statements of GILDEMEISTER Aktiengesellschaft in accordance with IFRS
116	SUPPLEMENTARY REPORT	149	Notes to the Consolidated Financial Statements
120	FORECAST 2004	184	Affiliated Companies
130	RESEARCH AND DEVELOPMENT	186	Corporate Directory
136	Survey of Products	188	Consolidated Income Statement
		189	Consolidated Balance Sheet
		192	Statement of Changes in Group Equity and in shares to other shareholders
		193	Consolidated Cashflow
		195	Consolidated fixed Asset Movement Schedule
		199	Segmental Reporting relating to Consolidated Financial Statements 2003
		202	Auditor's Report
		204	Group Overview / Multiple Year Overview
		208	Index
		209	Glossary
		214	Financial Calendar



Dr.-Ing. Manfred Lennings has been Chairman of the Supervisory Board since January 1985. After completing his studies in Munich and at the Clausthal Mining Academy, he began his career at the engineering group Gutehoffnungshütte (GHH) in Oberhausen. As early as 1969 he was appointed deputy member of the executive board at GHH, became head of the Howaldtswerke-Deutsche Werft AG in Hamburg, and was the senior manager at GHH from 1975 to the end of 1983. Over the following years Dr. Lennings acted as consultant and member of many supervisory boards. In 1990 he was appointed to the Board of Directors at the Berliner Treuhandanstalt, where he was Chairman from 1993.

In the year 2003 an intensive exchange of information with the Executive Board remained the basis for the efficient operation of the Supervisory Board. Along with exercising its controlling functions, the support given to the group in implementing its strategies is a further important task. The following report sets out the Supervisory Board's main areas of activity with the required openness and transparency.

In the reporting year, 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 covering all relevant issues on corporate planning and strategic development, the course of the business, the group's state of affairs, including the risk exposure and risk management. Divergencies in the development of the business from established plans and targets were explained in detail. The company's strategic orientation 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 issued 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 Chairman of the Supervisory Board in particular remained in contact with the Executive Board on a regular basis, also outside Supervisory Board meetings, in order to be kept up to date on current business conditions and important external transactions. Actions 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 fully represented at most of the meetings.

The first meeting of the Supervisory Board was held on 27 March 2003. The main points on the agenda of this meeting, which was attended by eleven members, included the Annual Financial Statements, the Consolidated Financial Statements, the Management Report, the Group Management Report and also the agenda for the general meeting of shareholders. In addition, the Supervisory Board approved proposals for amendments to the articles of association in accordance with the German Code of Corporate Governance.

The meeting held on 15 May 2003 was attended by all members of the Supervisory Board. The Executive Board informed the members of the Supervisory Board on the latest business developments. It then introduced a proposal to transfer the investment of the holding company Macchine Utensili S.p.A. in GILDEMEISTER Italiana S.p.A. to GILDEMEISTER Aktiengesellschaft.

Following the general meeting of shareholders on 16 May 2003, the constituent meeting of the newly elected Supervisory Board took place. An item on the agenda of this meeting, amongst others, was the setting-up of the Finance and Auditing Committee, which was formed in 2003 in accordance with the recommendations of the German Code of Corporate Governance. All members of the Supervisory Board attended at this meeting. Items on the agenda for the meeting held on 12 September 2003 included the progress of the business in the first three quarters of the reporting year and a second forecast for 2003. The group's financing and future tax strategy were also discussed in depth. With respect to the annual audit for 2003, the Supervisory Board set out the key points of this audit. The members of the Supervisory Board were fully represented.

At its meeting on 28 November 2003, the Supervisory Board, after detailed discussion on sales, results, investment and personnel planning with the Executive Board, adopted the corporate plan for 2004 to 2006. In addition to the final discussion regarding group financing, the Executive Board reported to the Supervisory Board on the foundation of DMG Europe Holding GmbH. The meeting was attended by eleven members of the Supervisory Board.

In accordance with the recommendation of the German Code of Corporate Governance each member of the Supervisory Board is obliged to disclose promptly to the Supervisory Board any conflicts of interest that may arise from a position as an advisor or exercising a management function at customers, suppliers, lenders or other business partners. Such conflicts of interest did not occur during the reporting period. The joint report of the Supervisory Board and the Executive Board on “Corporate Governance” is included on pages 77 to 79 of this Annual Report.

The Personnel Committee of the Supervisory Board met on 16 May 2003. 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.

The Finance and Auditing Committee met three times in the reporting year. It prepared negotiations and resolutions of the Supervisory Board on accounting and risk management issues. Another responsibility of the Finance and Auditing Committee is checking the efficiency of the work of the Supervisory Board. The object of the audit carried out included, along with criteria with respect to quality, the operations of procedures of the Supervisory Board, the exchange of information between the Committees and the plenary meeting, and the timely and sufficient supply of information to the Supervisory Board.

The Committee focused particularly on the preparation of the audit and approval of the Annual and Consolidated Financial Statements. Further points on the Committee's agendas in this respect included the required independence of the auditor, preparations for the audit assignment, establishing key items of the audit and negotiating the fee. The Committee's meeting for the discussion of the Annual and Consolidated Financial Statements was attended by the auditors. At the respective meetings of the Supervisory Board, the Committees reported in detail on their meetings and their work.

Two meetings have already been called by the Supervisory Board during the current financial year. The main point on the agenda of the extraordinary meeting on 28 January 2004 was the future strategic orientation of the GILDE-MEISTER group. The members of the Supervisory Board were fully represented. The Personnel Committee also met on this day.

For the meeting of the Supervisory Board on Financial Statements on 25 March 2004 the Annual Financial Statements, Consolidated Financial Statements, Management Report and Group Management Report of GILDE-MEISTER 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 deliberation 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 extensively. In relation to the existing early risk recognition system, the auditor stated that the Executive Board had met the requirements of Sect. 91 para. 2 of the German Companies Act (AktG), 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. Ten members of the Supervisory Board attended at this meeting. The Finance and Auditing Committee also met to prepare for the meeting. The main items on the agenda included the group's financing strategy, the risk management report and the Annual Financial Statements 2003.

The Annual Financial Statements for the year ended 31 December 2003 prepared by the Executive Board in accordance with applicable HGB rules and the Management Report of GILDEMEISTER Aktiengesellschaft were audited in accordance with the resolution of the shareholders' meeting of 16 May 2003 and subsequent assignment by the Supervisory Board of KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, auditing company, Berlin/Frankfurt am Main. 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). 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 Annual Report.

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

On conclusion of the company's Ordinary General Meeting of Shareholders on 16 May 2003 the term of office of the incumbent Supervisory Board terminated. Prof. Dr.-Ing. Peter-Jürgen Kreher, Dr. Rupert Pfeffer and Hans Peter Schreib did not stand for re-election. All previous representatives of the shareholders were re-elected to the Supervisory Board. Günther Berger, Dr.-Ing. Jürgen Harnisch and Ulrich Hocker were newly elected. All employee-elected representatives on the Supervisory Board were also newly elected. Former employee-elected representative Heinz-Dethlef Rother was not re-elected and left office.

Wulf Bantelmann was elected in his place. Mr Rother had become a member of the Supervisory Board on 1 February 2003 following the retirement of Arno Kruck. At its constituent meeting on 16 May 2003, the Supervisory Board elected Dr.-Ing. Manfred Lennings as Chairman of the Supervisory Board and Gerhard Dirr as Deputy Chairman.

The Supervisory Board would like to thank the retiring members of the Supervisory Board for their constructive co-operation, their expert advice and their commitment to the success of the company and its employees. The members of the Supervisory Board would like to extend their thanks to the Executive Board, the management, as well as all employees of the group companies for their active commitment. Many thanks go also to the employee-elected representatives for their objective and constructive collaboration in the interests of our company.

Bielefeld, 25 March 2004
THE SUPERVISORY BOARD

A handwritten signature in blue ink, appearing to read "Manfred Lennings". The signature is written in a cursive style and is positioned above the printed name and title.

Dr.-Ing. Manfred Lennings
Chairman

Dr.-Ing. Manfred Lennings,
Essen, born 1934, Chairman,
Independent Industry Consultant

Gerhard Dirr,
Vils/Austria, born 1964, Deputy Chairman,
Chairman of the Works Council of
DECKEL MAHO Pfronten GmbH

Wulf Bantelmann (since 16 May 2003),
Bielefeld, born 1947,
Chairman of the Works Council of
GILDEMEISTER Drehmaschinen GmbH

Günther Berger (since 16 May 2003),
Munich, born 1948, Divisional Executive
Board member at the Bayerische Hypo-
and Vereinsbank AG

Harry Domnik,
Bielefeld, born 1953, Representative of the
IG Metall Administration, Bielefeld

Alfred Geißler,
Pfronten, born 1958,
Senior executives' representative

Dr.-Ing. Jürgen Harnisch
(since 16 May 2003), Bochum, born 1942,
Board member at ThyssenKrupp AG,
Chairman of the Executive Board at
ThyssenKrupp Automotive AG

Ulrich Hocker (since 16 May 2003),
Düsseldorf, born 1950,
Legal counsel, Chief Executive
Deutsche Schutzvereinigung für
Wertpapierbesitz e.V. (DSW)
(German association of securities owners)

Prof. Dr.-Ing. Walter Kunerth,
Zeitlarn, born 1940,
Independent Industry Consultant

Hans Henning Offen,
Großhansdorf, born 1940,
Former Deputy Chairman of the Executive Board
at the Westdeutsche Landesbank Girozentrale,
Düsseldorf/Münster, Independent Industry
Consultant

Peter Oxfart,
Creuzburg, born 1943, Chairman of the Works
Council of DECKEL MAHO Seebach GmbH

Günther Johann Schachner,
Peiting, born 1952,
Executive Board member at IG Metall Frankfurt
Representative of the IG Metall Administration,
Weilheim

Prof. Dr.-Ing. Peter-Jürgen Kreher
(until 16 May 2003), Grünwald, born 1934,
Senior Advisor Droege & Comp., Düsseldorf

Arno Kruck (until 31 Jan. 2003),
Bielefeld, born 1939,
Former Chairman of the Works Council
at the DMG Vertriebs und Service GmbH
DECKEL MAHO GILDEMEISTER

Dr. jur. Rupert Pfeffer (until 16 May 2003),
Geretsried, born 1934, Chairman of the Executive
Board at the LfA Förderbank Bayern i. R.

Heinz-Dethlef Rother
(01 Feb. to 16 May 2003), Bielefeld, born 1950,
Chairman of the Works Council
at the DMG Vertriebs und Service GmbH
DECKEL MAHO GILDEMEISTER

Hans Peter Schreib (until 16 May 2003),
Legal counsel, Düsseldorf, born 1935,
Member of the Executive Board at the Deutsche
Schutzvereinigung für Wertpapierbesitz e.V.
(DSW) (German Association of Securities Owners)



Dr. Rüdiger Kapitza (49)

Chairman of the Executive Board since April 1996 and co-founder of the BMG Vertriebs und Service GmbH. Trained as a plant and machinery technician and commercial manager at GILDEMEISTER. Dr. Rüdiger Kapitza studied Economics in Paderborn and obtained his doctorate at the Johannes Gutenberg University in Mainz. He was appointed to the Executive Board of GILDEMEISTER Aktiengesellschaft in 1992 and takes responsibility for the corporate strategy, product development, sales and marketing, services, procurement, personnel and public/investor relations.

Prof. Dr.-Ing. Raimund Klinkner (39)

Studied Mechanical Engineering at the Munich University of Technology and has been a member of the Executive Board since May 1998; since 1 January 2003 as Deputy Chairman of the Executive Board. His areas of responsibility include production and logistics as well as special projects, such as the development of the production site in Shanghai. On 4 June 2003 Prof. Dr.-Ing. Raimund Klinkner was appointed honorary professor of Production Logistics at Berlin Technical University, Faculty VIII Economics and Management. Before he joined GILDEMEISTER, Dr. Raimund Klinkner worked in the car industry.

Michael Welt (49)

Appointed to the Executive Board in January 2003, Michael Welt is since June 2003, and following a restructuring of the Executive Board, responsible for controlling, finance and information technology (IT). Michael Welt holds a degree in business administration (Dipl.-Kaufmann) and has been Commercial Director at DECKEL MAHO Pfronten GmbH since 1996. He continues to hold this appointment temporarily in addition to his other responsibilities. Before he joined GILDEMEISTER, Michael Welt was previously Manager in the mechanical and plant engineering industry.

Dear shareholders,

2003 was another challenging year for us, which continued to put us to the economic test: the continuing restraints on investment resulted in difficult market conditions in nearly all industrial countries and regions. China's growth market was once again the only exception to these conditions. Finally, towards the end of last year, the proverbial ray of hope appeared on the horizon in the form of a slight economic recovery. Not fully indicated in the usual economic data, this change for the better was last year also reflected in the stock exchanges. The stock markets showed noticeable improvements. Germany in particular showed strong signs of recovery. The GILDEMEISTER share also increased in value.

Order Intake
in € million

2002	981.0
2003	981.8

Sales revenues
in € million

2002	1,032.8
2003	977.8

We have left behind us a difficult, but – in contrast to the rest of the industry – satisfactory year, in which we focused on strengthening our profitability. At € 977.8 million, sales revenues decreased by 5%. Order intake of € 981.8 million reached the figures for the previous year; which means that we succeeded in holding our ground, particularly in view of the 5% losses recorded by the rest of the industry. With respect to the overall year, we were able to achieve a pre-tax profit. EBIT amounted to € 34.7 million. EBT amounted to € 10.3 million. Despite the low sales volume, we were able to achieve an improvement in earnings with respect to EBIT and EBT of approximately € 18 million. The fact that the group still recorded a net loss for the year (€ 3.6 million) is primarily due to a tax back payment, non-deductible goodwill amortisation and items from international subsidiaries that cannot be set off against tax. We will therefore propose to the General Meeting of Shareholders to be held in May that no dividend is declared for the reporting year.

EBIT
in € million

2002	17.2
2003	34.7

Employees
(incl. trainees)

2002	5,045
2003	5,028

One thing is certain: The year 2003 has demonstrated that we were well prepared for the bad weather and were able to maintain course. Still, our innovative products are the basis of our success. This year's Annual Report has therefore been dedicated to the subject of "innovative technologies". We will continue consistently to develop our targeted innovation campaign in order to remain the leader in innovation and technology. Our customers' demands are the stimulation and drive for our development. It is our aim, with our modern product range, to achieve long-term growth in all the major industrial markets. We will continue to optimise our range of products - for the benefit of our customers. We will continue to focus attention in the service area. In this area, GILDEMEISTER is working on new solutions for new challenges. We already benefit from our systems and service products that secure for us a considerable lead in comparison with our competitors. One of the crucial features of market leadership is the ability to serve markets promptly, reliably and with high quality. Parallel to the consolidation of our product range, we will continue to intensify our international presence during the years to come. Great prospects still await us in China. Here, the largest market for machine tools world-wide has developed in the past few years. We have utilised our opportunities in Asia and are now participating in the dynamic growth of this region. Our volume of business in Asia increased by 14% in a short space of time. On a medium-term basis we intend to expand in that region in order to generate more than 20% of our sales. We also aim high with respect to America, a major market that has gone through a crisis, but offers good prospects for the future. As soon as the American economy recovers, we expect the backlog of

investment projects here to be released, enabling us to benefit. A comprehensive overview of the past financial year is presented in our Annual Report. Once again we have tried to provide you with informative and varied reading matter.

Dear shareholders, we will make your Company secure for the future. It is and remains our aim to increase profitability. We are working towards all key performance ratios being positive again, and have the following plans for the financial year 2004: To increase order intake by approximately 5% and to increase sales by between 3-5%, subject to economic trends; on the basis of today's perspective, to improve EBT significantly – thereby achieving a profit for the year. It is our aim to attain a better result in order again to declare a dividend.

Our cost-cutting measures already initiated will be consistently pursued, whilst investments in fixed assets will be cut back severely following heavy investment in preceding years. We intend to reinforce the group's profitability by optimising internal processes in order to achieve a steady increase in productivity. Priorities for the next two years are the reduction of debt and the strengthening of the equity ratio. Targeted cost management, constant process optimisation and other measures will all ensure that our goals are achieved. The financial year 2004 will remain a challenge; however, we are well prepared and will return to the “road to growth” of the preceding years.

Dear shareholders, my colleagues and I can assure you that GILDEMEISTER is well positioned for future growth. Our strategy is clearly defined and takes into account the needs of our target groups. By providing good conditions in a modern, international environment, we promote the active commitment of our employees. Thanks to a high standard of quality along with a high level of innovation we intend to retain our existing customers and acquire new ones. By a close and efficiency-orientated collaboration with our suppliers, we will, in a spirit of partnership, continue to realise further optimisation potential. We will be a reliable partner to those who provide us with outside capital. Above all, GILDEMEISTER shall remain a worthwhile investment for you, ladies and gentlemen, providing an even better return in the future. That is the objective for which we strive.

Yours truly

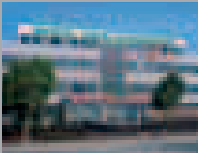
A handwritten signature in blue ink that reads "Rüdiger Kapitza". The signature is written in a cursive style with a diagonal slash between the first and last names.

Dr. Rüdiger Kapitza
Chairman of the Executive Board
Bielefeld, 25 March 2004

Review ▶ The Year 2003

January

At a Grand Opening on 15 January, GILDEMEISTER opens its new production plant in Shanghai – the first production site outside Europe. 152 standard machines have already been produced in the reporting year. A considerable increase in production is planned for the year 2004.



Michael Welt, Chief manager at DECKEL MAHO in Pfronten, is appointed to the Executive Board. He assumes responsibility for controlling and information technology, and as from June also finance.

February

11 February 2002 sees another highlight: At the traditional DECKEL MAHO in-house exhibition in Pfronten, the group achieves an order intake for 84 machines worth € 16.6 million. For the first time, the new service products – the DMG Powertools – are presented at the exhibition.



Following the award of the German Logistics Prize 2002, GILDEMEISTER, with its total logistics strategy, succeeds in convincing at a European level, and receives the "European Award for Logistics Excellence 2002". Executive Board member Prof. Dr. Raimund Klinkner receives the award in Marseille.

March

The restructuring measures at the DMG Vertriebs und Service GmbH that were begun at the start of the year, show the first results: Our new more powerful and more flexible structure with an even greater customer proximity has been approved by the market.



As a consequence of the new German stock market segmentation, the GILDEMEISTER share has, since 21 March 2003, been listed in the Prime Standard SDAX. The change in the index listing had no effect on the performance.

April



At the largest Asian trade fair, the CIMT in Peking, DMG scores a special success: with 81 machines sold we achieved an order intake totalling € 12.2 million. Equally important are the quotations that resulted with business after the fair.

May

On 16 May 2003 the Annual General Meeting of Shareholders takes place in Bielefeld town hall; approximately 1,200 shareholders are present. With the approval of the company in General Meeting, GILDEMEISTER meets all applicable recommendations of the German Code of Corporate Governance.



June

In the production and logistics area, the development of shop-floor visualisation is intensified at the international sites.



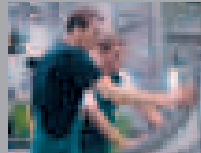
In addition, the Suggestion Management DP support that has already proven itself at the German plants, is implemented at the European sites. The objective: an increase in the number of suggestions for improvement and, as a result, an increase in net benefit.

July

With the DMG Microset GmbH, GILDEMEISTER continues to expand its range of services relating to all aspects of machine tools. Tool Management is seen as one of the major cost-cutting potentials yet to be utilised in modern production enterprises.



August



Harald Schartau, North Rhine-Westphalia's Minister for Economic Affairs and Employment, learns about GILDEMEISTER's activities in vocational training at the site in Bielefeld. He praises the company's high level of vocational training and the high overall quality of the 205 trainees.

September



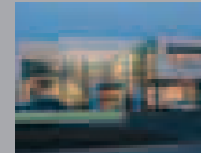
At the annual competition of the "manager magazin" the Annual Report of GILDEMEISTER again reached one of the highest positions. The jury confirmed, again, the company's role model character with respect to a transparent information policy.

October



GILDEMEISTER draws a positive conclusion from the EMO in Milan. This most significant European machine tool trade fair in 2003 is another success for the technology group. GILDEMEISTER launches six world premieres to the trade.

November



With the Grand Opening of the new technology and assembly centre of SAUER GmbH on 10 November, GILDEMEISTER strengthens the future oriented ultrasonic segment. Two new high-tech machines for 5-axis machining are introduced at this opening.

December



A further milestone in our globalisation strategy is the opening of the modern centre of technology of DMG Nippon in Yokohama.

As part of its restructuring activities, and at the heart of Europe, GILDEMEISTER sets up the DMG Europe Holding GmbH, based in Klaus, Vorarlberg/Austria. The new holding company controls the sales and service activities of all European DMG companies. The domestic market, Germany, continues to be controlled from Stuttgart.

Business Report: General Economic Situation

In 2003, the global economy has gradually begun to show signs of recovery. With the end of the war in Iraq, international stock markets indicated a discernible price rally. In Asia the economic revival continued. China confirmed its role as the region's driving force, showing once again above average growth rates. In Japan, too, the economy recovered. The same happened in the USA. On the other hand, upward trends in most countries of the European Union (EU) were a lot weaker. In Germany the economy stagnated, whilst a slight recovery was noted in the second half of the year.

Overall economic development

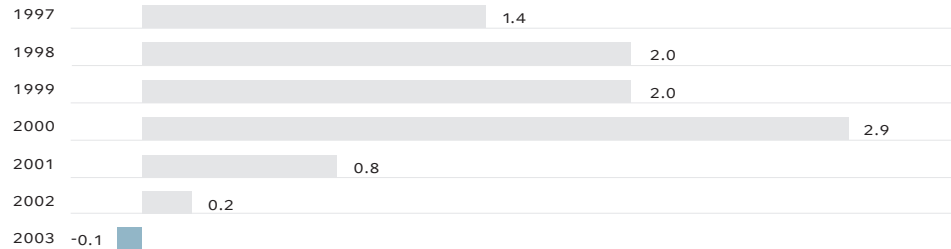
Over the year 2003, the **global economy** saw a slight revival. The Japanese economy started to grow again, and the increase in production in the USA pulled other countries and regions along. Within the European Union, though, the recovery process was more tentative. This applies to Germany as well. According to provisional calculations by the Institute for World Economics (IfW) based at Kiel University, aggregate output rose globally by 3.4% (2002: 2.9%).

In **Asia** economic activity continued to improve. Fresh stimulus emanated from domestic demand in Japan, which was primarily due to a significant increase in investments. The crisis in the banking sector alleviated. Japan also profited from the improving economies in the remaining Asian regions. The gross domestic product rose by 2.7% (2002: 0.1%).

The boost in the **us** economy continued in the reporting year. Further tax reliefs resulted in an increase in demand, which particularly stimulated consumption. In addition, private households benefited from the low interest rates. Due to the positive earnings situation, corporate investments also picked up. However, these trends could not yet be felt in the machine tool industry. Exports profited from the low exchange rate of the us Dollar. The strongly expansive fiscal policy continued. The tax cuts and the costs of the involvement in Iraq placed a significant burden on the government budget. The gross domestic product rose by 3.1% over the entire year (2002: 2.4%).

In many parts of **Europe**, the economy only began to pick up during the second half of the year. The lead was taken by countries such as Finland, Ireland and Greece. Germany and the Netherlands were bottom. Whilst domestic demand was, overall, still weak, European exports picked up noticeably over the year. The rate of decline in corporate investments slowed down, however, consumption in private households hardly changed. The job market situation continued to be tight. According to provisional figures, the gross domestic product in the Euro zone rose by 0.5% in the reporting year (2002: 0.9%).

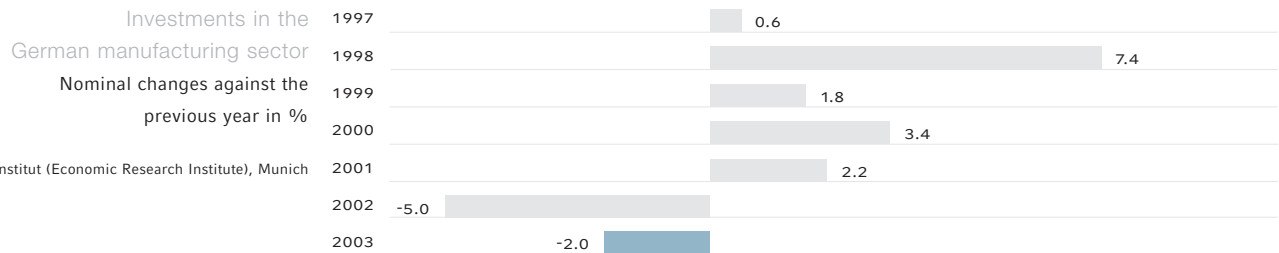
Gross domestic product in Germany
Real changes against the
previous year in %



Source: Statistisches Bundesamt
(Federal Statistical Office), Wiesbaden

In **Germany**, economic activity stagnated again, however, slight upward trends were noted from the middle of the year. On several successive occasions, the Munich-based ifo Institute diagnosed an improvement in business climate, and, later on, in business conditions. According to provisional figures from the Federal Statistical Office in Wiesbaden, the gross domestic product dropped by 0.1% (2002: 0.2%). After 1993 (-1.1%), this was the second decline in economic performance since German re-unification. Over the second half of the year, added value gradually increased in both the manufacturing sectors and the major service sectors. The latest figures pertaining to the order intake in the manufacturing sector showed a noticeable increase, both with respect to domestic and international orders. In real terms, German exports increased by 1.1%, imports by 2% over the total year. At € 97 billion, the export surplus remained at very high level. Investment in new plant and machinery was 4% less in the reporting year. Private consumption did not bring much fresh stimulus to the economy. The situation in the job market remained extremely problematic. The annual average number of unemployed was 4.38 million, thereby exceeding the preceding year's figure by 8%. By the end of the year, 4.32 million people were out of work. At well over 40,000 the number of insolvencies reached a new record. The rate of inflation amounted to just 1.1%, thereby falling back to its lowest level since 1999. New borrowings in public spending were up again. At approximately 4% the deficit quota again missed the reference value of 3% provided in the Maastrich treaty.

Sources: Statistisches Bundesamt (Federal Statistical Office), Wiesbaden; Institut für Weltwirtschaft (Institute for World Economics (IfW), Kiel; ifo-Institut (Economic Research Institute), Munich



Source: ifo Institut (Economic Research Institute), Munich

In comparison with industry trends, GILDEMEISTER was able to develop satisfactorily overall. As the major producer of metal cutting machine tools we maintained our leading position against international competition despite the difficult conditions in the global market. However, our export business was affected by the sometimes substantial devaluation of some currencies, mainly the Dollar and the Yen, against the Euro. More detailed explanatory notes on the development of the Euro in comparison with selected currencies are set out on page 50.

Development of the Machine Tool Manufacturing Industry

International Development

In 2003, global demand for machine tools continued to decline. According to its latest recently adjusted figures, the German Association of Machine Tool Manufacturers (VDW) expects a **global output** of € 32.1 billion for 2003. Production has therefore dropped again and has now fallen below the level for the year 1997; in the reporting year the decline amounted to 6% (previous year: 18%). The largest producer was once again Japan with € 7.0 billion and a 22% share in global output, after losing its first place to Germany in 2002. Germany came second with € 6.7 billion (21%). With € 3.7 billion (12%) Italy was able to maintain its place of the previous year, as did China with € 2.6 billion (8%). The USA remained fifth, ahead of South Korea. Japan, Germany, Italy, the PR of China, the USA and South Korea represent 74% of world-wide machine tool production (previous year: 72%).

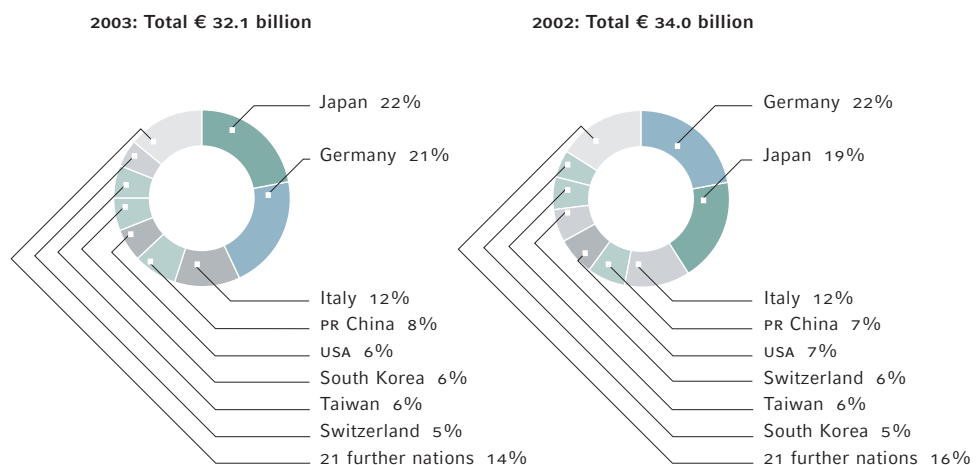
The individual world regions' shares in international production:

Shares in world-wide production

	2003 in %	2002* in %
Europe	49	52
(of which Germany)	(21)	(22)
Pacific Region	42	37
(of which Japan)	(22)	(19)
America	9	11

* Benchmark figures for 2002 are based on figures revised since last report

World-wide production of machine tools



In the reporting year 55% of global production was exported. In **exports**, there was further confirmation of the leading roles of Germany with an export share of 63% (previous year: 60%) and Japan with an export share of 53% (previous year: 52%). Both countries together accounted for 45% by value of world exports (previous year: 42%). They were followed, at some distance, by Italy, Taiwan, Switzerland and the USA. Each of their shares – like the shares of the remaining countries – was below 10%.

The world-wide **consumption** of machine tools, also stated at € 32.1 billion, was distributed among the three major markets and the rest of the world as follows:

World-wide consumption of machine tools:

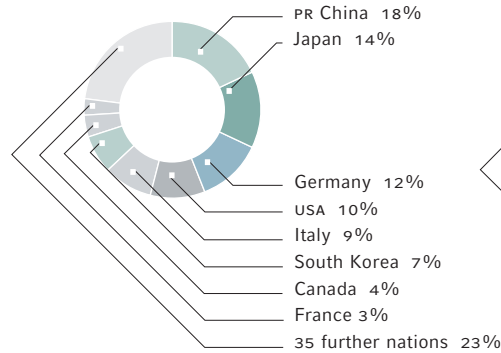
Shares in world-wide consumption

	2003 in %	2002* in %
Europe	38	41
(of which Germany)	(12)	(14)
Pacific Region	42	37
(of which Japan)	(14)	(12)
America	17	20
Rest of the world	3	2

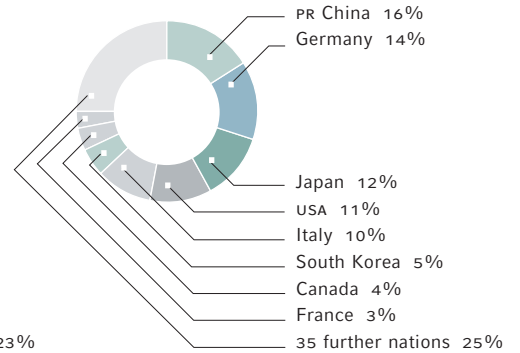
* Benchmark figures for 2002 are based on figures revised since last report

World-wide consumption of machine tools

2003: Total € 32.1 billion



2002: Total € 34.0 billion



In 2002 the PR of China became, for the first time, the world's largest market for machine tools and continued to expand its leading position. Consumption amounted to € 5.8 billion with an 18% share in consumption of all countries (previous year: 16%). Japan, with € 4.5 billion (14%) came second; and with € 3.9 billion (12%) Germany came third. Further important machine tool markets were the USA (10%), Italy (9%) and South Korea (7%).

With respect to **imports** of machine tools, the PR of China, with a 7% increase against the previous year, remained first ahead of the USA. 61% of the total consumption in China was imported. In the USA, on the other hand, total imports in the reporting year were 14% less than in 2002. Based on the total consumption in the USA, the import share rose slightly from 64% last year to 65% in the reporting year. German imports dropped by 15% and occupied third place, followed by Italy (-24%) and South Korea (+42%). With an 8% increase in domestic consumption, amounting to € 4.5 billion, imports in Japan in 2003 rose by 2% to € 0.3 billion, therefore occupying 12th place.

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

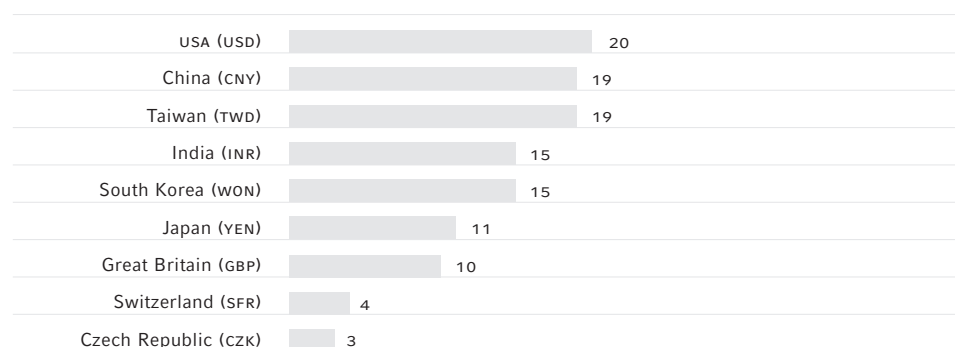
Explanatory notes on the problem of exchange rates

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, for example in respect of the us Dollar or the Yen. As the chart of the development of the Euro against selected currencies demonstrates, purchasing power in Europe, particularly with respect to Great Britain, Switzerland and the Czech Republic, has depreciated against the Euro in the order of 10%, 4% and 3% respectively. For us-American and Asian customers on the other hand, the Euro has noticeably risen in value. The revaluation of the Euro for investors in the United States amounts to 20%, in China and Taiwan to 19% each, in India and South Korea to 15% each and in Japan to 11%.

Changes in the Euro in 2003 compared with 2002 against the individual national currencies in %

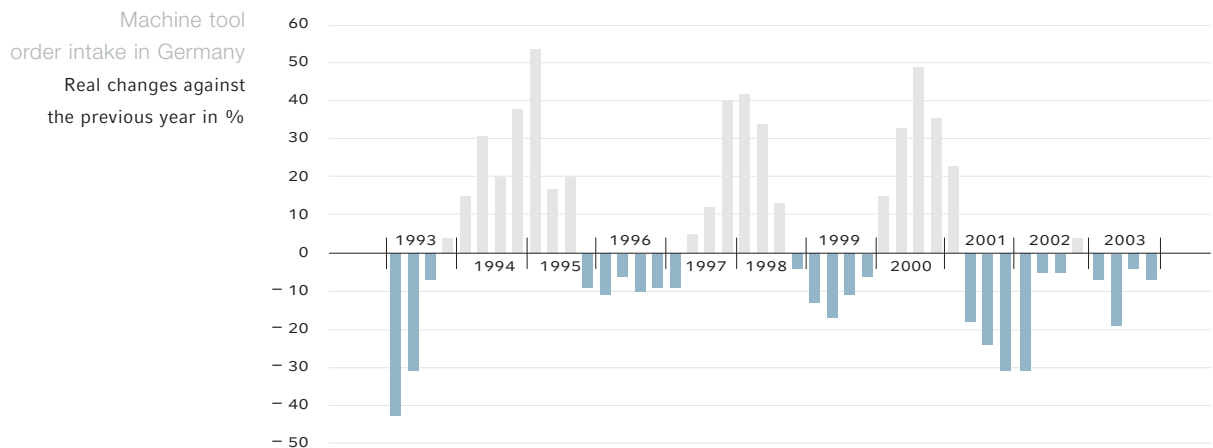
Source: Deutsche Bundesbank



German Machine Tool Industry

In line with the international section trend, the year 2003 brought an 8% decrease in German machine tool production. This drop in production is mainly due to the fact that, as order backlogs have decreased, it was not possible to get an adequate level of follow-up orders so as to utilise existing production capacities. Whilst the intake of new orders decreased by 5% against the previous year, there was a 14% drop in domestic sales and a 3% drop in exports. Exports reached € 5.2 billion in the reporting year.

In comparison with the previous year, the **order intake** dropped by a total of € 8.4 billion (previous year: € 8.8 billion). These changes are due to the fact that domestic orders decreased by 15%, whilst international orders rose by 5%. Compared with the previous year, in which there was a 6% drop, the declining trend in incoming orders slowed down over the year.



According to figures of 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 – showed a slight upward development over the second half of the year. Though mechanical and electrical engineering still showed negative figures, they appeared to improve. Road vehicle construction recorded a positive balance with slight upward trends particularly in the last four months.

In 2003, as in the previous year, the machine tool industry did not achieve any growth in **production**; it dropped to a total of € 8.8 billion, and therefore was 8% below the figure for 2002 (€ 9.6 billion). Whilst sales dropped by 13% during the first half of the year, the declining trend slowed down during the second half of the year, resulting, with respect to machine tools, in a total drop of just 5% over the entire year.

Of the metal cutting machines produced in Germany, 59% were exported in the reporting year (2002: 56%). Compared with the previous year, **exports** dropped by 3% to € 5.2 billion. Despite another drop of 8%, 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 2003, 13% of exports were attributed to this market (2002: 14% in the entire year). China succeeded in expanding its position as the second most important market with a 46% growth. The subsequent places in the ranking of their significance as purchasing countries were occupied by Great Britain with a 7% share (2002: 4%), France with a 6% share (2002: 8%), Italy with a 6% share (2002: 8%), Austria with a 5% share (2002: 4%) and Switzerland with a 5% share (2002: also 5%).

Machine tool production in
Germany
in € billion



The 13% drop in **imports** to € 1.9 billion in the reporting year (2002: € 2.2 billion) together with the 14% drop in domestic sales, now worth € 3.6 billion (2002: € 4.2 billion) led to a 14% reduction in **domestic consumption**, now totalling € 5.6 billion. About 24% (2002: 29%) of the German machine tool imports originated from the European Union. As previously, Switzerland remained by a long way the largest supplier country. Other countries with substantial supply volumes included Japan, the Czech Republic, the USA, Italy, Great Britain, Poland and Austria.

At the end of 2002 **capacity utilisation** was 89.6%. During 2003, this value dropped to 79.9% in the second quarter, but has now recovered and amounts to 85.5%. A slightly higher capacity utilisation of 87.3% was achieved for metal cutting machines, whilst utilisation for non-cutting machines was noticeably lower, at 81.6%. The demand trend is also reflected in **order backlog**. The order backlog, expressed as production months, decreased from 6.7 at the beginning of the year to 6.0 months in June 2003. By October 2003 the backlog increased again to 6.4 months. This computed average value for the industry can only be a rough indicator of the order backlog due to its compilation. Along with standard machines with extremely short delivery times, it includes special machines and large press machine tools with long delivery times.

Employment in the German machine tool manufacturing companies decreased by 5% in the reporting year. During the first six months of 2003 the number of employees dropped to 63,900, further decreasing to 63,700 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. The industry's returns on investment are, in total, far from satisfactory. 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 and investments focused on future developments.

Source: vdw; vDMA – Fachverband Werkzeugmaschinen und Fertigungssysteme (Trade Association for Machine Tools and Production Systems) Figures include parts and accessories, etc. (figures pertaining to the previous year were partly updated)

Business Report: Company Situation and Business Development

Despite the difficult conditions throughout the world, GILDEMEISTER was able to achieve sales revenues of € 977.8 million in the financial year 2003 (previous year: € 1,032.8 million). The order intake of € 981.8 million was in line with the figures for the previous year (€ 981.0 million). Compared with the rest of the industry (-5%) GILDEMEISTER performed well. With respect to the overall year, we were able to achieve a pre-tax profit. EBIT amounted to € 34.7 million (previous year: € 17.2 million). EBT was € 10.3 million (previous year: € -7.5 million). GILDEMEISTER shows a post-tax loss for the year of € 3.6 million for the group (previous year: € -18.7 million), which is primarily due to a tax back payment, non-deductible goodwill amortisation and items from international subsidiaries that cannot be set off against tax.

GILDEMEISTER Aktiengesellschaft closed the financial year with a net profit of € 4.7 million (previous year: € 4.4 million). As previously announced, we propose not to distribute a dividend for the financial year 2003, but to transfer the accumulated profits to revenue provisions.

For the financial year 2004, GILDEMEISTER expects an increasing revival in demand. Thanks to our innovative products, user-orientated technologies and comprehensive technical services GILDEMEISTER is well prepared for the expected recovery in the market. By being well represented by the group's sales and service organisation in all the major industrial markets and with an adequate share in the market, we stand a good chance of maintaining our position against the competition.

On 31 December 2003 the GILDEMEISTER group comprised

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

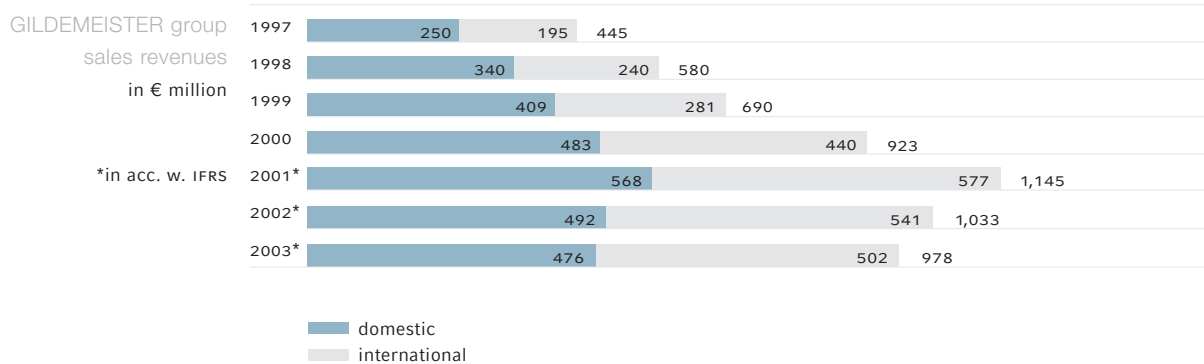
- _ GILDEMEISTER Drehmaschinen GmbH, Bielefeld,
- _ GILDEMEISTER Italiana S.p.A., Brembate di Sopra,
- _ DECKEL MAHO Pfronten GmbH, Pfronten (indirect),
- _ DECKEL MAHO Geretsried GmbH, Geretsried,
- _ DECKEL MAHO Seebach GmbH, Seebach,
- _ FAMOT Pleszew S.A., Pleszew,
- _ SAUER GmbH, Idar-Oberstein,
- _ LASERTEC GmbH, Pfronten (indirect),
- _ 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.

The consolidated company report includes all group companies controlled by GILDEMEISTER Aktiengesellschaft. With its fully owned subsidiaries, GRAZIANO Tortona S.p.A., Tortona, and SACO S.p.A., Castelleone, GILDEMEISTER Italiana constitutes a subgroup. As does DMG Vertriebs und Service GmbH with each of its subsidiaries.

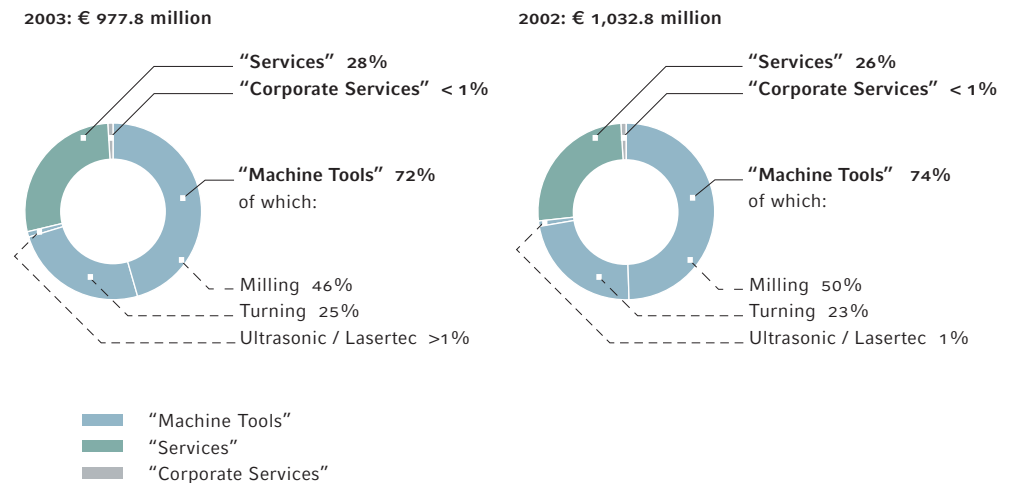
GILDEMEISTER operates in the metal-cutting technology sector. Business activities include “Machine Tools”, “Services” and “Corporate Services”. The group's corporate governance is directed to these business areas. **“Machine Tools”** is made up of “turning”, “milling” and “laser/ultrasonic” technologies.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

Sales Revenues

In 2003, the weak world-wide demand for machine tools also affected sales revenues development at GILDEMEISTER. Sales revenues amounted to € 977.8 million, and therefore were € 55.0 million or 5% below the high figures for the preceding year. In the fourth quarter sales revenues went up to € 276.3 million; however, our planned target was not quite realised. At € 475.7 million, domestic sales dropped slightly by € 16.0 million or 3%. International sales reached € 502.1 million (€ -39.0 million or -7%); this is 51% of the total (previous year: 52%).



GILDEMEISTER group
sales revenues distribution
by sector/division



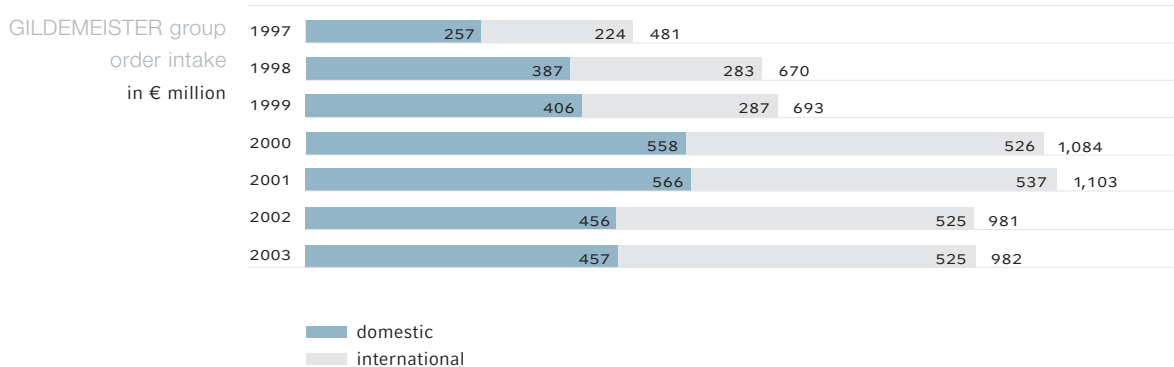
In the "Machine Tools" segment, the ten production plants of the GILDEMEISTER group contributed 72% of the sales revenues from their six domestic and now four international sites (previous year: 74%). Milling technology from DECKEL MAHO represented 46% of total sales revenues (previous year: 50%), whilst the laser/ultrasonic technology represented more than 1% (previous year: 1%). The sales revenues contribution from GILDEMEISTER, GRAZIANO and FAMOT turning technology amounted to 25% (previous year: 23%). External sales revenues of 28% (previous year: 26%) were attributed to the "Services" of DMG Vertriebs und Service GmbH, a & f Stahl- und Maschinenbau GmbH and SACO S.p.A. with its components business. With trading both on their own account and on a commission basis for the group companies and third-party products, the future orientated "Services" segment is operated primarily by DMG and its subsidiaries in Germany and abroad. The a & f business is engaged in the skilled procurement of mechanical machine parts and assembled structural components. SACO, Castelleone, manufactures components and products primarily for automatic lathes.

Order Intake

In the financial year 2003, GILDEMEISTER achieved an order intake of € 981.8 million. In contrast to the rest of the industry (-5%) we succeeded in maintaining our overall order intake at the same level as the preceding year (€ 981.0 million).

As expected, our order intake of € 281.0 million rose in the fourth quarter, when compared with the preceding quarters and with the corresponding quarter of the preceding year (€ 243.9 million). The fresh stimulus emanating from the autumn trade fairs had, in part, a delayed effect. As a result we did not quite accomplish our target. Only as late as December we were able to achieve a higher order intake.

Incoming domestic orders of € 457.0 million (previous year: € 455.6 million) and international orders of € 524.8 million (previous year: € 525.4 million) remained at a constant level. The foreign share decreased by one percentage point to 53%.

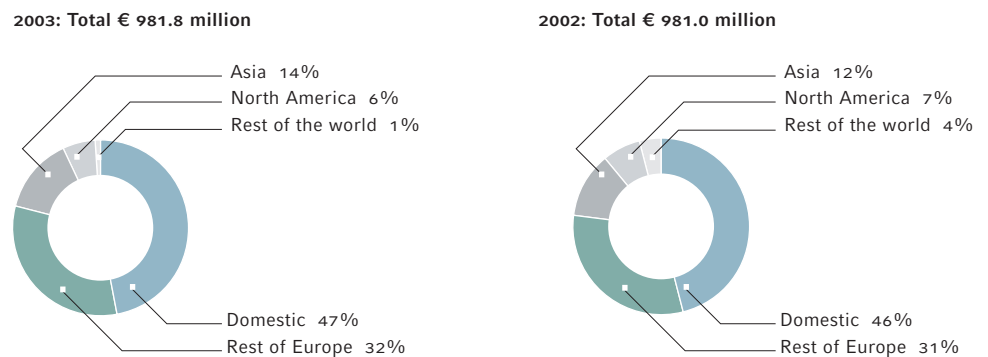


In the year 2003, DMG Vertriebs und Service GmbH with its 38 technology centres operating world-wide, its consistent market proximity, direct selling covering all areas and the extensive range of customer-related services once again succeeded in maintaining its position despite heavy competition. In this respect the Japanese competition made its presence increasingly felt, as it profited from the exchange rate of the Euro against the Yen. The presence of the Japanese competition was also felt in the American market, since the increased value of the Euro was proportionally stronger against the Dollar than the increased value of the Yen. Both in the **domestic market** and in **Europe**, GILDEMEISTER maintained its competitive position despite the continued weakness of the market. In **America** the order intake did not quite reach the

figures for the preceding year; however, with the expected improved economic situation we can see potential for 2004. The order from **Asia** developed well. Particularly in China, but also in Japan and Korea we were able to increase our order intake significantly.

The drastic structural and organisational changes of DMG that were carried out in early 2003 have already proved successful in the reporting year. DMG has become more global and more flexible with an even closer customer proximity in 2003. The individual companies with their local technology centres continue to be managed in a proven 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.

GILDEMEISTER group
order intake by region



In the reporting year, 72% of the order intake were attributed to the “Machine Tools” segment (previous year: 74%), 28% to the group’s “Services” (previous year: 26%) and less than 0.1% to “Corporate Services”.

In 2003, with roughly the same volume of order intake, a total of 4,674 turning, milling, laser/ultrasonic and used machines were sold to 3,385 different customers within Germany and abroad. The **sales volume** is therefore 9% less than in the preceding year. Due to a changed product mix, the average value per machine was 8% above the preceding year’s value. During the course of the year **selling prices** were raised slightly within the limited market by between 0% to 3% depending on each specific product. The high pressure on selling prices has increased further due to the developments in the Euro exchange rate.

Our innovative high-tech products, the global expansion and re-structured management of our DMG sales and service companies, our presence at international trade fairs and last, but not least, our intensive marketing all contributed to the accomplishment of an order intake worth € 981.8 million. For example, our presence at this year's two major trade fairs, the CIMT in Peking and the EMO in Milan, as well as our in-house exhibitions in Pfronten, Bielefeld, Seebach, Leonberg and Bergamo, were crowned with success, with orders for 516 machines and an order intake totalling € 89.7 million. More than 4,400 new quotations were triggered by the above fairs, setting new trends for future development. Our innovations were met with great interest by the specialist audience.

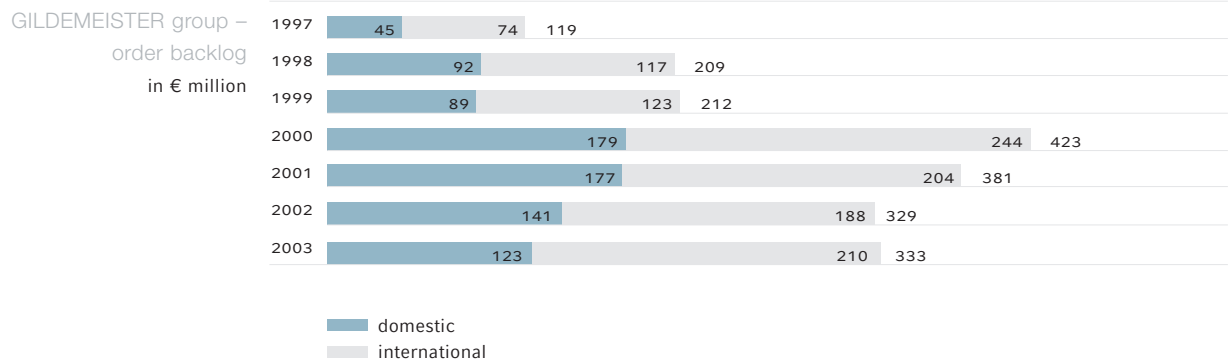
Key Accounting was further expanded in the reporting year in order to meet our customers' increasing globalisation. In key accounting, which concerns the management of our **major customers** across all areas and products, we achieved an order intake of € 54 million in the current financial year (previous year: € 50 million), therefore again meeting expectations.

Order Backlog

On 31 December 2003, the order backlog amounted to € 332.8 million. When compared with the figure of € 328.8 million for the same time last year, this is an increase of just € 4.0 million (1%). 63% of the existing orders were attributed to international orders (previous year: 57%), which increased by € 22.7 million or 12% to € 210.3 million. Existing domestic orders dropped by € 18.7 million or 13% to € 122.5 million.

The order backlog corresponds to a production capacity utilisation of approximately three months. The average utilisation value, however, is mainly determined by the high technology machines in our production programme with correspondingly longer production times.

The order backlog for "Machine Tools" amounted to € 273.6 million at the end of the reporting year; this is an 82% share in the group's order backlog. Of these, 59% were international orders (previous year: 51%). The group's order backlog was attributed to "Services", primarily to DMG Vertriebs und Service GmbH and its subsidiaries were € 59.2 million or 18% of the total. The corresponding export share was 82% (previous year: 85%).



Results, Net Worth and Financial Position

Results 2003

In the financial year 2003, profitability of the GILDEMEISTER group has again improved noticeably. **EBITDA** reached € 71.1 million (previous year: € 54.9 million), **EBIT** amounted to € 34.7 million (previous year: € 17.2 million) and **EBT** was at around € 10.3 million (previous year: € -7.5 million). We were therefore able to achieve an earnings improvement (EBIT and EBT) of approximately € 18 million.

Despite the smaller sales volume, GILDEMEISTER succeeded in reinforcing its profitability. Thanks to consistent cost and process management we have improved the earnings margins in both the "Machine Tools" segment and the "Services" segment. The service business in particular was further expanded. Not only was the sales revenues volume increased, but we also achieved higher margins. With respect to the business development of the segments we refer to pages 108 ff.

GILDEMEISTER group Income Statement

	2003		2002		Changes against previous year	
	€ K	%	€ K	%	€ K	%
Total work done	995,709	100.0	1,046,599	100.0	-50,890	-4.9
Cost of materials	-525,345	-52.8	-569,922	-54.5	44,577	-7.8
Gross profit	470,364	47.2	476,677	45.5	-6,313	-1.3
Personnel costs	-270,577	-27.2	-270,156	-25.8	-421	0.2
Other operating income and expenses	-128,682	-12.9	-151,588	-14.5	22,906	-15.1
EBITDA	71,105	7.1	54,933	5.2	16,172	29.4
Depreciation of assets	-36,430	-3.6	-37,757	-3.6	1,327	-3.5
EBIT	34,675	3.5	17,176	1.6	17,499	101.9
Financial result	-24,414	-2.5	-24,672	-2.3	258	-1.0
Profit/loss on ordinary activities	10,261	1.0	-7,496	-0.7	17,757	236.9
Taxes on profit	-13,840	-1.4	-11,214	-1.1	-2,626	23.4
Annual profit/loss	-3,579	-0.4	-18,710	-1.8	15,131	80.9

Total work done amounted to € 995.7 million and was therefore 4.9% or € 50.9 million below the figure for the preceding year (€ 1,046.6 million). We reduced the proportional cost of materials from 54.5% to 52.8% and are therefore back in line with the year 2000 level. This reduction is mainly due to optimisations in the process chain, specific reductions in the cost of materials per machine model and improved purchasing conditions. At € 470.4 million, the gross profit was 1.3% or € 6.3 million below the preceding year's figure (€ 476.7 million). The gross profit margin has thereby increased to 47.2% (previous year: 45.5%).

Personnel costs remained, overall, in line with the preceding year, however, percentage personnel costs increased from 25.8% to 27.2%.

The balance from other operating income and expenses dropped by € 22.9 million to € 128.7 million. Major savings were achieved in the marketing area and through reduced legal and consulting fees as well as reduced costs of guaranty commitments. Rental and leases amounted to € 18.3 million in the reporting year (previous year: € 17.1 million). On 31 December 2003 rental and leases obligations for the financial year 2004 stood at € 13.6 million.

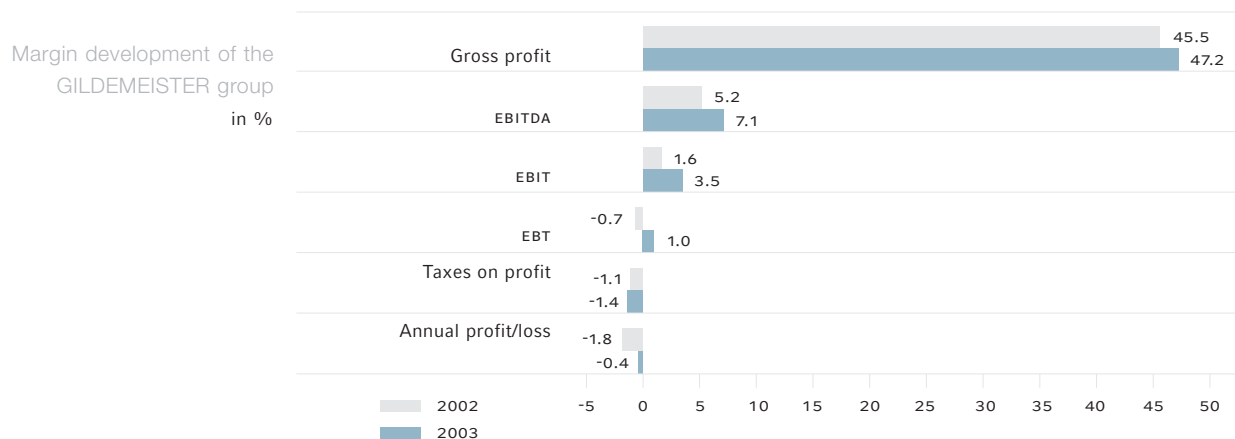
Compared with last year (€ 37.7 million), depreciation decreased by 1.3% to € 36.4 million. The depreciation value includes goodwill amortisation of € 6.7 million.

The financial result of € -24.4 million improved by € 0.3 million in comparison with the previous year (€ -24.7 million). The annual loss amounts to € 3.6 million (previous year: € -18.7 million). Tax expenditure was primarily affected by a tax back

payment, non-deductible goodwill amortisation and effects from international subsidiaries that cannot be set off.

Further details on revenue and expense items are set out in the Notes starting on page 149 ff.

Overall, the margins calculated on the basis of total turnover developed positively when compared with the previous year. Due to a gross profit margin that increased by 1.7 percentage points to 47.2%, and the savings achieved in other expenses, the EBITDA margin was up to 7.1% (previous year: 5.2%). With a reduction in depreciation, the EBIT margin increased by 1.9 percentage points to 3.5% (previous year: 1.6%). With an unchanged financial result, the EBT margin developed positively and increased by 1.7 percentage points to 1.0% (previous year: -0.7%).



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

The distribution of dividends by the affiliated companies determines the result of **GILDEMEISTER Aktiengesellschaft**. In the past financial year, their profit for the year totalled € 4.7 million (previous year: € 4.4 million).

Due to the group's annual loss, the Executive Board and Supervisory Board will propose to the company in General Meeting on 14 May 2004, not to distribute a dividend for the financial year 2003, but to transfer the accumulated profits of **GILDEMEISTER Aktiengesellschaft** of € 9.1 million to revenue provisions.

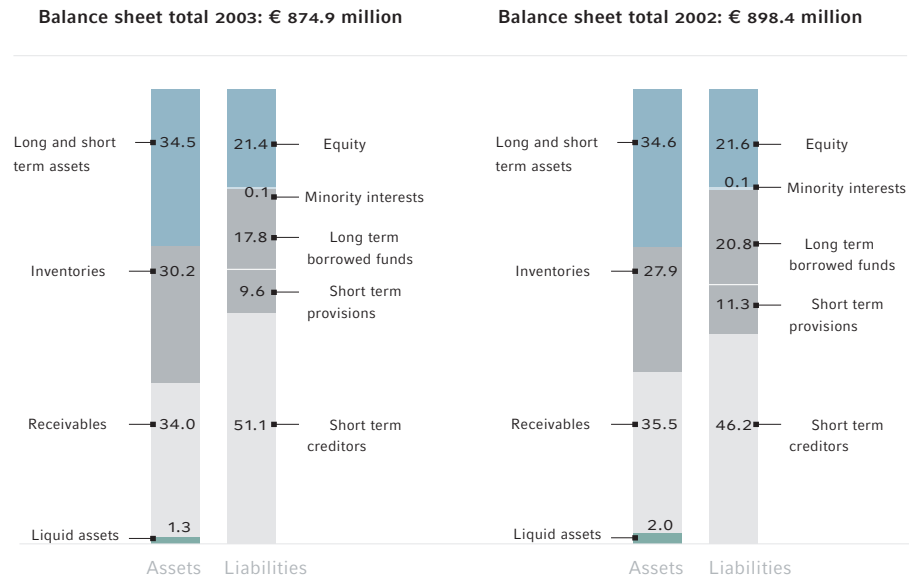
Net Worth and Financial Position

GILDEMEISTER group Balance Sheet

	31 Dec. 2003		31 Dec. 2002		Changes against previous year	
	€ K	%	€ K	%	€ K	%
Assets						
Long and medium term assets						
Fixed assets	270,569	30.9	276,281	30.7	-5,712	-2.1
Current assets	31,652	3.6	34,725	3.9	-3,073	-8.8
	302,221	34.5	311,006	34.6	-8,785	-2.8
Short term assets						
Inventories incl. payments on account	264,365	30.2	250,768	27.9	13,597	5.4
Receivables and other assets	296,901	34.0	318,900	35.5	-21,999	-6.9
Liquid funds	11,425	1.3	17,689	2.0	-6,264	-35.4
	572,691	65.5	587,357	65.4	-14,666	-2.5
Balance sheet total	874,912	100.0	898,363	100.0	-23,451	-2.6
Total equity and liabilities						
Long and medium term financial resources						
Equity	187,593	21.4	193,824	21.6	-6,231	-3.2
Shares to other shareholders	1,198	0.1	1,193	0.1	5	0.4
Borrowed funds						
Provisions	49,765	5.7	46,645	5.2	3,120	6.7
Creditors	105,798	12.1	140,129	15.6	-34,331	-24.5
	155,563	17.8	186,774	20.8	-31,211	-16.7
	344,354	39.3	381,791	42.5	-37,437	-9.8
Short term financial resources						
Provisions	84,194	9.6	101,741	11.3	-17,547	-17.2
Creditors	446,364	51.1	414,831	46.2	31,533	7.6
	530,558	60.7	516,572	57.5	13,986	2.7
Balance sheet total	874,912	100.0	898,363	100.0	-23,451	-2.6

Compared with last year, the **balance sheet total** of the GILDEMEISTER group decreased by 2.6% or € 23.5 million to € 874.9 million (previous year: € 898.4 million).

Assets and capital structure
of the GILDEMEISTER group
in %



The **fixed assets** on the **assets** side decreased by 2.1% or € 5.7 million to € 270.6 million (previous year: € 276.3 million). In this respect both intangible assets (€ -1.6 million) and tangible assets (€ -3.9 million) decreased. The asset additions are set out in more detail in the “Investments” chapter starting on page 83.

In the reporting year **stock on hand** showed a slight increase of 5.4% or € 13.6 million to € 264.4 million (previous year: € 250.8 million). Whilst the work in progress inventory dropped by € 2.2 million to € 88.4 million (previous year: € 90.6 million), raw materials and consumables recorded an increase of € 6.4 million to € 75.4 million (previous year: € 69.0 million). The inventory of finished goods increased by € 10.0 million to € 98.9 million (previous year: € 88.9 million). At 30.2%, the stock on hand share in the balance sheet total increased by a total of 2.3 percentage points, compared to 27.9% in the preceding year.

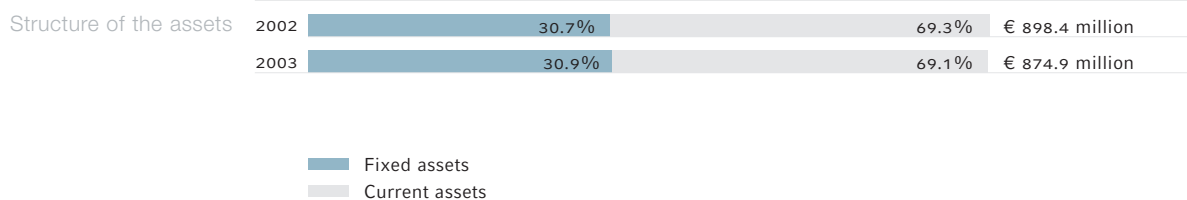
Based on total revenue, the stock turnover reduced from 4.1 to 3.7.

Compared with the previous year, **receivables and other assets** reduced by 7.1% or € 22.3 million to € 294.3 million (previous year € 316.6 million). Whilst other assets were up by € 13.3 million to € 34.7 million (previous year: € 21.4 million), trade debtors dropped by 12.1% or € 35.7 million to € 259.6 million (previous year: € 295.3 million).

Compared with the previous year, the debtor-sales ratio improved, turnover was up from 3.7 to 3.8.

At the balance sheet date, **liquid funds** totalled € 11.4 million, and were below the preceding year's figure (€ 17.7 million) by € 6.3 million. The relative share in the balance sheet total dropped from 2.0% to 1.3%.

In the structure of assets, the relative share of assets appropriated on a long and medium-term basis of 34.5% remained almost unchanged in comparison to the preceding year.



With respect to **total equity and liabilities**, the annual loss and the change in revenue provisions resulted in a reduction in **capital** of 3.2% or € 6.2 million to € 187.6 million (previous year: € 193.8 million). The **equity ratio** decreased slightly by 0.2 percentage points to 21.4% (previous year: 21.6%). As of 31 December 2003 net indebtedness amounted to € 342.1 million (previous year € 319.5 million), which was primarily due to an increase in bills of exchange payable. The ratio of average net indebtedness to average equity (**gearing**) therefore rose from 164.8% to 182.4% when compared with the preceding year.

Long-term borrowed funds decreased by € 31.2 million to € 155.6 million. Their share in the balance sheet total decreased by 3.0 percentage points to 17.8% (previous year: 20.8%). The proportion of **long-term provisions** increased from 5.2% to 5.7%.

Long and short-term financing decreased by € 37.4 million or 9.8% to € 344.4 million in the reporting year. The assets appropriated on a long and medium-term basis are 113.9% financed (previous year: 122.8%) by funds that are available on a long and medium-term basis.

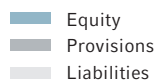
Short-term financing increased by € 14.0 million or 2.7% to € 530.6 million. The proportion of short-term provisions included in the above funds decreased by € 17.5 million or 17.2% to € 84.2 million (previous year: € 101.7 million). Short-term liabilities increased by € 31.5 million or 7.6% to € 446.3 million (previous year: € 414.8 million).

When compared with the previous year, the **total equity and liabilities** show a clear shift in the funding of total equity employed. The total fixed assets and stock on hand of € 534.9 million (previous year: € 527.1 million) are 64.4% covered (previous year: 72.4%) by long and medium-term funding. When compared with the previous year, the structure of total equity and liabilities indicate a slight decrease in the equity ratio and a reduction in provisions; the liabilities ratio has increased accordingly by 1.4 percentage points to 63.2% (previous year: 61.8%).

We will continue to pursue our efforts to **reduce our liabilities**. With a systematic receivables management and the harmonisation of payment terms as far as this is possible in the market, we will continue to focus on reducing our trade debtors. We are striving for another release of funds by reducing our stock on hand. In addition, we are looking into various options to strengthen our equity capital base and consolidate our borrowings focusing particularly on long-term borrowing.

Structure of total equity and liabilities

2002	21.6%	16.5%	61.9%	€ 898.4 million
2003	21.4%	15.3%	63.3%	€ 874.9 million



GILDEMEISTER group cash flow

	2003	2002	Changes against previous year
	€ K	€ K	€ K
Cash flow from current operations			
1. Profit/loss for the year	-3,579	-18,710	15,131
2. Depreciation of fixed assets	36,430	37,757	-1,327
3. Change in deferred taxes	4,310	-4,849	9,159
4. Change in long-term provisions	3,120	-76	3,196
5. Other income not affecting payments	-445	-506	61
6. Change in short term provisions	-17,547	14,059	-31,606
7. Profit / loss from disposal of fixed assets	-945	-105	-840
8. Changes in current asset items and in liabilities			
_Stocks	-13,597	997	-14,594
_Trade receivables	35,647	4,133	31,514
_Other assets not to be allocated to investment or financing activity	-13,965	14,785	-28,750
_Trade payables	-6,197	17,610	-23,807
_Other equity liabilities not be allocated to investment or financing activity	5,503	-17,425	22,928
	28,735	47,670	-18,935
Cash flow from investment activity			
1. Receipts from the disposal of property, plant, equipment and intangible assets	3,880	4,766	-886
2. Payments for investments in tangible fixed assets	-23,162	-38,706	15,544
3. Payments for investments in intangible fixed assets	-13,115	-14,493	1,378
4. Payments for investments in financial assets	-243	-23,484	23,241
5. Receipts from financial assets and disposals	335	28	307
	-32,305	-71,889	39,584
Cash flow from financing activity			
1. Payments (prev. receipts) for repayments (prev. year from raising) of (financing) credits	-2,008	43,402	-45,410
2. Distribution of dividends to shareholders	0	-17,328	17,328
3. Distribution of dividends to other shareholders	-63	-755	692
4. Receipts from investment allowance / grant	249	2,266	-2,017
	-1,822	27,585	-29,407
Changes affecting payments	-5,392	3,366	-8,758
Consolidation and exchange rate related changes not affecting payments	-872	-955	83
Liquid funds as of 1 January	17,689	15,278	2,411
Liquid funds as of 31 December	11,425	17,689	-6,264

The flow of funds analysis (**cash flow statement**) records the payment flow in a financial year and represents the inflow and outflow of the company's liquid funds. In this process, the source of the funding employed is compared with the investment activity.

Based on the profit/loss for the year, the **cash flow from current operations** is indirectly traced back. It is calculated by adding to the annual profit those expenses that are not set off against any payments, and subtracting from it income that did not result in the receipt of monies. In this process, movements in balance sheet items pertaining to current operations are taken into account and adjusted for changes due to foreign currency conversion and changes in the consolidated group. The **cash flow from investment activity** and the **cash flow from financing** are each calculated in terms of actual sums paid. A reconciliation of the cash flow with the published consolidated balance sheet is therefore not possible.

At € 28.7 million, the **cash flow (inflow of funds) from current operations** was positive in the reporting year (previous year: € 47.7 million). Against the previous year this resulted in a reduced inflow of funds of € 19.0 million. Following the considerably reduced net loss for the year of € 3.6 million (previous year: € -18.7 million), the depreciation of € 36.4 million and the reduction in trade debtors of 35.6 million benefited the cash flow. Another positive effect was achieved by the change in deferred taxes (€ 4.3 million), in long-term provisions (3.1 million) and in other equity and liabilities (€ 5.5 million). In the financial year 2003, the change in short-term reserves of € 17.5 million (such as tax payments for the previous year), in inventories (€ 13.6 million), in other assets (€ 14.0 million) and in trade creditors (€ 6.2 million) all affected the cash flow.

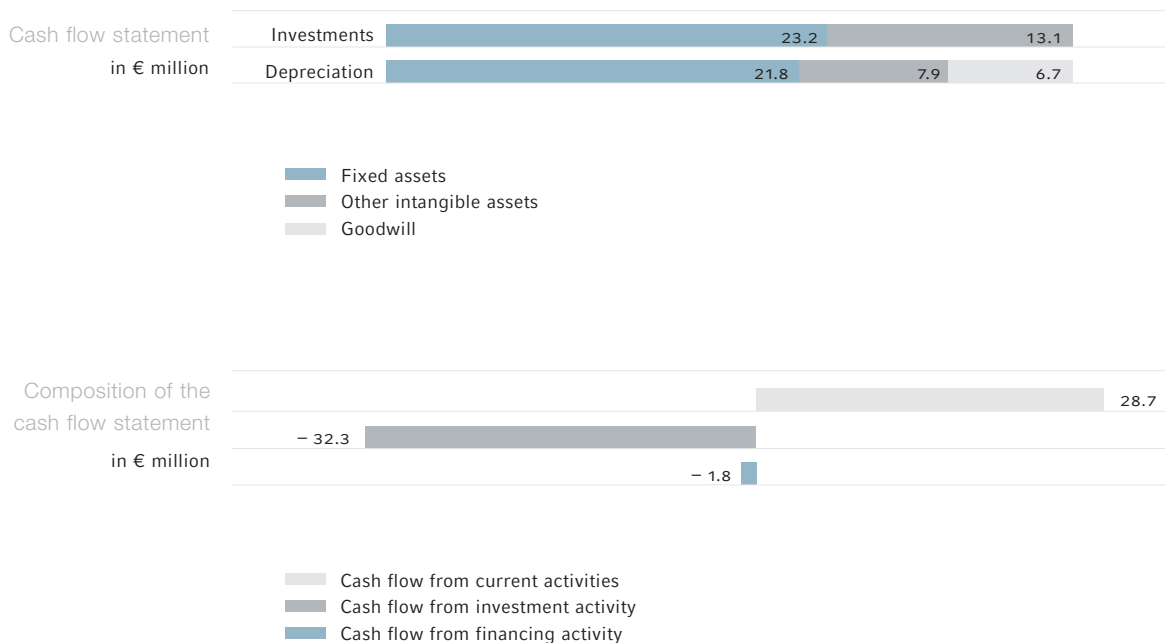
Due to an investment volume that decreased noticeably when compared with the preceding year, the **cash flow (outflow of funds) with respect to investment activity** improved by € 39.6 million against the previous year. Net investments dropped by 55.1%, amounting to € 32.3 million in the reporting year compared to € 71.9 million in the previous year. Amounts paid out for investments in tangible fixed assets were around € 23.2 million, therefore falling 40.2% below the preceding year's figure. Further details are set out in the "Investments" section on page 83.

Following the high level of financial investments in the past year (€ 23.5 million), only € 0.2 million were invested in non-trading assets in the reporting year.

Development costs amounting to € 8.1 million were capitalised 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.

In the financial year the **cash flow (outflow of funds) from financing activity** was € -1.8 million (previous year: inflow of funds: € 27.6 million). Following the inflow of funds from finance loans (€ 43.4 million) last year, a repayment of € 2.0 million

was made in the financial year. There were no investment and financing activities affecting payment in the reporting year. Liquid funds at the balance sheet date decreased by 35.4% to € 11.4 million, when compared with the preceding year (€ 17.7 million).



The **value added statement** represents 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, lenders, shareholders/company members and government.

In the financial year 2003, the value added by the GILDEMEISTER group totalled € 305.4 million (previous year: € 287.5 million), representing a rise of 6.2% or € 17.9 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 € 0.7 million. The following table shows the value added statement in detail.

Value added statement of the GILDEMEISTER group

	2003		2002		Change against previous year	
	€ M	%	€ M	%	€ M	%
SOURCE						
Sales revenues	977.8	95.6	1,032.8	96.3	-55.0	-5.3
Other revenues	44.5	4.4	40.1	3.7	4.4	11.0
Operating performance	1,022.3	100.0	1,072.9	100.0	-50.6	-4.7
Raw materials and consumables	525.3	51.4	569.9	53.1	-44.6	-7.8
Depreciation	36.4	3.5	37.8	3.5	-1.4	-3.7
Other expenses	155.2	15.2	177.7	16.6	-22.5	-12.7
Purchased materials and services	716.9	70.1	785.4	73.2	-68.5	-8.7
Value added	305.4	29.9	287.5	26.8	17.9	6.2

	2003		2002		Change against previous year	
	€ M	%	€ M	%	€ M	%
DISTRIBUTION						
Employees	270.7	88.6	270.3	94.0	0.4	0.1
Company	-0.7	-0.2	-27.7	-9.6	27.0	97.5
Lenders	24.4	8.0	24.7	8.6	-0.3	-1.2
Shareholders/minority interests	0.1	0.0	0.3	0.1	-0.2	-66.7
Government	10.9	3.6	19.9	6.9	-9.0	-45.3
Value added	305.4	100.0	287.5	100.0	17.9	6.2

Distribution of the value added
in the GILDEMEISTER group
in %

2003: Total of € 305.4 million

Employees	88.6
Companies	-0.2
Lenders	8.0
Shareh./minority interests	0.0
Government	3.6

2002: Total of € 287.5 million

Employees	94.0
Companies	-9.6
Lenders	8.6
Shareh./minority interests	0.1
Government	6.9

GILDEMEISTER Share

The Trading Year 2003

Stock markets made a slow start in the trading year 2003, but picked up noticeably over the year. The Deutsche Aktienindex (DAX) increased by a total of 37.1%, thereby performing better than the Dow Jones (+25.1%). Germany also led the way amongst the other European countries. The FTSE-100-Index rose by just 13.5%. The Euro STOXX 50 was up by just 15.3%, whilst the Nikkei Index increased by 24.5%. After the high losses of the preceding years, the securities in the technology sector picked up noticeably. The American NASDAQ climbed by 50.2% and the German TECDAX by 50.9%. The MDAX achieved 47.8% and the SDAX even 51.3%. According to securities dealers, the improved situation is primarily due to the gradual revival in world-wide market conditions. However, a large number of shares continue to be underpriced, according to experts.

Key data of the
GILDEMEISTER share

Security code number	(WKN)	587800
	(ISIN)	DE0005878003
Stock symbol		
Exchange		GIL
Reuters	Stock exchange Frankfurt	GILG.F
	Xetra-Handel	GILG.DE
Bloomberg		GIL

GILDEMEISTER share
performance figures

		1997	1998	1999	2000	2001	2002	2003
Capital stock	€ M	48.7	55.5	56.4	75.1	75.1	75.1	75.1
No. of shares ¹⁾	M shares	19.0	21.7	21.7	28.7	28.9	28.9	28.9
Year-end price ²⁾	€	5.01	5.78	6.80	8.20	9.32	3.78	8.22
Annual high ^{2) 3)}	€	7.52	9.31	7.30	10.30	9.90	12.07	8.25
Annual low ^{2) 3)}	€	3.53	4.78	5.05	6.65	6.20	3.21	2.83
Annual average market price ^{2) 4)}	€	5.38	6.26	6.20	8.66	8.78	8.24	5.25
Dividend	€	-	0.28	0.50	0.60	0.60	-	-
Dividend total	€ M	-	6.1	10.9	17.2	17.3	-	-
Dividend yield	%	-	4.8	7.4	7.3	6.4	-	-
Earnings per share ⁵⁾	€	-0.07	0.46	0.76	0.91	0.85	-0.66	-0.13

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

2) Since 1999 Frankfurt prices, before that Düsseldorf

3) Highest/lowest prices based on variable prices

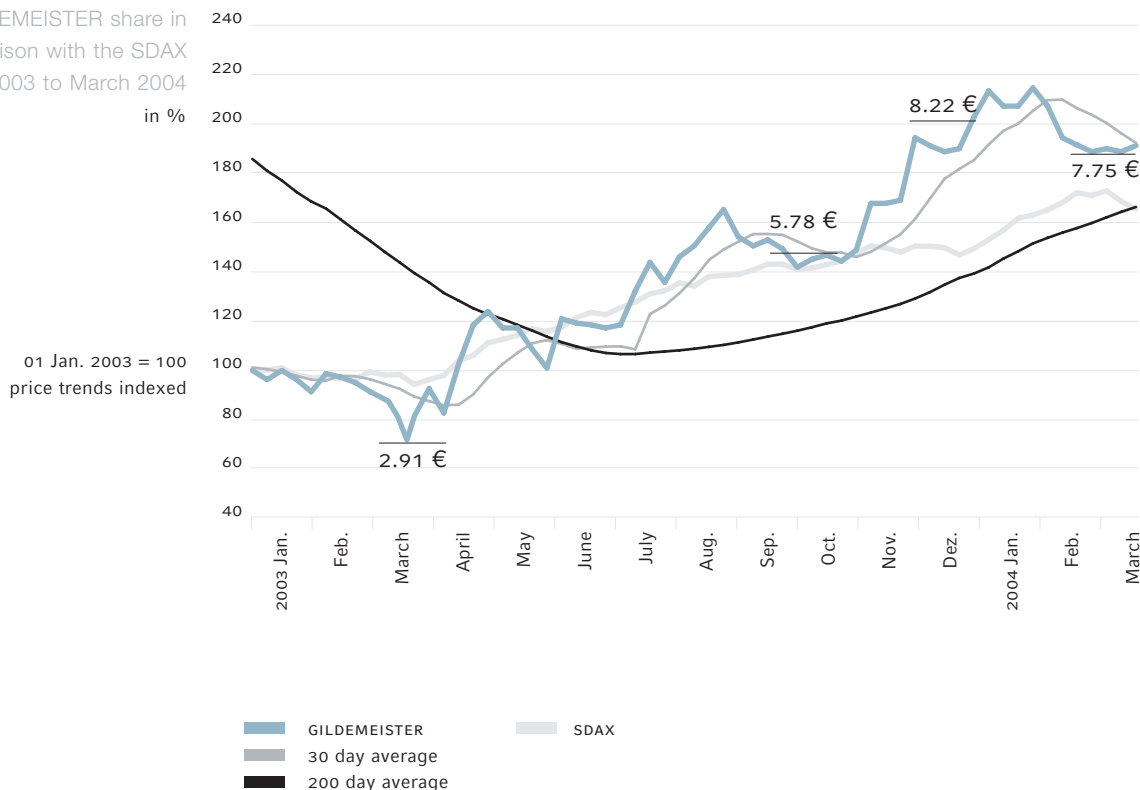
4) Annual average price based on closing prices

5) since 2001 in acc. with IAS 33

Development of the GILDEMEISTER share

The GILDEMEISTER share price performed well in 2003. An annual low of € 2.91 (12 March 2003) was followed by a steady upward rise. Whilst in the first quarter the price was € 3.74, it increased to € 4.11 over the first six months and to € 4.75 after nine months. On 1 October the price of our share was € 5.78. The closing price at the end of the year was € 8.22 (30 Dec. 2003). Its annual high of € 8.25 was recorded on 29 December. Over the year, the GILDEMEISTER share price increased by a total of 117.5%. Our security is therefore amongst the SDAX leaders. As expected, the change in the index listing in the course of the new stock market segmentation of 21 March 2003 did not affect the performance of the GILDEMEISTER shares. Its current price is € 7.75 (19 March 2004).

The GILDEMEISTER share in comparison with the SDAX January 2003 to March 2004



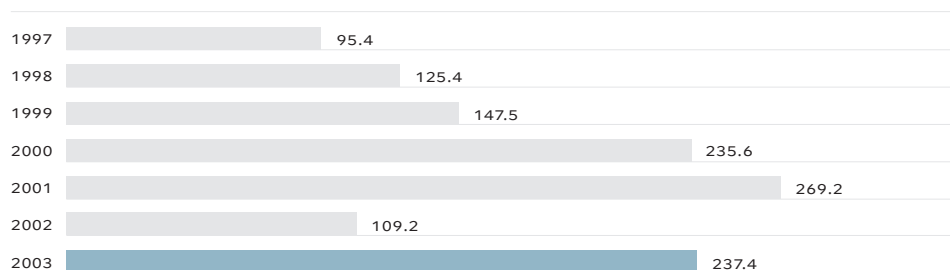
Stock market listing, trading volume and market capitalisation

GILDEMEISTER shares are traded on the Frankfurter Wertpapierbörse, the most important and highest-volume market in Germany. They are also listed on the Rheinisch-Westfälische Börse based in Düsseldorf and the Berliner Börse. Investors can place orders for GILDEMEISTER shares from 9 am to 5.30 pm on all trading days via the Xetra electronic trading system.

In 2003, interest in GILDEMEISTER shares was again high and the **trading volume**, too, was at a high level. The average trade volume amounted to 51,307 shares (previous year: 79,525). The shareholders' structure of GILDEMEISTER Aktiengesellschaft is dominated by a high free float. In the reporting year, **portfolio investment** amounted to around 93% (previous year: 93%). Shareholders were largely private small investors and institutional investors. The largest share of 6.75% is held by WestLB AG, Düsseldorf. With respect to the free float, the turnover factor of the free share capital was 0.48 in the financial year.

The **market capitalisation** of GILDEMEISTER Aktiengesellschaft amounted to € 237.4 million compared to € 109.2 million in the previous year.

Market capitalisation of
GILDEMEISTER Aktiengesellschaft
in € million



Earnings per share

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

Determination of earnings	Results for the year excluding minority interests	€ -3,732 κ
	Number of underlying shares	28,879,427
	Earnings per share in acc. w. IAS 33	-0.13 €

There were no dilution effects in the shown reporting period.

Dividend

In the financial year 2003, GILDEMEISTER, like others, was unable to escape the weak global demand in machine tools. Due to the group's annual loss, the Executive Board and Supervisory Board will propose to the company in General Meeting on 14 May 2004, not to distribute a dividend for the past financial year, but to transfer the accumulated profits of the GILDEMEISTER Aktiengesellschaft of € 9.1 million to revenue provisions in order to strengthen the capital. We aim to attain a better result in order to make possible future dividends.

Investor Relations

The honest, transparent, comprehensive and timely exchanges with our investors and the entire capital market through our **Investor Relations** activities, contribute to strengthening the trust in our shares and to generating new circles of investors. Our activities with respect to Investor Relations are therefore an important element of the company's growth-orientated strategy.

We continued to intensify the contact with our institutional investors through road-shows, one-to-one meetings and company presentations both at home and abroad. For example, at the DVFA analysts conference in May 2003 we reported on the business development and prospects for GILDEMEISTER. In November we presented our company to the "German Mid Cap Conference 2003" in Frankfurt, which we used as a platform to establish contacts with European analysts, institutional investors and representatives of investment companies. We also had numerous discussions outside the above events. The Annual General Meeting of Shareholders, which was attended by approximately 1,200 shareholders, was held on 16 May 2003. All documents rela-

ted to the general meeting can be viewed on the Internet. For the first time we have posted the speech given by the Chairman of the Executive Board on our website. Our Internet presence continues to play an important role at GILDEMEISTER. More and more private and institutional investors, financial analysts and business journalists utilise the comprehensive information on our website (www.gildemeister.com). Many prospective buyers posted queries via the Internet or requested further information. Further details are set out in the “Marketing / Public Relations” section on page 105.

An important instrument in our financial communication is the Annual Report, which can be downloaded from our website or viewed in a dynamic online version. Due to the large number of private small investors the demand for printed versions continues to be relatively high. 9,000 copies of our Annual Report were published in two languages. Once again we carried out our targeted mailing campaign, which ensured that every interested person received, on request, the printed version of our financial reports. With our regular quarterly reports and press releases we report promptly on the latest trends in our company.

Your contact at the GILDEMEISTER Investor Relations team:

GILDEMEISTER Aktiengesellschaft

Birgitt Frein

Gildemeisterstraße 60

33689 Bielefeld

Phone: +49 (0) 52 05/74-3073

Fax: +49 (0) 52 05/74-3081

Internet: www.gildemeister.com

E-Mail: info@gildemeister.com

Corporate Governance

At GILDEMEISTER, corporate governance, i.e. the responsible management and control of a company, enjoys a high standing. We welcome the various campaigns that were initiated in this respect both in Germany and internationally. At GILDEMEISTER, corporate governance is an essential element of our company ethos, which is geared towards a sustainable increase in company value to the benefit of our shareholders. In addition, we understand good corporate governance to be the cultivation of the trust of our customers, employees and the public in the management and control of the GILDEMEISTER group. The standards and rules of responsible corporate governance are incorporated in our Code of Practice and are complied with, along with the statutory provisions, by the management in the performance of all their corporate activities. We reported in detail on corporate governance in our Annual Report 2002; in the following we deal with major aspects and changes in the reporting year.

Declaration of compliance regarding the German Code of Corporate Governance

Our declaration of compliance regarding the German Code of Corporate Governance in accordance with Section 161 German Companies Act (AktG) is published on our website and is updated annually and in case of any changes and deviations from the Code. GILDEMEISTER currently meets all the recommendations included in the German Code of Corporate Governance as amended on 21 May 2003, with the exception of the Executive Board members' remuneration is not disclosed individually. At the Annual General Meeting of Shareholders on 16 May 2003 the Articles of Association of the GILDEMEISTER Aktiengesellschaft were amended to the effect that the Chairman and members of Supervisory Board committees will also be compensated.

Suggestions of the German Code of Corporate Governance

GILDEMEISTER also meets most of the so-called suggestions included in the Code. For example, the shareholder's meeting on 16 May 2003 also decided to introduce a long-term orientated, performance-related pay element for members of the Supervisory Board. With this regulation, GILDEMEISTER implemented the optional, but in our opinion very reasonable suggestion of the Code, that is to allow the Supervisory Board to participate in the long-term success of the company.

Deviations from the suggestions of the Code currently exist in the following areas:

Annual General Meeting of Shareholders: The proxy for the exercise of the shareholders' voting rights in accordance with directives is not available during the AGM. The complete transmission of the meeting as webcast event is currently not intended. From our point of view the cost-benefit ratio of both items is currently inadequate. However, the speech given by the Chairman of the Executive Board was shown on our website for the first time.

Supervisory Board: To ensure continuity in the work of the Supervisory Board and equality of each Supervisory Board member we do not intend to introduce different terms of office for the shareholder representatives on the Supervisory Board.

Executive Board members' remuneration: The total compensation package of Executive Board members includes fixed and variable components including a component with a long-term incentive. The variable remuneration is geared towards the direct business performance of the enterprise. 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.

Collaboration between corporate governance, risk management and capital market communication

Our claim to inform all target groups fully and reliably of all business trends at GILDEMEISTER, has a high priority in our daily work. Along with our in-depth communication with the capital markets and responsible management, supervision and control of the GILDEMEISTER group, a further important element of good corporate governance is the company's responsible management of business risks. The group-wide harmonised collaboration in these areas will constitute a key factor in the future development of our corporate governance.

Risk Reporting

Responsible management of risks is firmly established in the corporate governance for the technology group GILDEMEISTER. Due to our business strategy and our positioning in markets that are well-equipped to meet competition we are naturally exposed to a number of risks. To us, the taking of such risks is a prerequisite for corporate success; on the other hand it represents a risk potential. Our risk policy is therefore based on the principle of responsibly weighing rewards and risks, and of taking only those risks that are unavoidable for the pursuit of our objectives and do not jeopardise our companies' existence.

Our internal control and risk management system is integrated into the ordinary operation of our business; it serves the early identification, assessment and control of risks and awards. In this context both the Executive Board and the Supervisory Board are regularly informed on the current risk situation of each group company. In addition, we have defined threshold values which, when exceeded, result in the Executive Board being immediately informed. The functionality of our internal control system and risk management is checked within the remit of the annual audit. All potentials for improvement that are identified result in the adaptation of the systems used.

General economic risks: Major potential risks for the GILDEMEISTER group result primarily from cyclical influences in those markets that are relevant to the company. In our opinion there is an about 80% chance of a global economic revival in the current financial year. However, thanks to our careful planning, a delay in economic upturn will not result in a slump in performance at GILDEMEISTER.

GILDEMEISTER does not expect any substantial restrictions on business development due to the development of the capital markets and interest rate levels. However, both risks and rewards that are to be equally weighted, arise from changes in book value due to exchange rate fluctuation, particularly with respect to the EURO-US-Dollar ratio. To a lesser extent, exchange-rate-related sales risks may arise from our international activities in the area of high technological machines. The above factors were taken into account in our planning. There are no risks arising from overall economic development that would jeopardise the group's existence in the foreseeable future.

Quite often, changes in law can only be predicted at short notice, particularly in tax law, and can result in major changes in the prevailing legal, tax and economic conditions of a company, such as GILDEMEISTER. For example, the group currently has loss carryovers of € 62.8 million that could be used for tax purposes, however, their continuance is dependent on future tax legislation in the respective countries.

The difficult overall economic conditions in Germany, aggravated by the Basel II provisions, are still reflected in the granting of external funds to many of our small to medium-sized customers. Along with the occasional loss on a contract, this resulted in an increased commitment of funds with respect to accounts receivable at GILDEMEISTER.

From GILDEMEISTER's point of view, **industry sector risks** result mainly from cyclical trends in the machine tool market. The risks arising from cyclical sector trends are faced by GILDEMEISTER via its technological superiority, attractive production programme and extensive customer base. Should the above expectations prove correct, the group's financial situation will not be significantly affected. Due to an ongoing consolidation phase in the machine tool industry, new competitors in the market are not expected. Actual risks from a sector-related concentration are not known. Also not expected is the launch of any significant new technologies without the participation of GILDEMEISTER.

Risks from financing and valuation: One of the key tasks of the GILDEMEISTER Aktiengesellschaft is the optimisation of the group's financing and the limiting of its financial risks. For the monitoring and control of the group's liquidity we use instruments for financial planning and financial analysis that have been further developed in the previous financial year.

The operative financial risks, for example in the debtors' area, are continuously monitored by supervising the terms of accounts receivable at both company and group level. This way, potential risks can be identified very early and appropriate countermeasures taken. The restrictive granting of credits, particularly to small to medium-sized enterprises, in preparation for Basel II has affected the terms for accounts receivable in the reporting year. The fund requirements arising from this policy are compensated for by using our suppliers' credits. GILDEMEISTER Aktiengesellschaft and its domestic subsidiaries meet their short-term resource requirements via a number of credit institutions that are controlled by two major banks of good standing. Our short-term financing is managed via a cash management system. The relating syndicate

agreement with a total volume of € 180 million has been extended until 31 December 2005, as planned. In addition, a € 20 million guarantee loan facility was raised. Our international subsidiaries finance their resource requirements through credit agreements with local banks. There is no concentration, or even a dependence, on individual lenders.

About a third of our outside financing volume is secured against risk arising from changes in interest rates by agreements for long-term fixed interest rate or interest derivatives. In the reporting year money market rates were low. For the near future we forecast a slight decrease in the money market rate level in the Eurozone.

Most of our sales are completed in the Euro region, where there are no currency risks. The remaining currency risks are diminished by hedging transactions. The hedging against currency risks is carried out with each transaction through the group companies or GILDEMEISTER Aktiengesellschaft.

The goodwill arising from the acquisition of GILDEMEISTER Italiana S.p.A. is proportionally amortised. Despite heavy spending on development and restructuring measures, the company recorded a much-improved result in the reporting year against the preceding year. Due to the positive business development, we expect an improved profitability in the future. As a result of the companies' future profitability, or of a reduction in the earnings tax rate in the individual countries, the accounting entry of capitalised deferred taxes at both the domestic and international companies may be corrected and posted to expenses.

To our knowledge, there are no **legal risks**, which could significantly affect the economic situation of the GILDEMEISTER group.

The increasing networking of our, in parts, complex electronic systems result in **IT risks**, which we face through regular investments in hardware and software and a constantly updated system know-how. However, any risks arising from this area are controllable and their occurrence is rather unlikely.

Procurement risks consist primarily in the potential loss of suppliers and problems pertaining to quality. These risks are effectively limited through comprehensive procurement management and close contact with all major suppliers. Most of our materials are purchased in the EURO region, therefore making the hedging against currency impacts unnecessary.

The permanent monitoring of our major **production risks** using key data covering production processes, throughput time and processing continuity enable us to reduce our stocks, bring down the level of capital commitment, and the realisation risk. In addition, a large number of other quality and production related data are employed for the monitoring, early recognition and reduction of possible risks in production.

Research and Development risks arise primarily from budget overruns, abortive developments and increased start-up costs of new products. The individual risk can reach as much as € 3 million per development project. Comprehensive development control and close collaboration with the sales organisation ensure an early reaction to risks in this area.

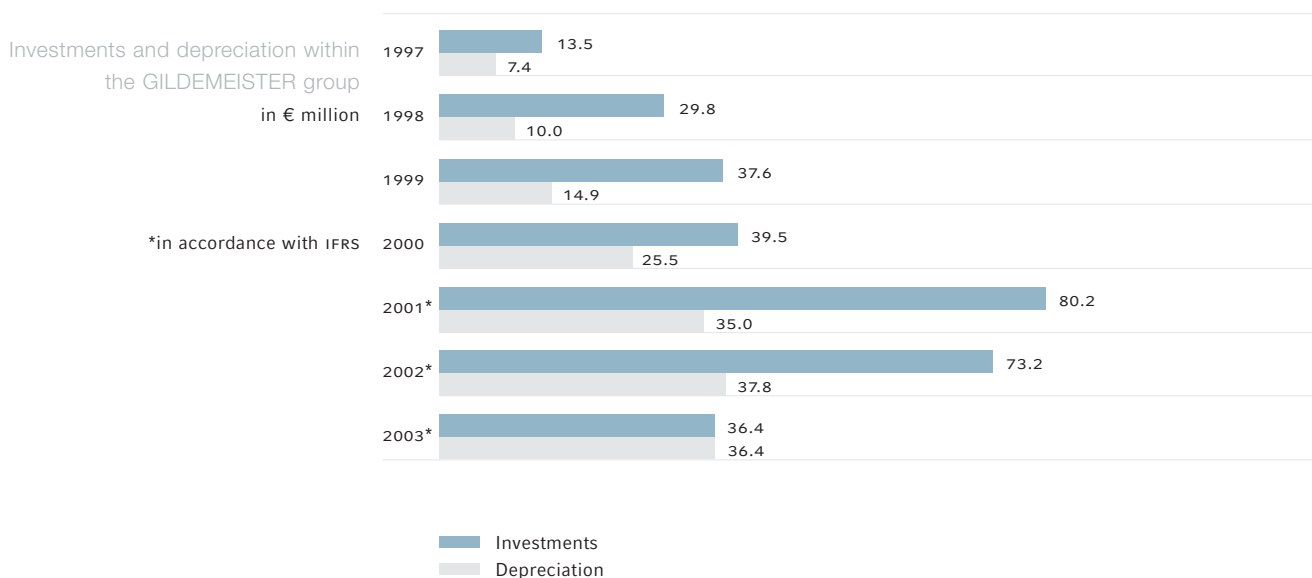
Overall risk: In conclusion, it can be said that the risk situation at the GILDEMEISTER group depends primarily on market risks. This statement applies to both the “Machine Tools” segment and the “Services” segment. The overall risk situation is controllable and the future existence of the GILDEMEISTER group is not jeopardised. The investments in our production programme carried out during the past years and our continually expanding market presence form a basis from which to achieve positive results for the financial year 2004, thereby further reducing the overall risk. Our numerous individual measures to reduce the commitment of funds and of debts also have a risk reducing impact. To the greatest possible extent, we have taken precautions against those business risks that could substantially affect the company's net worth, finances and profitability. Our group-wide risk management system is integrated into the ordinary operation of our business and is checked within the remit of the annual audit and continually developed further.

Investments

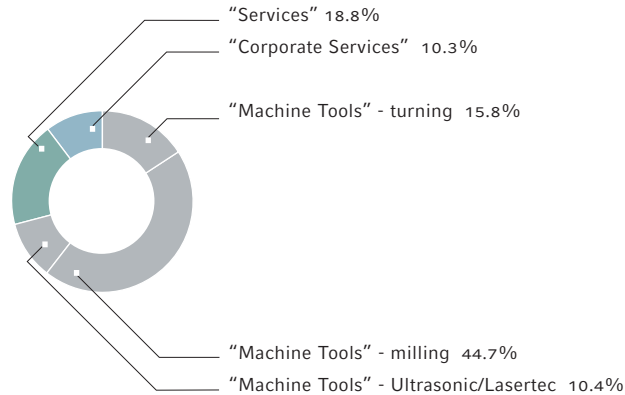
Following the heavy spending on materials and services in the preceding years and in view of the slack economy, capitalised balance sheet additions to property, plant and equipment decreased by 50% to € 36.4 million against the preceding year's figure of € 73.2 million. In this respect, investments in tangible and intangible assets amounted to € 27.2 million. Further intangible assets additions in the group worth € 8.1 million were due to the capitalisation of development costs in accordance with IFRS. In addition, € 1.1 million was invested in leased assets (finance lease). Another € 4.4 million were spent on the operating lease of office and plant equipment.

In the reporting period, depreciation of fixed assets, including capitalised development expenses, goodwill additions and finance leases amounted to € 36.4 million, which was below the preceding year's figure of € 37.8 million.

Our investment activities focused on the technology and assembly centre of SAUER GmbH for the growing ultrasonics business, the technology centre of DMG Nippon in Yokohama and an industrial building neighbouring DECKEL MAHO Pfronten GmbH, which extends our factory site. This building will house our Technical Services, which used to be in rented offices. Following the opening of the new technology and presentation centre, the integration at Brembate of DMG Italia S.r.l. from Gorgonzola to the factory site of GILDEMEISTER Italiana S.p.A. was achieved.



Proportion of Investment
in each segment



Investments in the "Turning" division

In the reporting year, investments at GILDEMEISTER Drehmaschinen GmbH amounted to € 0.6 million. One of the main investments of € 0.2 million was in the production start-up for the new machine types. GILDEMEISTER Italiana S.p.A. invested € 1.1 million in the reporting year. Of this, € 0.4 million were spent on the extension of the presentation centre and the comprehensive re-structuring of the production areas and processes that were also necessary. These measures were carried out due to the start-up of the new *SPRINT* line, and to create additional office space in view of the move of DMG Italia S.r.l. from Gorgonzola to the factory site of GILDEMEISTER Italiana S.p.A. The amount invested by GRAZIANO Tortona S.p.A amounted to € 0.8 million in the reporting year.

To ensure the series start-up of the new machine types, € 0.2 million was spent on the restructuring of an assembly hall. Other investments made were primarily to maintain operational efficiency. In the reporting period, FAMOT Pleszew S.A. invested € 1.8 million. To resolve a bottleneck in production capacities, caused by, amongst other things, a decrease in availability of individual machines, machining facilities were expanded with the largest CNC universal milling machine of DECKEL MAHO Pfronten GmbH. Investments in this respect amounted to € 1.4 million. In the "Turning" division development costs of € 1.4 million were capitalised.

Investments in the “Milling” division

The highest amount in the group of € 7.8 million was invested at the DECKEL MAHO Pfronten site. For the production start-up of new machine types, € 1.2 million was invested in models, tools and fixtures. Of the € 2.6 million invested in the IT area, € 2.3 million were spent on the “Front Office” project, which serves to optimise operational sequences and processes within the group. The investments by DECKEL MAHO Geretsried GmbH amounted to € 0.9 million during the reporting period. To ensure a smooth series start-up, models, fixtures and measuring equipment worth € 0.4 million were purchased. In the office communication area € 0.2 million were invested on replacement hardware and software. The amount invested at DECKEL MAHO Seebach GmbH was € 1.7 million in the financial year. € 0.6 million of these investments were spent on models, tools and fixtures. € 0.7 million was spent on two traversing column machines from the company's own production programme.

Following the acquisition of the new production plant in Shanghai last year, only minor investments in tangible fixed assets of € 0.3 million were required at DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co.,Ltd. In the “Milling” division, € 5.6 million were attributed to the capitalisation of development costs.

Investments in the “Ultrasonic/Lasertec” division

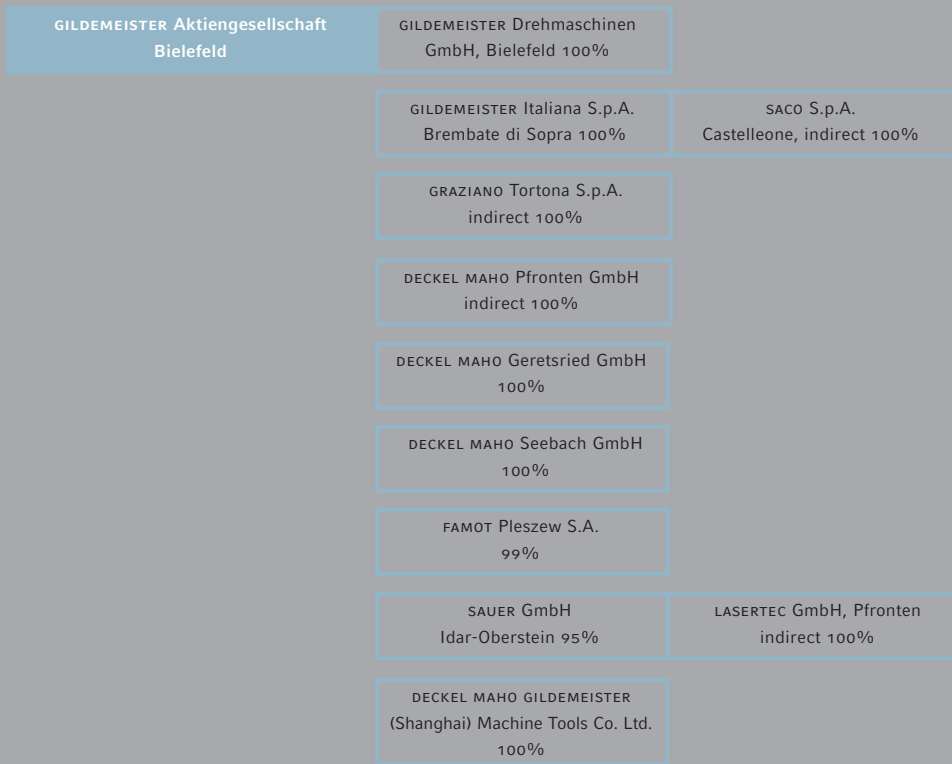
In financial year 2003 SAUER GmbH invested € 3.2 million. Of this, € 2.8 million were spent on the construction of a technology and assembly centre for the growing “Ultrasonic” division. In the reporting year, LASERTEC GmbH invested € 0.2 million in tangible fixed assets. In the “Ultrasonic/Lasertec” division, development costs of € 0.4 million were capitalised.

Investments in the “Services” division

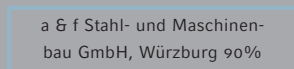
DMG Vertriebs und Service GmbH invested € 5,9 million in the reporting year. In Yokohama the company moved into a modern technology centre. Investments in this respect amounted to € 1.3 million. A further € 0.5 million was invested in new tools and measuring equipment. € 4.2 million were invested in car replacements for the sales and services areas. These were financed through operating leases. € 0.2 million were invested in new plant and machinery at SACO S.p.A. In the reporting year, a & f Stahl- und Maschinenbau GmbH invested € 0.1 million in tangible assets. € 0.3 million were spent on start-ups at DMG Microset GmbH. In the “Services” division, € 0.7 million were attributed to the capitalisation of development costs.

Group structure*

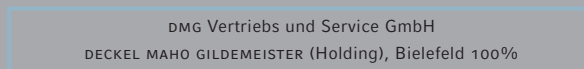
Production Plants



Procurement



Sales and Service Organization



* Simplified organizational structure acc. to leadership criteria

GILDEMEISTER is one of the major manufacturers of metal cutting machine tools world-wide with eleven production facilities and 50 national and international sales and service sites, 38 of which have prestigious technology centres.

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

Organisation and Administration

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

DECKEL MAHO Geretsried GmbH is the parent company of DECKEL MAHO Pfronten GmbH, which in turn controls LASERTEC GmbH. These companies together with DECKEL MAHO Seebach GmbH, GILDEMEISTER Drehmaschinen GmbH, FAMOT Pleszew S.A., the three companies of the subgroup GILDEMEISTER Italiana, SAUER GmbH 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 responsible for the supply of components. DMG Microset GmbH produces setting and measuring equipment for tool management. Another parent company is DMG Vertriebs und Service GmbH. With its numerous national and international subsidiaries and second-tier subsidiaries it is the production plant's sales and services interface with the market.

The GILDEMEISTER group considers all its companies as profit centres. The illustration of the group on pages 86-87 shows the management and control structure. To achieve optimal performance and results, clear rules determine the extent of responsibilities. Via the data processing infrastructure that is coordinated throughout the group, all operational processes and procedures 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 department as well as logistics and procurement. In the reporting year, 69 people were employed in the Executive Board departments. The organisational expenses of GILDEMEISTER Aktiengesellschaft amounted to € 12.8 million.

In the reporting year, the appointments to the executive units of GILDEMEISTER Aktiengesellschaft were as follows: Dr. Rüdiger Kapitza, as Chairman of the Executive Board, was responsible for Corporate Strategy and Product Development, Sales and Marketing, Services and Personnel as well as Public Relations and, from June 2003, Purchasing Coordination. Prof. Dr. Raimund Klinkner, as Deputy Chairman of the Executive Board, was responsible for Logistics, Purchasing (until June 2003) and Procurement, Investments, Production and Projects, as well as Personnel (production plants), and Mr Michael Welt was responsible for Controlling, Finance and Accounting and Information Technology. Mr Dieter Schäfer retired from the Executive Board of GILDEMEISTER Aktiengesellschaft on 31 October 2003.

Legal Corporate Structure

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

- _GILDEMEISTER Drehmaschinen GmbH,
- _DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- _DECKEL MAHO Seebach GmbH.

The profit and loss transfer agreement between GILDEMEISTER Aktiengesellschaft and DECKEL MAHO Pfronten GmbH was terminated in the previous financial year.

GILDEMEISTER Aktiengesellschaft took over a 100% interest in GILDEMEISTER Italiana S.p.A. from its fully owned subsidiary, Holding Macchine Utensili S.p.A.

The interest of GILDEMEISTER Aktiengesellschaft in FAMOT Pleszew S.A., Pleszew, Poland was increased to 99.4% in the financial year (previous year: 99.1%).

The interest in Hermann SAUER GmbH & Co. KG was transferred into Hermann SAUER GmbH with effect from 1 January 2003. The company changed the name of its business to SAUER GmbH in the previous financial year. The participating interest was increased to 95.0%.

From mid-2003, DMG Microset GmbH has extended our range of services, supplying products for all aspects of tool management. GILDEMEISTER Aktiengesellschaft holds 100% of the participating shares.

At DECKEL MAHO Geretsried GmbH an increase in capital resulted from the contribution of a 94.9% interest in DECKEL MAHO Pfronten GmbH by GILDEMEISTER Aktiengesellschaft, which remains a 5.1% shareholder in DECKEL MAHO Pfronten GmbH.

DMG Gebrauchtmaschinen GmbH took over the participating interest in GILDEMEISTER Italiana s.r.o. from GILDEMEISTER Italiana S.p.A.

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

- _DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- _DMG Berlin Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- _DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER,
- _DMG Service 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.

In the financial year 2003 the profit and loss transfer agreements with the following subsidiaries were terminated:

- _DMG Bielefeld Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- _DMG Frankfurt am Main 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.

With the exception of the DMG marketing companies in Canada, Mexico, China, India, Korea and Taiwan, the international subsidiaries of the DMG Vertriebs und Service GmbH were brought into DMG Nederland B.V. The participating interest in DMG Büll & Strunz in Austria was brought into the new DMG Europe Holding GmbH in Klaus, Austria. The reporting year saw the establishment of DMG Australia Pty. Ltd.

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

Branch offices

DMG Vertriebs und Service GmbH, Bielefeld, a fully owned subsidiary of GILDEMEISTER Aktiengesellschaft, maintains, apart from the 41 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/PR China
- _DMG China DECKEL MAHO GILDEMEISTER
Guandong Sales Office,
Guandong/PR China
- _DMG China DECKEL MAHO GILDEMEISTER
Shanghai Representative Office,
Shanghai/PR China
- _DMG China DECKEL MAHO GILDEMEISTER
Xian Representative Office,
Xian/PR China

DMG Danmark operates as sales and service branch in Denmark. The sales offices of DMG Vertriebs und Service GmbH in Beijing, Guandong, Shanghai and Xian are accredited for the marketing 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 Czech s.r.o., Brno, Czech Republic, operates a branch office that is not legally independent:

_DMG Czech s.r.o.

DECKEL MAHO GILDEMEISTER Slowakei,
Trenčín/Slowakei

DMG Nippon K.K., Yokohama, Japan, operates a branch office that is not legally independent:

_DMG Nippon,
Nagoya/Japan

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 clearly continued to increase.

Procurement

In the financial year 2003, the GILDEMEISTER group, in close partnership cooperation with its suppliers, has continued to improve its purchasing and procurement position and has made further improvements in this field. In the reporting year, cost of raw materials, consumables and goods for resale amounted to € 525 million (previous year: € 570 million), € 437 million of which (previous year: € 466 million) were attributed to raw materials and consumables. The **rate of turnover of raw materials and consumables** therefore amounts to 52.8% (previous year: 54.5%).

The materials-group management, which was introduced in the financial year 2002 and is co-ordinated across all sites, was developed further as planned. It pools and synchronises the purchasing and procurement activities of the plants, and, at an operational level, supports the standardisation of design and development. Its organisational form complies with the de-centralised group structure and avoids bureaucratic obstacles. Thanks to these measures, the number of suppliers across all materials groups was reduced by 10%.

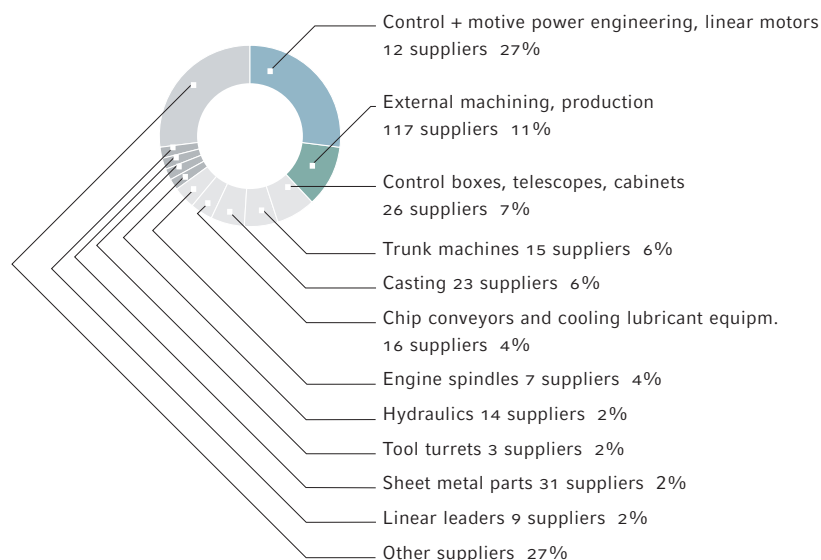
One of the achievements of our standardisation measures is the standardisation of the main subassemblies of the reengineered CTX 10 line. Thus a reduction in the complexity of the operational control system, as well as a reduction in development, production and service costs could be achieved. Certain other pragmatic measures contributed to ensuring the security of **supply**.

One of our key tasks in the procurement area was the further expansion of the **co-Supply**[®]-initiative, which was introduced in the past year: our partnership scheme for competitive, continuous supply chains. Other important activities included the foundation of an Internal Production Association for optimised capacity utilisation and the restructuring of procurement and purchasing at the Geretsried site.

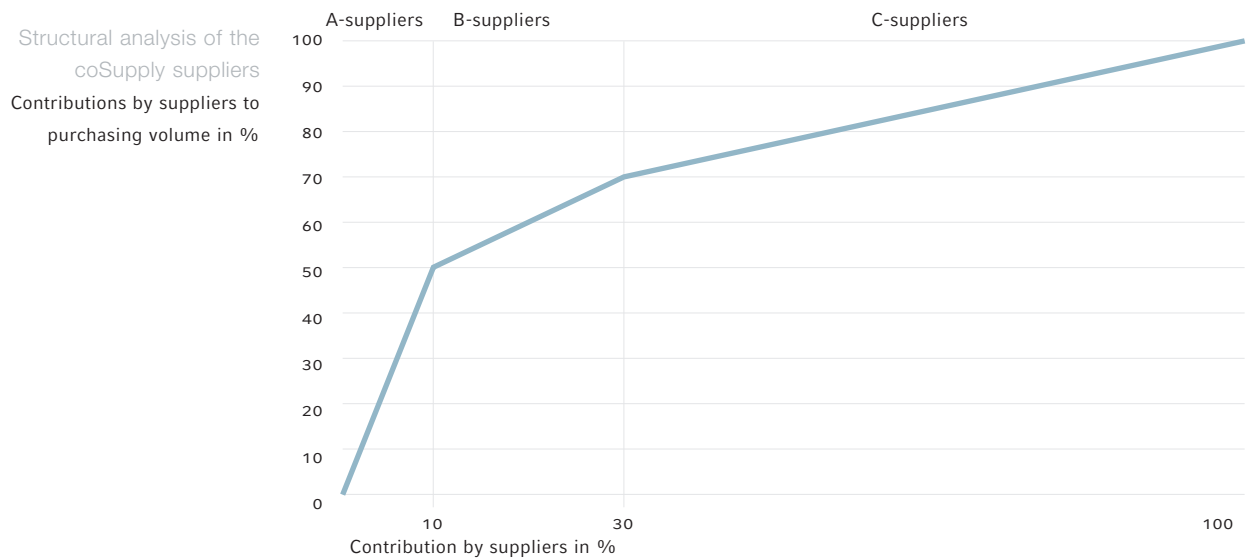
The coSupply[®] campaign coordinates the related procurement activities of the supply partners, materials planning, logistics and purchasing activities, thereby increasing the competitiveness of the GILDEMEISTER products. In interdisciplinary teams across all sites and companies, GILDEMEISTER, together with the TOP 30 suppliers, develops optimisation potentials along the entire supply chain. Examples include activities in returns processing, or the specific provisions for the Shanghai site that was officially opened in January 2003. GILDEMEISTER therefore continues further to expand **strategic supply partnerships**. In the course of the logistic process optimisation, GILDEMEISTER also succeeded in negotiating improved conditions with the supply partners.

The third **Suppliers Day** of the GILDEMEISTER group again constituted the peak of the group's collaboration with its supply partners. 250 participants (previous year: 150) from the TOP supply companies watched the "Supplier-of-the-Year" awards for the innovation, quality, supply performance and overall winner categories.

Contribution of materials group to purchasing volume (€) in %

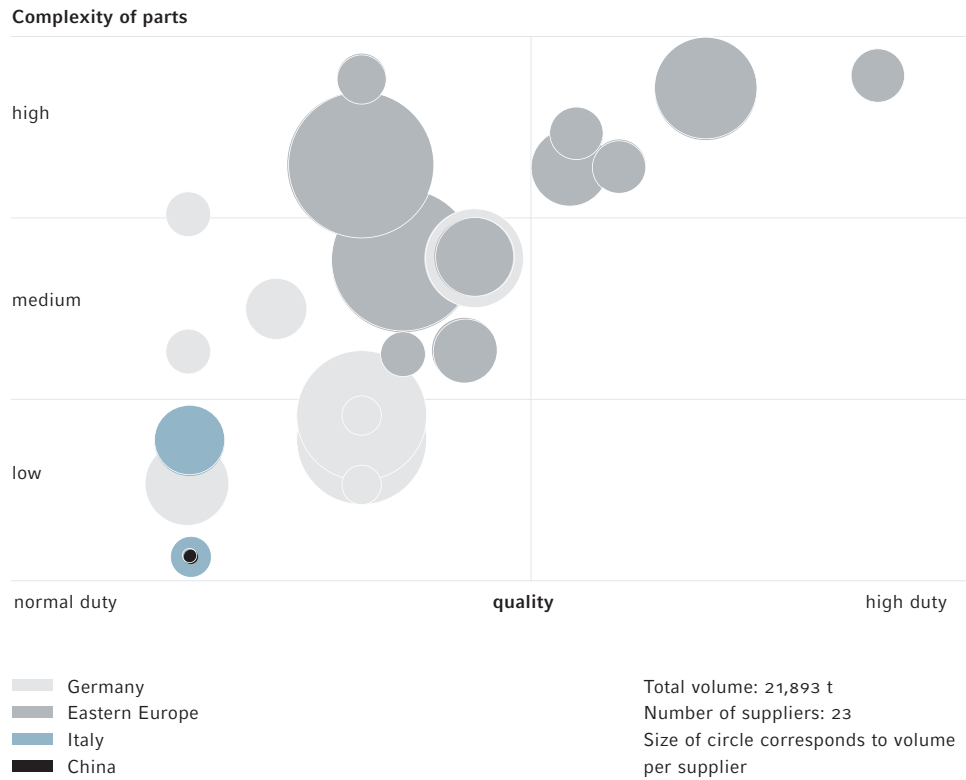


The further tightening up and enhancing of the **suppliers' structure** in conjunction with the strengthening of the supply partnerships, contribute to the ongoing improvement of the supply situation of the GILDEMEISTER group. In addition, the quality of components will increase by, for example, speeding up the series production maturity of newly developed products through the supply partners' technical expertise. With these measures, GILDEMEISTER enhances its innovative power.



Castings with a total weight of 21,893 tons were ordered from 23 different suppliers during the course of the year. GILDEMEISTER obtains castings with a high complexity and with normal to high strength material, primarily from Germany. For castings of normal to low complexity and normal strength, the cost advantages were reflected by a small increase in the proportion of mid and east European suppliers. The training given to suppliers in the context of the coSupply® allows these suppliers to be developed further and thus facilitates their ability to deliver more complex components. That the supply of castings was at all times secure, is a result of the wide range of suppliers. The growing proportion of castings obtained from China not only increases the security of supply, in that the dependence on European suppliers is reduced; but above all, it improves the economics of local production in Shanghai, as the cost advantages of Chinese suppliers can be utilised.

Cast suppliers – portfolio



FAMOT Pleszew S.A. again increased its share in the total delivery of trunk machines, thus expanding its position as the group's major supplier of such machines. Altogether, the GILDEMEISTER factories purchased roughly every other machine as a cost and process optimised preassembled trunk machine.

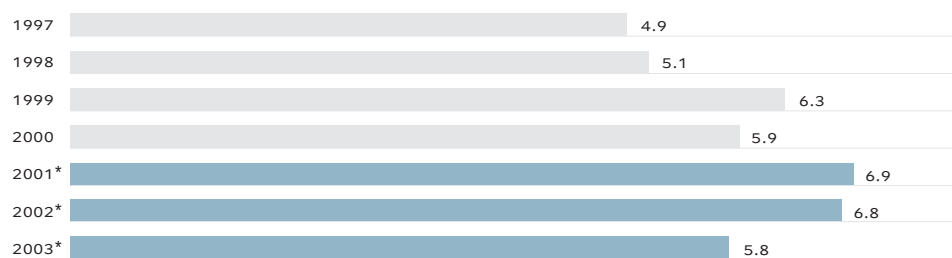
In the course of the comprehensive restructuring measures at the Geretsried site, the Purchasing and Procurement departments were combined in order to simplify the more complex coordination required, and expedite processes. The success of these efforts is demonstrated by a 19% increase in stock turnover at the site. The site's new transshipment point (TSP) further strengthened these effects, and also enabled the outsourcing of the switch cabinet manufacture, which was also implemented in the reporting period.

The second transshipment point that was newly opened in the reporting year supplies the Bielefeld site. Both transshipment points have optimised the procurement logistics of components for assembly in these production plants.

In conjunction with all the measures undertaken in the procurement logistics area, the level in goods storage was largely maintained. Due to the increased complexity combined with the continuing strained market conditions, the level of raw materials and consumables was slightly increased so as to maintain our production flexibility. The related stock turnover thereby fell by 14% to 5.8. When compared to the industry and taking into account the entire spare parts inventory level, the average period of storage of raw materials, components and consumables of approximately 63 days remains at a good level.

Turnover rate of raw materials
and consumables in the
GILDEMEISTER group

*in accordance with IFRS

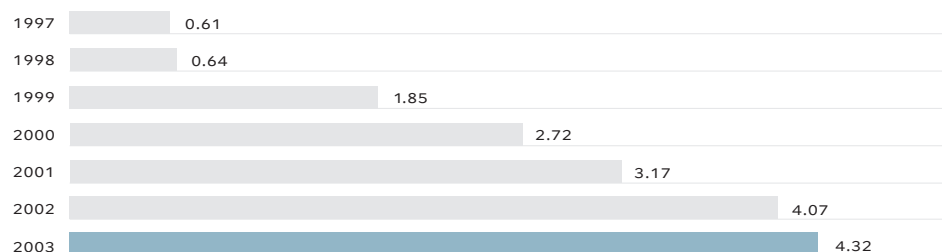


Production and Logistics, Products and Services

In 2003 GILDEMEISTER continued to enhance and optimise both internal and external processes in **Production and Logistics**. The striving for continual improvements complies with GILDEMEISTER's own PULL production system (**Produktions- und Logistik-Leistung** = production and logistics performance) which has been influenced by the Japanese concept of KAIZEN. The support for this optimisation approach comes from the group's entire staff. The respective PULL co-ordinators at each production site act as the driving force and disseminators. They push ahead the optimisation of processes in numerous workshops and organise the transfer of technical skills, thereby supporting various projects, such as the series production start-ups of new products. Our enhanced processes were reflected particularly in cost improvements and increased flexibility. In addition, we have also improved the conditions so as to enable us to react to the expected market recovery at short notice. The positive impact, resulting from the establishment of a Group Development Co-ordinator in May 2003, was felt in Production and Logistics. The needs of this area are now increasingly reflected in the product development phase (for example: design for assembly). The co-ordination at the interface between Research and Development on the one hand and Production on the other hand is thereby intensified and enhanced. This in turn results in the prompt solution of problems that may arise during the build up of new product production.

The fact that the number of **suggestions for improvement** has increased again in 2003, reflects our employees' high commitment. During the reporting period, each employee in the production plants handed in an average of 4.32 suggestions for improvement; this is a 6% rise compared with the previous year (preceding year's figure: 4.07). A total of 14,154 suggestions for improvement was handed in (previous year: 13,869) with a total net benefit (benefit of suggestions minus costs of implementation) of € 2.7 million (previous year: € 2.8 million). Our staff's commitment resulted in GILDEMEISTER, for the fourth successive year, occupying the three leading positions in the German industry ranking of the dib (German Institute of Business Management).

Suggestions for improvement
at the production plants
Number per employee



The beginning of the year was dominated by the opening of the **Shanghai production site** on 15 January 2003. In February the group succeeded at a European level after being honoured twice last year by renowned juries for its implementation of its process-orientated, production-logistic restructuring plan. The jury of the European Logistics Association (ELA) handed the group the **“European Award for Logistics Excellence”**. This, the highest award for logistics in Europe, is given exclusively to enterprises and organisations whose logistic projects and strategies have won awards at a national level.

Following its success at home, the Assembly Monitoring System that was introduced in the preceding year, was transferred to our international production plants. It visualises the continuously updated production-logistic status of each assembly order and provides the navigation through the ERP (enterprise resource planning) system data and its PDA (production data acquisition) acknowledgement data. The assembly monitor can be viewed via the GILDEMEISTER Intranet, thereby helping all participants to obtain a quick insight into the assembly status and to take any actions that may be required.

The major event in Production and Logistics at the end of the reporting period was the opening of the **new technology and assembly centre** of SAUER GmbH on 15 November.

To safeguard its position as technological leader amongst the global competition GILDEMEISTER pursues an innovation-orientated strategy, which is continuously implemented with the development and series production start-up of **new products**.

In this respect, the **“Turning” division** has formed a **network**, consisting of the four sister factories GILDEMEISTER Drehmaschinen, GILDEMEISTER Italiana, GRAZIANO and FAMOT. This network has the most comprehensive turning machine production programme worldwide, ranging from universal turning machines through to CNC multi-spindle automatic lathes.

In the previous year GILDEMEISTER Drehmaschinen GmbH focused on the series production of the new machines and options, the presentation of which began at the autumn trade fairs 2002. In addition, the successful assembly line production for the CTX range was made more flexible as a result of continuous process optimisation. We are now able to assemble five machine types simultaneously in the so-called model mix process. Other PULL optimisation measures enabled the adaptation of processes to the growing projects business, or were incorporated in the coSupply® activities.

In 2003 GILDEMEISTER Italiana S.p.A., the second largest company in the “Turning” Division and centre of expertise for the various automatic lathe lines, began to coordinate sales and production, and early this year opened a technology and presentation centre for this purpose. The area required for this project was cleared last year with an extensive restructuring of the production area and processes. All these measures were also carried out with regard to the planned start-up of the new SPRINT line that with approximately 90 units represents almost a third of the machines produced this year.

The Tortona site profited from the restructuring of its production programme that was completed in the previous year. In line with the GILDEMEISTER group “Eight Lines” product strategy, GRAZIANO Tortona S.p.A., in close collaboration and co-ordination with GILDEMEISTER Drehmaschinen and FAMOT, is now the centre of expertise for the universal turning machines of the CTX line. It was therefore possible to close down the remaining branch of production at GRAZIANO in the reporting period. Whilst stocks were reduced, the company's flexibility and ability to react increased. The area thus gained now serves the series production assembly of the CTX 620 that was successfully taken up in 2003, an innovative machine with torque motor-spindle drive, linear motor on the X-axis and high-tech controls. The latest model, the CTX 510, completed the CTX 10 range. In addition, the company supported the production build-up of the new factory in Shanghai, particularly with the aid of the so-called CKD assembly kits.

In the reporting period, FAMOT Pleszew S.A. increased trunk machine production (including the final machine parts) for the group by 37% to 1,704 (previous year: 1,246), thanks to numerous optimisation activities. FAMOT is therefore the group's major supplier of trunk machines. The implementation of a PDA system enhanced the process transparency. The methodical and planning-related conditions for using the PDA system were created with the aid of a bottleneck-orientated logistics analysis; such an analysis was carried out at the site together with GILDEMEISTER Aktiengesellschaft during the summer months. The main activity in the production and logistics area started in December, with an increase in production capacity and the installation of a DMU 340 P. This machine, the largest of the GILDEMEISTER production programme, machines components such as machine beds. The site's outdated combined heating and power station was re-equipped to run on gas rather than coal. This resulted in a more economic operation, with fewer pollutants.

Along with 17 different types of base machine models, FAMOT produces head stocks, large cast parts and complete machine tools. The production programme includes universal lathes and CNC universal turning machines as well as milling machines.

In the **“Milling” division**, too, the group offers a product portfolio that covers the whole range of applications. It ranges from small CNC universal milling machines to highly productive CNC machining centres and milling and turning centres through to the large universal CNC machining centres for 5-axis/5-sided simultaneous machining, in respect of which DECKEL MAHO is the technological leader.

The opening of the **Shanghai production site** enabled GILDEMEISTER to supply the steadily growing Chinese market. Due to the continuously increasing “local content”, the site benefits from the cost advantages of the Chinese procurement market and also from tax privileges. DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., initially produced the two innovative standard machines, CTX 310 and DMC 64 v linear, and, since the middle of this year, the tried and tested DMC 63 v. In a usable area totalling 10,000 m², an assembly line, modelled on the PULL-oriented German factories, was set up. This enabled the assembly of 152 machines in the first year alone.

At DECKEL MAHO Pfronten GmbH the reporting period was dominated by the continuing optimisation of production and logistics. There was also a number of production start-ups of new products, such as the DMC 60 s for milling from bar. The indexed flow assembly line that was brought into operation for the DMU 60 T last year was also used for the larger model at the beginning of the year. It allows for the so-called model mix assembly, thereby further increasing the flexibility and process quality of production.

At DECKEL MAHO Geretsried GmbH, activities in production and logistics were dominated by a major optimisation project covering all areas of corporate processes. Many of the site's task forces saw the introduction of teamwork; the second transshipment point opened in the reporting period was taken to production start-up, and production planning was reorganised. In this respect, completely new strategies were not developed, but the best practices from other sites adopted. The comprehensive value-added optimisation, for example, resulted in the complete outsourcing of the switch cabinet production to a system supply partner. With the DMC 75 v linear, the company also introduced an innovative machine for tool manufacture and mould making as the successor model to the DMC 70 v.

The reporting period at DECKEL MAHO Seebach GmbH was dominated by continual improvements in the production and logistics processes. This primarily included the preparation for the production build-up of new machine types and options, such as the new version of the DMP 60 V linear as a manufacturing cell with a robot for the automatic handling of components. Within the flexible plant network remit, the site produces, along with its production programme of small and medium-sized CNC universal milling machines and highly productive CNC machining centres, basic machines for the SAUER group company.

In the **“Ultrasonic/Lasertec” segment** GILDEMEISTER offers high-tech products, sometimes with exclusive features, for the machining of complex components, including those made from challenging materials (“advanced materials”), such as ceramics, glass, silicon or metal carbide. Growth industries, such as the semiconductor or aerospace industry are typical sales markets for our products in this area.

The most significant action in this division, the opening of the **new technology and assembly centre** at SAUER GmbH, formed the basis for another increase in production at the Stipshausen site. The 1,400 m² increase in area allows for the process-optimised series production of ultrasonic machines. This initiative was preceded by training and workshops to pass on to the factory's staff the PULL skills required for the optimisation and adaptation of processes, and to support a competitive, customer-orientated production from the very start.

The ultrasonic technology, which is unique throughout the world being both technically and economically superior to all alternative processes, can also be found in the two DMS line 5-axis machines that were premiered in 2003. Along with the ultrasonic machines, the production programme of SAUER includes balanced, ultrasonic-diamond tools that complement the technology process and offer integrated solutions to the customer.

Machines for laser erosion, sonic enabled diamond cutting and drilling make up the production programme of LASERTEC GmbH, which, on behalf of the GILDEMEISTER group, operates in the future orientated microtechnology market. The LASERTEC GmbH production programme includes the DML 80 Powerdrill for the most delicate holes – launched in 2003 – the pure laser erosion machines of the DML 40 line for the machining of precision contours and cavities, the combination machine, DML 60 HSC – introduced in the preceding year – and the DML 80 Finecutting. These machines are distinguished by their versatile, modular design and high precision and dynamics.

Customers today demand a range of products that goes far beyond the basic machine tools. GILDEMEISTER meets these expectations with high-quality comprehensive service facilities from the **“Services” segment**, provided by DMG Vertriebs und Service GmbH. Along with the service and spare parts business, application technology, installation and training and tuition, this includes electronic updates, software products and updates in the mechanics field. An innovative highlight is the provision of software and online products in the DMG Powertools product range.

Via DMG Gebrauchtmaschinen GmbH the customer receives a complete service package that is geared to the life cycle of the machine, and includes not only the re-purchase of machines, but also the technical reprocessing and resale of used machines. The range of products of this division is completed with products from SACO S.p.A. and DMG Microset GmbH.

In the reporting period, SACO has expanded its production programme and, thanks to the bar loader that was introduced at the EMO in Milan, occupies a completely new market segment. In addition, the components and sub-assemblies, primarily for turning machine requirements, still cater for the full range of products. The company was also increasingly incorporated into the group network as internal supplier. This resulted in an increased production capacity utilisation on the site. An internal benchmarking for the valuation and improvement of processes accompanied these changes. The range of products of DMG Microset that was taken over in the reporting period completes the GILDEMEISTER group product range in this area with universal products for tool management, such as tool setting and measuring equipment for boring, turning and milling tools.

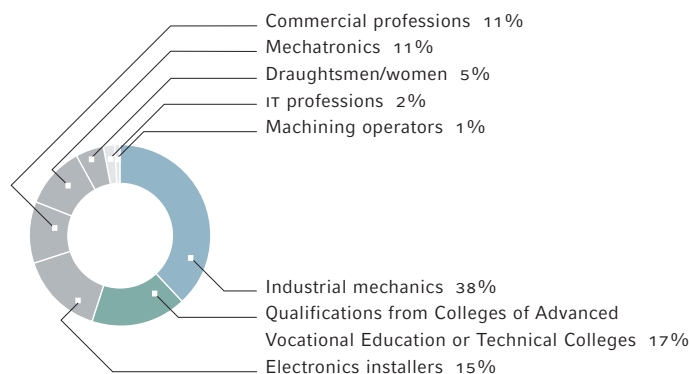
Employees

On 31 December 2003, GILDEMEISTER employed 5,028 co-operators, 205 of whom were trainees (previous year: 5,045). Compared with the previous year this is a decrease of 17 employees. In the reporting year, the group's reconstruction along with the further strengthening of the service area and the internationalisation of our production, resulted in a redistribution in staff numbers: whilst the production site in Shanghai and the sales and service companies in Asia, Europe and Germany were reinforced, staff levels at the production sites at Geretsried, Bielefeld, Bergamo and Seebach were reduced in line with business development. In the promising "Ultrasonics/Lasertec" division we increased the number of staff slightly. In addition, the 22 employees of DMG Microset, which was consolidated for the first time, were included.

At the end of year 3,119 employees (62%) worked for the domestic companies and 1,909 (38%) for our international companies (previous year: 37%).

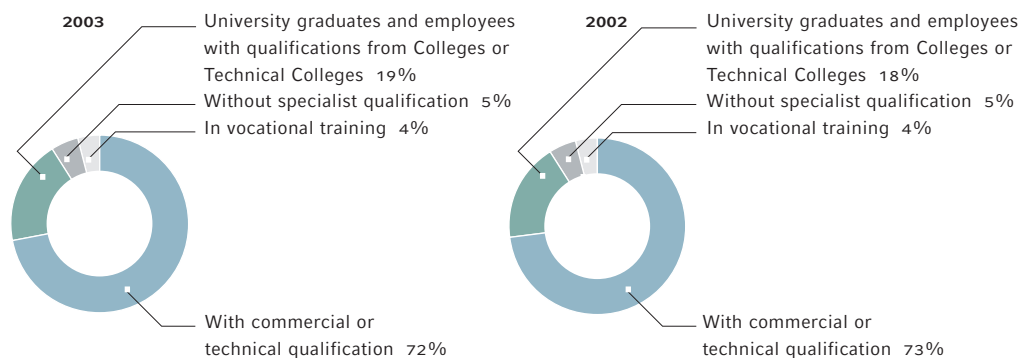
205 trainees have contributed to the continued high standard of vocational training, which safeguards the future of our company. A total of 47 trainees were taken on during the reporting year. The number of trainees to train in industrial mechanics and mechatronics was further increased. GILDEMEISTER offers vocational training in eleven different trades. Apart from the traditional training for trades requiring an apprenticeship, established 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



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. As in the previous year, the number of employees taking part in further training is 1,877, which represents 37% of staff. One of the most extensive training activities in the reporting year was the training given to our domestic and foreign sales and service employees on the new generation of machines. A further focus includes the training activities in IT and languages. A total of € 2.0 million (previous year: € 2.8 million) was spent on further training.

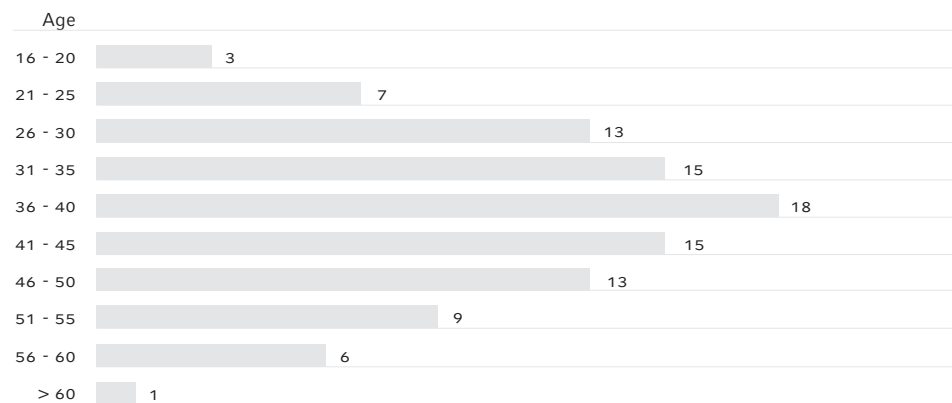
Personnel costs amounted to € 270.6 million (2002: € 270.2 million) in the reporting year. Of this, € 224.9 million were attributed to wages and salaries (2002: € 226.7 million); € 43.4 million to social insurance contributions (2002: € 42.1 million) and € 2.3 million to old-age pensions (2002: € 1.4 million). Overall, increases in basic wages and heavier spending on old-age pensions were counterbalanced by the drop in the average number of employees and a decrease in extra-work pay.

As part of the GILDEMEISTER group's part-time retirement plan, we have entered into 135 part-time retirement agreements (previous year: 113). 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. 84 employees were in the

active phase, 51 in the passive phase. The number of part-time retirement agreements thereby increased by 19%, 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.

GILDEMEISTER has a balanced age structure: 56% of our employees are younger than 40, and 84% are younger than 50.

Age structure of employees in the GILDEMEISTER group in %



In 2003, the number of traffic and operational accidents, 121, was 3% below the previous year's figure (previous year: 125). In relation to the total number of staff this is a decrease to 2.4% (previous year: 2.5%). The level of sickness was at an average 3.3% and thereby in line with the preceding year's level, but below the industry average of 3.9%.

During the reporting period, 18 employees at GILDEMEISTER celebrated their 40th anniversary and 53 employees their 25th anniversary. In addition, 66 employees were honoured for their 10-year service with the group. We would like to thank all our employees who are celebrating their jubilee for their loyalty to the company and their continuing commitment. At this point we would like to thank all our employees for their exemplary motivation. 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.

Marketing / Public Relations

In the reporting year GILDEMEISTER interacted both within the Group and with the outside world in a variety of ways. Our communication efforts complement the model of the market and value orientated corporate governance at GILDEMEISTER. We have again used a large number of communication methods: Trade fairs and in-house exhibitions, printed information, advertising, our web page, investor-relations activities and public relations work, all contributed to our impressive market image. The focus of our marketing activities was on our innovations and the completion of our product range. Activities in corporate design, sales, pricing and innovation policy were closely linked to our marketing actions. However, due to the increasingly difficult economic conditions, greater efforts were required and, at the same time, an increased cost consciousness. Our aims were the leveraging of marketing potentials and gaining access to new market segments, in order to continue the strengthening of our market position. GILDEMEISTER spent a total of € 16.1 million (2002: € 22.5 million) on marketing/public relations work.

Trade fairs and exhibitions are among the most important marketing instruments for capital goods. In the reporting year, DMG was present at 55 events at home and abroad. Our commitment was well worth it, as the response was good wherever we went, despite the difficult market conditions. In a slightly extended total exhibition area of 16,400 m², 491 turning, milling and ultrasonic/laser machines in production conditions were exhibited. A recorded audience of almost 26,000 generated a direct order intake of € 129 million. An event of particular significance was the EMO in Milan. On nearly 1,200 m², our exhibits presented to the audience included six world premieres. 193 machines sold at the EMO resulted in an order intake of approximately € 35 million. In the reporting year GILDEMEISTER invested € 8.3 million (2002: € 11.9 million) in trade fairs and exhibitions, representing 51% of the total (previous year: 53%).

At GILDEMEISTER, **advertising** means primarily product marketing. The customer journal was published with a total circulation figure of 1,200,000 in 41 editions and 20 languages. Distribution was carried out via direct mailing and hand-outs in 45 countries world-wide. However, the largest part of our product advertising is done in the form of illustrated catalogues and brochures. Its total volume was 670,000 copies (400,000 for the milling/ultrasonic/lasertec area and 270,000 for the turning area). Our brochures and catalogues were written in a total of eleven languages. In the

reporting year, 2.3 million product and event mailings in 20 different languages were sent out, which is a slight increase compared with the preceding year. The number of our daily mailings increased to 6,200. The year-end mailing was circulated 286,400 times in total. It was distributed in 32 versions and 17 languages. 631,000 supplements informed readers of DMG products in 74 magazines world-wide. They were published in 25 countries and 20 languages. The total expense for product marketing therefore amounted to € 6.9 million (2002: € 9.4 million), representing 43% of the total marketing expense (previous year: 42%).

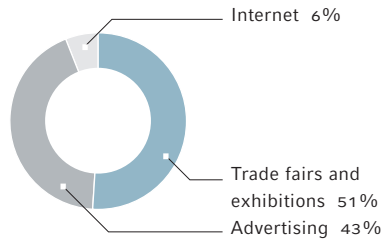
Our Internet presence has developed into a central key area of our marketing/public relations work, with a steadily increasing number of users. More and more customers, shareholders and all those whose attention has been drawn to our group, visit our website www.gildemeister.com, to obtain information on GILDEMEISTER or get in touch with us directly. The increasing interest from abroad has resulted in an increase in the number of language versions from four to nine. Spanish, US-English, Chinese, Korean and Japanese have all been added. Our website now has about 50,000 pages for each portal language. Our Internet pages inform readers of the latest developments in the company, current share prices and many other things. Annual and quarterly reports, delivery programmes, mailings and other printed information are increasingly requested as downloads. In the reporting year, more than 1.3 million visitors were registered in total, which is twice as many as in 2002.

E-commerce and DMG-Netservice have also become a major part of the day-to-day business at GILDEMEISTER. E-commerce complements traditional distribution channels. It represents another means to acquire new customers and sell machines. The DMG-Netservice, with one click of the mouse, allows access to the company's service know-how. Our advertising activities on all aspects of e-commerce tools amounted to € 0.9 million (2002: € 1.2 million), which represents 6% of the marketing expenses (previous year: 5%).

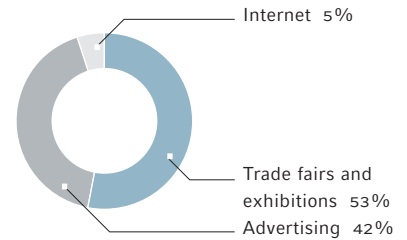
Public Relations activities constitute a further important element in corporate communication. They are based on a communication strategy that is aimed at enhancing and strengthening the positive public image of GILDEMEISTER on a long-term basis. A central element of the press and public relations activities is to inform competently, speedily, openly and reliably the print and electronic media as well as all other 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 organisations that are of special importance to us. The budget is used effectively and efficiently, and all activities thereby implemented are internationally co-ordinated in respect of content, design and timing. This ensures optimal results. In the reporting year a total of ten trade press events were held, allowing us to reach a total 360 journalists from 20 nations. This resulted in specialist press articles totalling more than 1,000 pages.

Marketing costs at the GILDEMEISTER group

2003: Total € 16.1 million



2002: Total € 22.5 million



Segmental Reporting: “Machine Tools”

All affiliated companies of GILDEMEISTER Aktiengesellschaft, operating as production plants and producing machine tools form, with their new machine business, the **“Machine Tools”** segment. This segment includes the “Turning”, “Milling” and “Laser/Ultrasonic” divisions.

In the “Turning” division, the following production facilities comprise the “Machine Tools” segment: GILDEMEISTER Drehmaschinen GmbH in Bielefeld, GILDEMEISTER Italiana S.p.A. in Brembate di Sopra, GRAZIANO Tortona S.p.A. in Tortona and FAMOT Pleszew S.A. in Pleszew. GILDEMEISTER Drehmaschinen GmbH in Bielefeld offers an extensive production programme, consisting of the universal turning machine (NEF), CNC universal turning machine (CTX), vertical turning machine (CTV) and production automatic turning machine (TWIN line) product lines as well as the turning-milling centres (GMX). GILDEMEISTER Italiana S.p.A. has a complete production programme for production turning machines, ranging from highly specialised multi-spindle lathes through to so-called “Swiss-type machines” from the SPEED line. The company is the group's specialist for multi-spindle automatic lathes. GRAZIANO Tortona S.p.A. is the second-largest producer of CNC universal turning machines and produces different types of the CTX line. FAMOT Pleszew S.A. is the centre of expertise in the production of base machines for the Turning and Milling divisions. In addition, it produces complete machine tools for the NEF, CTX and DMC v lines.

The “Machine Tools” segment also includes the “Milling” division. This includes DECKEL MAHO Pfronten GmbH, DECKEL MAHO Geretsried GmbH, DECKEL MAHO Seebach GmbH and the new factory of DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co.,Ltd. DECKEL MAHO Pfronten GmbH develops and produces universal milling machines, machining centres and milling and turning centres for the production programmes DMU-T, DMU-P and DMC-U. DECKEL MAHO Geretsried GmbH with its DMC-H and DMC-V range, represents the centre of expertise for horizontal and vertical machining centres. DECKEL MAHO Seebach GmbH produces small and medium-sized CNC universal milling machines and machining centres for the DMU, DMU/DMC eVolution, DMF and DMP-V lines. Along with the two innovative standard machines, CTX 310 and DMC 64 v linear, DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co.,Ltd., has also produced the well established DMC 63 v since the middle of the year.

The “Machine Tools” segment also includes the machines of those companies operating in the trend-setting ultrasonic/laser technology: SAUER GmbH in Idar-Oberstein and LASERTEC GmbH in Pfronten. Thanks to its world-wide unique technology, SAUER GmbH ensures GILDEMEISTER's access to the dynamically growing market of “ultrasonic” machining of hard-brittle materials (“advanced materials”), such as ceramics, glass, silicon and metal carbide. The trend-setting laser technology of LASERTEC GmbH is used in laser erosion, laser precision cutting and laser drilling applications.

Key Figures

“MACHINE TOOLS” SEGMENT

			Changes	
	2003	2002	2003 against 2002	
	€ M	€ M	€ M	%
Sales revenues				
Total	704.2	768.6	-64.4	-8
Domestic	331.2	331.0	0.2	0
International	373.0	437.6	-64.6	-15
% International	53	57		
Order intake				
Total	708.6	723.1	-14.5	-2
Domestic	310.6	301.3	9.3	3
International	398.0	421.8	-23.8	-6
% International	56	58		
Order backlog*				
Total	273.6	269.2	4.4	2
Domestic	111.9	132.5	-20.6	-16
International	161.7	136.7	25.0	18
% International	59	51		
Investments	25.8	46.0	-20.2	-44
Employees	3,037	3,093	-56	-2
plus trainees	205	224	-19	-8
Total employees*	3,242	3,317	-75	-2
EBITDA	47.5	43.0	4.5	
EBIT	19.8	16.2	3.6	
EBT	6.8	0.4	6.4	

* Reporting date 31 Dec.

In the financial year 2003, the continuing weakness in economic activity affected business development in the “Machine Tools” segment. **Sales revenues** amounted to € 704.2 million, thereby falling 8% (€ 64.4 million) below the preceding year's figure of € 768.6 million. The total share of the new machines business in group sales revenues was 72% (previous year: 74%). Domestic sales revenues of € 331.2 million remained in line with the preceding year's figure (€ 331.0 million). International sales revenues decreased by € 64.6 million or 15% to € 373.0 million in the reporting year. The export quota reduced to 53% (previous year: 57%).

Order intake in the segments amounted to € 708.6 million. Compared with industry trends, the 2% drop (€ 14.5 million) in the new machines business was noticeably smaller than it was in the previous year. Whilst domestic orders increased slightly by € 9.3 million or 3% to € 310.6 million, international orders decreased by € 23.8 million or 6% to € 398.0 million in the same period. The foreign share dropped from 58% to 56%. Total **sales volume** was below the preceding year's figure.

On 31 December 2003, **order backlog** amounted to € 273.6 million (previous year: € 269.2 million). Since domestic sales revenues exceeded the order intake in the reporting year, the domestic order backlog decreased by € 20.6 million or 16% to € 111.9 million. The backlog of international orders increased by € 25.0 million or 18% to € 161.7 million. The foreign share therefore rose to 59% (previous year: 51%).

Profitability in the “Machine Tools” segment improved despite the restrained business development (8% drop in volume). In contrast to the previous year, all companies profited from the optimisation in materials costs, the capacity adjustments and cost savings. There were no extra-budgetary outlays with respect to product launches in the reporting period. **EBIT** amounted to € 19.8 million (previous year: € 16.2 million). The achieved percentage return on sales was up from 2.1% to 2.8%. **EBT** increased by € 6.4 million: from € 0.4 million to € 6.8 million.

Investments in this segment reduced by € 20.2 million to € 25.8 million when compared with the preceding year. Further details are set out in the „Investments“ chapter on page 83.

At the end of the year, 3,242 **employees** (previous year: 3,317) worked in the “Machine Tools” segment. This represents 65% of the entire staff within the GILDEMEISTER group. Compared with the corresponding period of the preceding year this is a decrease of 2% or 75 employees. Whilst the production site in Shanghai and the Ultrasonic/Lasertec division were systematically reinforced, staff levels, particularly at the production sites at Geretsried, Bielefeld, Bergamo, Seebach and Brembate di Sopra, were reduced in line with sales development. In 2003 the average personnel expense per capita in the “Machine Tools” segment at the domestic production plants amounted to € 56.0 K (previous year: € 55.9 K). The expense is more or less in line with the previous year's figure, since the increases in basic wages were counterbalanced by a decrease in overtime pay and in profit-sharing and bonus payments. Combined with the figure for the international production plants, this value amounts to € 45.1 K (previous year: € 44.5 K) in the “Machine Tools” segment.

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. This segment also includes the procurement services of a & f Stahl- und Maschinenbau GmbH, the components and tools of SACO S.p.A. as well as the toolsetting equipment of DMG Microset GmbH. The services include the service and spare parts business, service products, such as the DMG Powertools, training products and training services and remuneration for installation and consulting activities, and the used machine business.

Key Figures

"SERVICES" SEGMENT

	2003	2002	Changes	
	€ M	€ M	2003 against 2002	%
Sales revenues				
Total	273.0	263.6	9.4	4
Domestic	143.9	160.1	-16.2	-10
International	129.1	103.5	25.6	25
% International	47	39		
Order intake				
Total	272.6	257.3	15.3	6
Domestic	145.8	153.7	-7.9	-5
International	126.8	103.6	23.2	22
% International	47	40		
Order backlog*				
Total	59.2	59.6	-0.4	-1
Domestic	10.6	8.7	1.9	22
International	48.6	50.9	-2.3	-5
% International	82	85		
Investments	6.8	24.2	-17.4	-72
Employees*	1,717	1,663	54	3
EBITDA	32.0	17.7	14.3	
EBIT	25.3	10.5	14.8	
EBT	17.5	4.4	13.1	

* Reporting date 31 Dec.

In all, business development in the “Services” segment was satisfactory in the reporting year. **Sales revenues** rose from € 263.6 million by 4% or € 9.4 million to € 273.0 million. The group sales contribution increased from 26% to 28%. Along with the service and spare parts business, the used machines business also recorded positive growth rates. At € 143.9 million, domestic sales revenues remained below the figure for the preceding year (€ 160.1 million) by € 16.2 million or 10%. The international sales revenues contribution increased by € 25.6 million (25%) to € 129.1 million. The relative share was 47% (previous year: 39%).

Order intake increased by € 15.3 million, and at € 272.6 million, exceeded the preceding year's figure of € 257.3 million by 6%. The domestic order intake dropped from € 153.7 million by € 7.9 million or 5% to € 145.8 million. New international orders amounting to € 126.8 million exceeded the preceding year's orders by 22%. The relative share thereby increased to 47% (previous year: 40%).

As the figures for sales and the order intake were about equal in the reporting year, the total **order backlog** of € 59.2 million (previous year: € 59.6 million) differed only slightly as at 31 December 2003.

In 2003 the “Services” segment with its growing volume of business also performed well with respect to earnings. At € 25.3 million, **EBIT** increased noticeably by € 14.8 million against the previous year (€ 10.5 million). Both efficiency increases and margin effects resulted in an improved profitability. At € 17.5 million, **EBT** picked up noticeably (previous year: € 4.4 million). Overall, profit contributions from the other service products included in the result, increased adequately.

In the reporting period, **investments** in this segment amounted to € 6.8 million. Further details are set out in the “Investments” chapter on page 83.

At the end of the year, 1,717 **employees** or 34% of the group's personnel were working in the “Services” segment. This represents an increase of 54 employees or 3% when compared with the preceding year, which took place primarily in the European and Asian sales and service companies. 67% of this segment's employees were working in the services, spare parts logistics, application technology and training areas (previous year: 68%). The average personnel expense in the “Services” segment amounted to € 64.6 K (previous year: € 66.3 K).

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. The Holding Macchine Utensili S.p.A. is also allocated in this business segment as finance company for the Italian production plants.

Key Figures

"CORPORATE SERVICES" SEGMENT

	2003	2002	Changes 2003 against 2002	
	€ M	€ M	€ M	%
Sales revenues	0.6	0.6	0.0	0
Order intake	0.6	0.6	0.0	0
Investments	3.7	3.0	0.7	23
Employees*	69	65	4	6
EBITDA	-3.4	-7.9	4.5	
EBIT	-5.5	-11.7	6.2	
EBT	-9.0	-14.4	5.4	

* Reporting date 31 Dec.

Sales revenues and the **order intake** in the “Corporate Services” segment“ of € 0.6 million consist mainly of income from rents. **EBIT** were up by more than 50%, but at € -5.5 million remained negative (previous year: € -11.7 million). **EBT** amounted to € -9.0 million in the reporting year. On 31 December 2003, 69 employees (previous year: 65 employees) were working in this segment, representing an unchanged 1% of the group's staff. **Investments** related to the acquisition of property at the Bielefeld site, which is currently used by DMG Microset GmbH, and the expansion of the information and communication systems at GILDEMEISTER Aktiengesellschaft. In the reporting year investments totalled € 3.7 million.

Supplementary Report

Overall economic development moved further towards growth during the first few months of this year. Demand in German machine tools was up again.

GILDEMEISTER's performance at the start of the financial year 2003 was in line with forecasts. As expected, the order intake developed slowly. However, we noted a growing interest in machine investments over the first two months. We also expect a gradual recovery in the next few months due to existing demand. Sales improved when compared with the preceding year's level.

Economic Development 2004

Overall economic development improved during the first months of the current year. Upward economic trends are now noted in most industrial countries. Economic researchers expect this positive development to intensify over the year. The Organisation for Economic Co-operation and Development (OECD) sees the situation in a similar way. Once again the USA act as “economic locomotive”.

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

Economic trends in the **German machine tool industry** appeared to pick up slightly at beginning of the year: whilst demand continued to grow. At the start of the year, the industry's order intake pertaining to cutting machine tools was 2% above the preceding year's corresponding figure; sales were up by 9% (as at January 2004). The order backlog shown in production months, of 6.0 months, continued to pick up following its low in June 2003, and, according to estimates of the vdw, is likely to amount to about 6.4 months by the end of February 2004 (comparative figure for the preceding year: 6.9 months).

Quelle: vdw (Verein Deutscher Werkzeugmaschinenfabriken – Association of German Machine Tool Manufacturers)

Corporate situation after the end of 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 this section could not entirely be avoided. In the first two months of this year, group sales revenues of € 141.2 million was 8% above the figure for the comparable months of the preceding year (previous year: € 131.0 million). Due to the holiday at New Year, customers' orders only fully picked up in the second half of the month. In February, the order intake rose again by 17% when compared with the restrained intake of the preceding month, reaching € 136.5 million for the first two months (previous year: € 148.0 million). Based on the current discussions regarding the accounts we expect a good month in March, so that the order intake in the first quarter 2004 will be in line with the preceding year's level, as planned. On 29 February, 2004, the order backlog of € 328.1 million was 1% below the existing orders at the end of 2003, and therefore also below the preceding year's comparative figure (previous year: € 345.8). 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 Quarterly Report, which will be published on 6 May 2004.

Sales revenues of the GILDEMEISTER
group in January and February
in € million



The successful development of **key accounting** continued throughout the first two months of the current financial year. Thanks to two major orders from Canada and the USA, worth € 4.5 million, the order intake in this area was above the preceding year's comparative figure.

With our intensive **marketing activities** during the first months of the year we continue to push forward current business operations right from the beginning of the year. For example, along with four smaller trade fairs and exhibitions at home and abroad, we premiered the first three innovations of the year 2004 at our traditional in-house exhibition in our state-of-the-art production facility in Pfronten, and succeeded in selling 77 machines worth € 16.6 million. The 43 exhibited machine products and the DMG Powertools from the "Services" segment were met with great interest from the 2,230 specialists. In the first two months, **selling prices** were moderately raised by between 2-4% depending on each particular product.

In early 2003, the **organisational structure** at DMG Vertriebs und Service GmbH was geared to market and customer needs in line with the regional organisation. The financial year 2004 will see the further optimisation of the management structure and strengthening of the functional areas. With effect from 30 January 2004, 100% of the shares in DMG Microset GmbH were taken over by DMG Vertriebs und Service GmbH in line with the company's positioning in the "Services" segment. 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.

The fourth GILDEMEISTER Suppliers Day took place on 13 February 2004. The in-house exhibition at the Pfronten production site again provided the organisational framework for this event. The **Suppliers Day**, which has proven itself a very useful forum for the increase in dialogue between GILDEMEISTER and its TOP supply partners, was dominated by the “Supplier of the Year Award 2003” in the quality, supply performance, innovation and overall winner categories.

With the ceremonial signing of the agreements from 17 March in Shanghai, GILDEMEISTER founded an **endowed chair** for machine tools and production logistics at the Chinese-German College for Postgraduate Studies (CDHK) at Tongji University in Shanghai. The Chinese-German College for Postgraduate Studies is a joint project by Tongji University and the German Academic Exchange Service (DAAD). With the endowed chair, which also receives public funds, GILDEMEISTER reinforces its innovation promoting commitment to research and science on the one hand, and underlines the role of the production site in Shanghai in view of the group's globalisation strategy on the other hand.

The **presentation of three new machines** by the end of February demonstrates GILDEMEISTER's innovative power. At the in-house exhibition in Pfronten DECKEL MAHO Pfronten GmbH introduced both the DMU 125 5-A and DMC 125 5-A models. At the same time, another machine of the successful SPEED line for CNC Swisstype automatic lathes from the Brembate factory was premiered.

Forecast 2004

Global economic development is brightening up and, according to most experts, will continue to improve throughout the current financial year. Growth forecasts are at around 4% (GDP). A key position is held by the USA, where economic activity has begun to pick up again.

Latest prognoses for 2004 with regard to mechanical engineering and particularly with regard to machine tools again expect growth. Following a 2% loss in the preceding year the German Mechanical Engineering Association (VDMA) is expecting a 2% increase in sales for 2004. The majority of the VDMA's trade units anticipate a positive development. Trends towards a recovery are expected this year with regard to machine tools, following the losses suffered in the preceding years. Forecasts for 2004 with respect to global development in the machine tool sector have not yet been published. We expect global consumption to be 4% above the level of 2003. The ifo Institute (Economic Research Institute, Munich) and the Association of German Machine Tool Manufacturers (VDW) expect an increase in order intake for German manufacturers (at home: more than 2%; abroad: more than 4%) and a 4% increase in production.

For the financial year 2004, GILDEMEISTER expects a continuously increasing recovery in demand. For the first quarter, we expect the order intake to be roughly in line with the preceding year's level. We intend to achieve a gradual increase of approximately 5% in the order intake over the current financial year. Our planning is based on new innovative products, the continuing expansion of our world-wide market presence, a steady consumption in Asia, noticeable upward trends in America and first indicators of a revival of the markets in Europe and at home. As a result of this and in view of our order backlog, we also intend to increase our sales revenues for 2004 by approximately 3-5% depending on economic trends. We will continue to push ahead with our innovations, thereby safe-guarding our technological lead. A further increase in efficiency is intended for the re-enforcement of the group's profitability. The object of our efforts is to show another significantly improved result (EBT) for the financial year 2004.

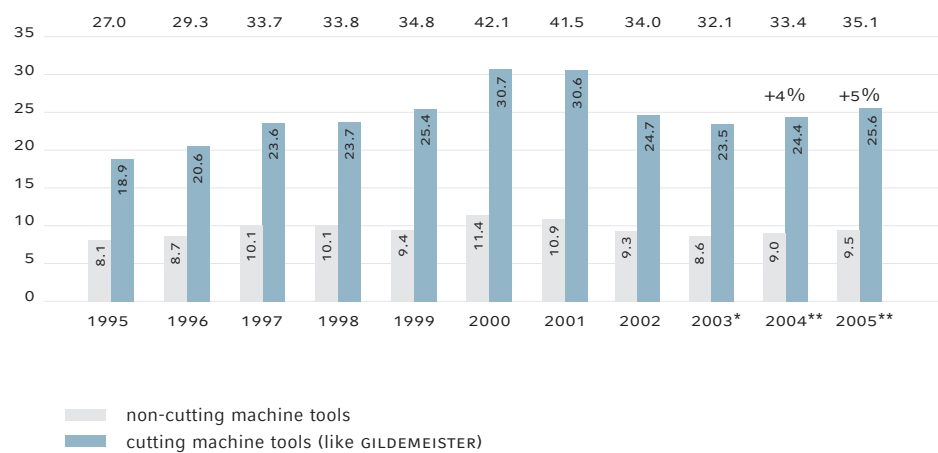
According to most experts, growth dynamics in **overall economic development** will increase in this year. Major political risks cannot be ruled out, but are currently not evident. Global forecasts, for example by the Institute for World Economics, predict a 4.1% increase in gross domestic product. The OECD was more cautious late last year, mentioning a possible profit of about 3%. A continuation in economic upturn is forecast for the **USA**. Tax reliefs may again result in an increase in consumer spending. The same applies to investments. The decline of the Dollar on the other hand and the high public deficit are seen with increasing scepticism. According to the International Monetary Fund (IMF) the high level of indebtedness could constitute a potential risk for world-wide economic activity. The growth forecast by the Kieler Institute for World Economics (IWF) for the American economy is 4.1% with respect to the entire year 2004. As a result of the boost in global economy, experts also predict a strong increase in exports for **Japan**. Private consumption is also expected to increase gradually. The growth forecast in this respect is around 2.0%. After a slow start, **Europe** can expect an increased speed of expansion, according to the majority of experts. However, a braking effect could emanate from the high external value of the Euro. If the Euro continues to increase in value, this could turn into a risk to economic activity. The growth prognosis by the Kieler IfW for the Euro zone is 2.1%. The EU Commission expects 2.0%.

In 2003 **Germany** again had to put up with relatively small growth. The IfW expects the growth in GDP to be at 1.8%. In early January, The German Economic Research Institute (DIW) corrected its forecast downward and now expects a growth of just 1.4%. At the end of 2003, the German Council of Economic Experts on the Assessment of Economic Trends forecast a 1.7% growth. If international economic conditions recover, German exports will also benefit. However, the possibility of the Euro exchange rate further increasing against the Dollar, remains an uncertain factor. This could lead to another slow-down in economic activity. The job market situation continues to be poor. Here, according to experts, any positive cyclical effects will not be noted before the end of the year. The situation in public spending also remains tight. It is seen as likely that the deficit quota of 3% will be exceeded again.

Sources: IfW (Institut für Weltwirtschaft – Institute for World Economics), Cologne
 DIW (Deutsches Institut für Wirtschaftsforschung – German Economic Research Institute), Berlin
 German Council of Economic Experts on the Assessment of Economic Trends, Berlin
 OECD (Organisation for Economic Co-operation and Development), Paris
 IMF (International Monetary Fund), Washington

The **world-wide market for machine tools** is expected to improve in the year 2004. Due to the anticipated improved demand, we expect both global output and world-wide consumption to be around 4% above the respective preceding year's figures. On the one hand, our forecast for the **market volume** is based on the positive economic outlook for China, Japan and other major markets in Asia, and on the economic recovery that has been evident in America since November 2003. On the other hand, we expect the first indicators of a revival of the European market to continue. With respect to the **sales volume**, we expect a similar increase against the previous year. There are no statements on the **market and sales potential** of machine tools as yet.

World-wide consumption of machine tools (1995 - 2005) in € billion



Source: vdw world-wide machine tools statistics (exc. parts and supplies; revised figures since 1999)

* vdw estimate

** GILDEMEISTER estimate

The **German machine tool industry** in its forecast for **sector trends** expects further growth for 2004. The declining trends in the order intake slowed down noticeably over the past year. The order backlog dropped back to 6.0 months by the middle of the year, but then picked up again over the following months, reaching 6.4 months in February this year. Following a 79.9% low in the second quarter of the preceding year, the latest capacity utilisation was at 85.5%, which is a long way short of a full use of capacity. Against this background and in view of the revival in demand at the beginning of the year, the Economic Research Institute in Munich and the Association of German Machine Tools Manufacturers (vdw) expect an increase in order intake and a 4% growth in production to € 9.2 billion. With respect to the preceding year's pro-

duction, worth € 8.8 billion, they do not expect any changes over the first half of the year, and a 6% growth over the last two quarters. As to the order intake of € 8.4 billion in the previous year, a good 2% growth pertaining to domestic sales and a more than 4% increase pertaining to exports was assumed. On a medium-term basis, the vdw and the Munich Economic Research Institute currently expect a growth phase over three years of a good 3% average per year between 2005 and 2007. Risks in this forecast are seen by the Association in the exchange rate development and a deterioration in efforts towards a political reform. The Association is confident that the growth force in world economics and common sense in German politics will win.

Source: "The German Machine Tool Industry in the Year 2003"
vdw (Association of German Machine Tool Manufacturers) (Figures including parts and supplies, etc.)

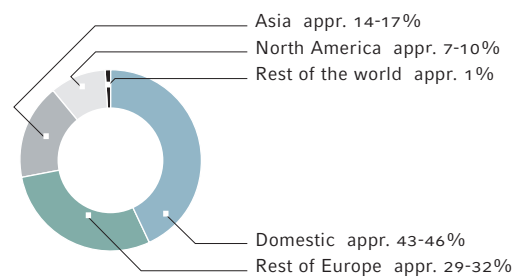
Major changes in the **industry's structure** are currently not evident. At the moment and for the foreseeable future, we do not expect any negative effects or risks for GILDEMEISTER due to any possible change in the market's competitive situation. On the contrary, GILDEMEISTER with its innovative and 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.

During the past years, **GILDEMEISTER** invested heavily in materials and services for the development of new products and in the expansion of its sales and service organisations. Thanks to its user-orientated technologies and comprehensive technical services GILDEMEISTER is well prepared for the expected recovery of the market. The world-wide presence of the DMG sales and service organisations in all the major industry markets has created the conditions required for the building of adequate market shares.

For the current financial year, we expect a continuously increasing recovery of demand. In January and February, **order intake** amounted to € 136.5 million (preceding year's value: € 148.0 million). For the first quarter of 2004, we expect, subject to the forthcoming discussions regarding the accounts, the order intake to be at the preceding year's level, as planned. Thanks to our innovative machines, we intend to increase our **share of the world-wide market volume**. We expect demand to increase over the year. We intend to achieve a gradual increase of approximately 5% in the order intake during the current financial year. Our planning is based on new innovative products, the continuing expansion of our world-wide market presence, a steady consumption in Asia, noticeable upward trends in America and first indicators of a revival of the markets in Europe and at home. With regard to the regional distribution of new orders, another shift in favour of the Asia region is likely. The high pressure on **selling prices** has further increased due to the Euro exchange rate development.

In the first two months, **group sales revenues** reached € 141.2 million (preceding year's figure: € 131.0 million). Based on the expected order intake for the current financial year and our still satisfactory order backlog, we intend to improve our sales in 2004 by 3-5% depending on economic trends. In this respect we expect sales for the first quarter of this year to be in line with the preceding years' figures. As to the later quarters of the year, we are planning for a sales revenues development that should be above the level of the preceding year's quarters. With a domestic sales contribution of approximately 43-46%, we expect around 29-32% for the rest of Europe, 7-10% for North America and a sales contribution of about 14-17% for Asia. The distribution shown is based on the assumption that current economic trends, particularly in Asia and America, will continue this year. With regard to sales development for the following two years, we see a definite growth potential.

Expected sales distribution
2004 of the GILDEMEISTER
group by regions



By the end of February 2004, **order backlog** within the group had marginally decreased to € 328.1 million. This represents a still sufficient capacity utilisation, however, it offers only a limited means to fully counterbalance fluctuations in the order intake for individual machine types. Despite the generally adequate level of orders, GILDEMEISTER, like others, is therefore affected by the still restrained order intake in some areas of the company, with the result that the smooth processing of some orders cannot always be guaranteed.

In line with plans, the first quarter will close with a negative **result (EBT)**. The 'Services' segment continues to be operated at full capacity with regard to personnel. We intend to double the sales revenues volume related to Powertool software products

in 2004. Our machines' production capacity was adjusted last year with regard to staff levels according to site and necessity. We do not expect any major changes in this respect in the current financial year. We will continue to push ahead with our innovations, thereby safe-guarding our technological lead. Based on our consistent pursuit of measures to improve our earning power and increase efficiency in sales, along with the reduced investments particularly in tangible fixed assets and materials, we are planning for a considerable improvement in EBT for the financial year 2004, thereby achieving a annual profit. It is our objective to attain a better result in order to distribute another **dividend**.

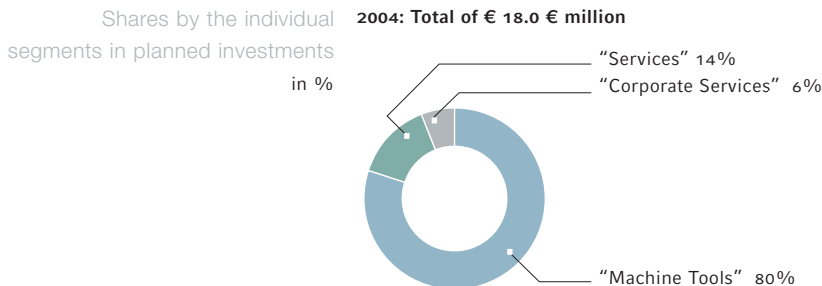
We want to improve our **financial structure**, and will meet future risks with a variety of measures aimed at reducing the commitment of funds with respect to inventories and accounts receivable through an increase in the rate of turnover (see also page 80). We also intend to look into the strengthening of our capital base and into options for the effective consolidation of our financing, where we will focus on long-term financing requirements. The aim of our activities is the future safeguarding of our supply of liquidity in view of the ongoing changes in market conditions for capital goods, and is intended to provide the foundation for the strategic readjustments of our divisions.

In 2004, the GILDEMEISTER group's **risk management** will continue to be developed further and consistently. It is a living system, which is complete in itself, thereby gaining in effectiveness and efficiency over time. From today's perspective, known risks can be controlled, and the future existence of the GILDEMEISTER group is not jeopardised.

For the financial year 2004 the planned **investment** volume for tangible and intangible assets amounts to around € 18 million, which is noticeably below the level of planned depreciation. A further € 5 million for tangible fixed assets must be added, to be financed through leasing. The investments are intended for the provision of tools, fixtures, measuring equipment for new machine types and equipment replacement. The highest amount of € 2.5 million was invested at DMG Vertriebs und Service GmbH with its 50 sales and service sites. € 0.4 million of the investment budget of GILDEMEISTER Aktiengesellschaft will be spent on the implementation of a group-standardised ERP system at the European sales and service sites. GILDEMEISTER Drehmaschinen GmbH has designated investments of € 0.6 million in the current financial year for the production of new machine types. The planned investment volume of the subgroup GILDEMEISTER Italiana S.p.A. totals € 1.5 million. € 0.6 million will be spent

on the relocation of DMG Italia S.r.l. from Gorgonzola to the new technology and presentation centre at the GILDEMEISTER Italiana S.p.A. site in Brembate di Sopra. Investments of € 0.7 million are planned at FAMOT Pleszew S.A. At DECKEL MAHO Pfronten GmbH, € 1.3 million will be invested in tools, fixtures and measuring equipment, for example for the introduction of the new machines of the DMU P line. The Geretsried site is planning to spend € 0.5 million on the production of new machine types. At DECKEL MAHO Seebach GmbH, the group's centre of expertise in mechanical production, € 0.1 million will be spent on replacement equipment. The site is planning to invest a total of € 0.5 million. The Shanghai site plans to spend € 0.3 million for the purchase of an air conditioning system in the production hall. The **structure of 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.

Assuming a recovery of market conditions, the investments planned for 2005 will be in line with the level of depreciation.



In **Procurement** GILDEMEISTER will give another boost to its systematic, co-ordinated materials group management in the course of the planned expansion of the coSupply® activities. For this purpose the group's s BaaN ERP system will be expanded over the year, in order to gain additional functions and new processes. In this respect, various adjustments within the BaaN system will also be implemented, resulting in improved business processes with our supply partners. The changed processes described above were developed together with some of our TOP supply partners in the jointly held coSupply® workshops.

Along with the increased procurement of trunk machines, our value added optimisation strategy also pursues the increased procurement of cast iron from countries in Central and Eastern Europe. This switch was due to the intensive development of local suppliers from the above countries in numerous coSupply® workshops. Since the cast iron bought in Germany constitutes a value-specific share of approximately 64%, the switch will have a positive impact on the group's **liquidity** thanks to better purchase prices. According to market development, **purchase prices** might have to be agreed on retrospectively, as required.

The Shanghai site plans to expand its local purchasing volume noticeably, in order to increase the “local content” to more than 80%. For example, one of the activities in this respect is the increase in the volume of cast iron purchased in China. Thanks to these activities DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd. will be able to leverage the cost advantages of the Chinese procurement market.

Reliability in supply with respect to aggregates, modules and structural components is safeguarded through long-term **basic agreements**. This also includes an increase in quality assurance agreements, which are an essential factor in the further improved safeguarding of the purchasing volume.

The **Production and Logistics** area will be dominated by the strategic restructuring of the factories' product and production specific responsibilities. Our new strategy will see a new delegation of authorities amongst the factories. The aim of this is to reinforce our innovative ability by pooling responsibilities in the development area on the one hand, and the efficient manufacture of production programmes at our international sites on the other hand. This development of our previously internal network will also be instrumental in improving **capacity utilisation** thanks to an increased **flexibility in production**. The synergies gained by the new strategy will result in a more efficient use of existing assembly capacities, for example through an increased flexibility in production. An expansion in capacity at the existing factories is therefore not planned.

The company's increased ability to react and agility in production is also safeguarded through a variety of optimisation measures at the factories, such as the activities provided by the KVP workshops. The main aim of these measures is the reduction in processing times, the most important production-logistic parameter. We thereby create the conditions for the financial processing of the **series start-up management** of a wide variety of new products planned for 2004.

With regard to **products and services** our orientation toward innovation – the basis of our technological supremacy strategy – is once again evident in the development of 20 new products in the “Machine Tools” segment.

In the “Turning” division, the Brembate site will constitute an innovative focus with five new machines in the **SPEED** and **SPRINT** lines. All the companies' new products have linear drives to increase economic efficiency and dynamics at continuing high precision.

In the “Milling” division **DECKEL MAHO Pfronten** and **DECKEL MAHO Geretsried** will introduce the horizontal machining centres that were developed jointly by both companies. **DECKEL MAHO Pfronten** will also introduce two horizontal machining centres for heavy machining operations, two new **CNC** milling machines and two **CNC** machining centres for 5-axis/5-sided machining. The Geretsried site complements the vertical machining centre line for mould building with a larger design. The two companies together therefore constitute a clear focus with respect to the innovations of the “Milling” division.

The “Ultrasonic/Lasertec” division continues the systematic expansion of its trend-setting technologies by introducing a new ultrasonic machine for precision mechanical applications.

In all the above divisions, the shift in market requirements is also reflected in the expanded and enhanced range of options available. In this respect we expect another increase in customer-specific solutions in the course of the projects business.

In the “Services” segment, the **GILDEMEISTER** group will expand its range of innovative service and software products as reflected in the increasing importance of this market. For example, for the expansion of the **DMG Powertools** product family, more efficient multimedia applications are being developed. With these innovations the **DMG Vertriebs und Service GmbH** creates the conditions for the sharp increase in the sales volume pertaining to software products that is expected in the financial year 2004. Overall, the **GILDEMEISTER** group with its innovative delivery programme is well prepared for a market recovery in the current financial year.

For 2004, we are planning to complete the change in the **legal corporate structure** of the DMG sales and service organisations that was begun in 2003, in line with the management and control structure of these companies. To achieve high flexibility in commercial authority and for the pooling of our participation activities, a management and profit and loss transfer agreement was entered into by GILDEMEISTER Aktiengesellschaft and GILDEMEISTER Beteiligungen AG, Bielefeld, on 16 March 2004. The agreement is subject to approval by the company in General Meeting on 14 May 2004. In the course of the strategic restructuring of the factories' product and production specific responsibilities, adjustments in organisation and administration are planned.

We will continue to face up to the extreme competition for good junior staff. In addition, we will build up potential skilled and executive personnel from our own ranks with the specific vocational and further training of our **employees**. We already give young people an opportunity to prove 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 the year 2004 we will enhance the "Corporate Services" segment in the Finances/Controlling area. In the "Machine Tools" and "Services" segments, GILDEMEISTER will adjust to market conditions, as required.

The aims and focal points of GILDEMEISTER's activities in **Research and Development** will not change significantly from the preceding years. The integration of the machining technologies (such as turning and milling) will be continued as will the increases in machine precision and dynamics. The ever increasing importance of software products is reflected in the expansion of Research and Development in the "Services" segment. In this respect GILDEMEISTER will, in 2004, continue its systematic and close collaboration with the suppliers of systems and research organisations in the fundamental research, applied research and experimental development areas.

Our strategic objectives remain the guiding principle our expenses and the number of staff in Research and Development follow. We will develop the skills of our employees in this area via co-ordinated training activities, thereby safe-guarding the basis for the further development of our technological leadership.

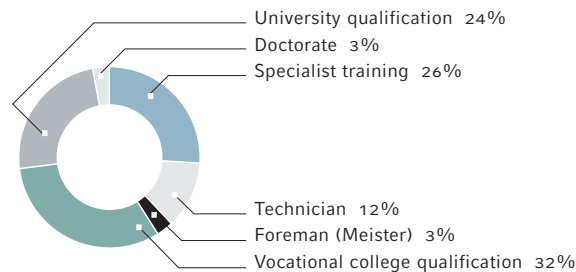
Research and Development

GILDEMEISTER gears all business processes to market requirements and customer satisfaction. Our products reflect this approach in their strict bias toward innovation. In the reporting year GILDEMEISTER developed 10 new products, which were presented at international trade fairs and exhibitions, such as the EMO in Milan. Over 90% of the current delivery programme consists of machines that were developed during the last three years.

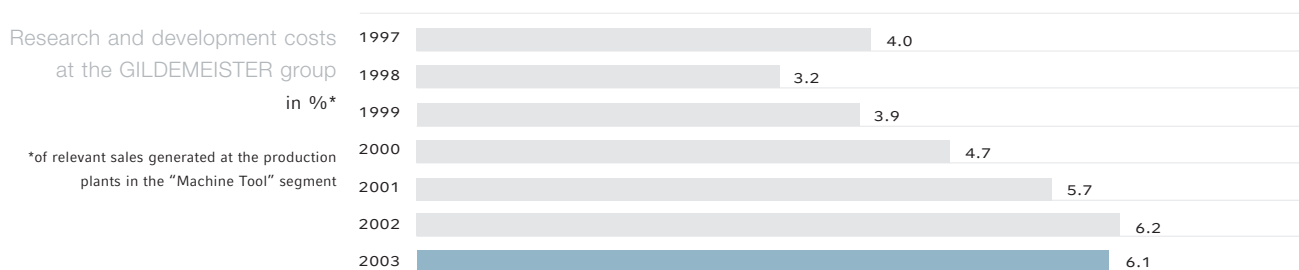
In the financial year 2003, spending on, and investments in, Research and Development decreased by € 4.4 million to € 43.1 million. Our high number of construction engineers was maintained at 397; representing 13% of the workforce at the production plants. This continued commitment safeguards our innovative know-how. Savings were achieved through a reduction in outside services, such as development services by external engineering departments.

Long-term, high-priority focal points of our future research and development policy include the integration of technologies, the ultrasonic and laser machining of “advanced materials”, the increase in machine dynamics, tool management and software products. 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 and, at the same time, precise linear drives and dynamic kinematics. The consistent expansion of the range of applications for the machining of modern, hard-brittle materials through the further development of ultrasonic machining safeguards our unique position in this area. GILDEMEISTER optimises customer benefit with respect to its machines by using open controls, the high-performance of which increases the productivity of the entire machine tool system. In addition, the combination of applications from the DMG Powertools product family, such as DMG-Netservice, the MF-Programmer 3D or the DMG-Service Agent, increases our systems' total utility.

Qualification structure in the development/construction area as demonstrated by the Seebach site



Since May 2003, the co-ordination across all sites of interdisciplinary development teams has been carried out by the development co-ordinator. Along with the regular monitoring and controlling of the development projects in view of the achievement of objects with respect to contents, constructiveness, organisation and finances, the responsibilities of the development co-ordinator also include group-wide product development discussions (PEG) and the standardisation committee. He is also responsible for the GILDEMEISTER-internal, groupware-based system for the support of the series start-up management and “preventative quality assurance”. This system makes the co-operation over all sites and departments (“Simultaneous Engineering”) considerably easier.



In the production development discussions the factories discuss and agree with each other and with the best sales pros, on matters such as product characteristics, market potential and requirements or the implementation of new technological trends. Our innovative power is evident in the 15 patents and four utility models that were registered in Europe, the USA and Japan in the reporting period.

GILDEMEISTER Drehmaschinen GmbH represents an example of the group's bias toward research and innovation. The company currently participates in several research projects supported by the German Federal Ministry of Education and Research. In collaboration with university institutes, such as the Institute for Machine Tool and Management Studies in Karlsruhe or the IFW at Hanover University and with control manufacturers and users, the site researches in the high-precision machine tools area and virtual product creation. Another project is aimed at the capture of, and improvement in, the life cycle of machine tools with respect to costs and quality.

In the **"Turning" division** GILDEMEISTER Drehmaschinen GmbH expanded its range of products with two new machine types and innovative options. The expenses pertaining to developments amounted to € 7.4 million and are therefore 30% below the level of the preceding year (2002: € 10.7 million). The completion of the main development work with respect to the GMX line, and rationalisation measures with the aid of the interdisciplinary co-ordination across all sites, resulted in an improved development quality, increased development speeds and a decrease in costs.

The CTX 410, which was developed in close collaboration with GRAZIANO Tortona S.p.A. and introduced in Milan, completes the range of products with its attractive cost-performance ratio and strengthens the group's market position in the universal CNC turning area. Along with the expansion of options for the linking and integration in automated processes, particularly in respect of the two-spindle turning centres of the TWIN line and the vertical turning machines of the CTV line, the expansion of the GMX

line for turning-milling centres constituted the centre of activities. Thanks to its adoption of the innovative DECKEL MAHO milling spindle technology, this successful range of machines for the integrated machining of complex components sets new standards in respect of machine dynamics and cutting performance. It was completed by the GMX 200, which was introduced at the EMO in Milan.

In the reporting period GILDEMEISTER Italiana S.p.A. worked hard on the further expansion of the automatic lathes of the SPRINT line. The SPRINT 20 linear and SPRINT 32 linear that were introduced last year will be complemented by two other types over the year 2004. The SPEED line of highly dynamic and high-precision CNC Swisstype automatic lathes with linear drives will also be expanded. Related projects were intensely pursued in 2003.

In line with the product programme reorientation process started in 2001, GRAZIANO Tortona S.p.A. rigorously pursued the further development of the two CTX lines of CNC universal machines. The most important exhibit from GRAZIANO was introduced at the EMO in Milan: the CTX 510, the largest machine of the CTX 10 line co-ordinated by this company. A comprehensive "identical parts" strategy was thereby implemented, which maintains the speed of response of the decentralised group structure at the same time. As with the smaller sister models, we offer our new products with CNC controls from the three major manufacturers, in order to enhance the GILDEMEISTER group's superiority in the control-supported product and service area.

FAMOT Pleszew S.A., as centre of expertise in the production of trunk machines, is making an important contribution to the optimisation of our value added. The company made the focus of its development work the production of new trunk machine types for sister plants within the group. The work on three further trunk machines of the DMU and CTX lines progressed according to plan and will end with the production run-up during 2004. FAMOT also continued the development of the smallest model in the CTX 10 line; this will be introduced in 2004.

In 2003 the GILDEMEISTER group introduced four new machines in the "Milling" division. At the same time, numerous development projects were pursued, which will be presented in 2004 and 2005. DECKEL MAHO Pfronten GmbH expanded all its product lines with new developments or new options in the reporting period, thereby safe-guarding its superiority in the steadily growing market for 5-axis/5-sided machining. At the EMO in Milan, the company introduced a particularly dynamic machine from the successful DMU line; it complements the range of products for mould making. At the same time, it introduced a compact manufacturing cell for 5-axis/5-sided machining with a very good price-performance ratio. Following the presentation of the optional head

spindle, the DMC 60 S now allows for highly productive integrated “off the peg” machining of complex workpieces. The company also introduced the new DMU/DMC 100 at the EMO. This machine in the patent-applied-for “duoBLOCK®” construction complements the operative range of the successful DMU P- and DMC U lines in the medium dimension segment and represents a jump in development with respect to productivity, dynamics and precision.

Traditionally, development work at DECKEL MAHO Geretsried GmbH area focuses on the market segments for entry, mould making and production machines. The site’s major innovation was the DMC 75 V linear, which was presented in Milan. This machine is the trendsetter for a vertical machining centre line for tool manufacture and mould making. It has its linear drives in all rotational axes ensuring high-precision machining with highest dynamics. With respect to horizontal machining centres for serial production the company is about to introduce a new line of products that has been developed in close collaboration with DECKEL MAHO Pfronten. Parallel to the development of the CTX line, the modular organisation principle and “identical parts” strategy are rigorously implemented across both sites.

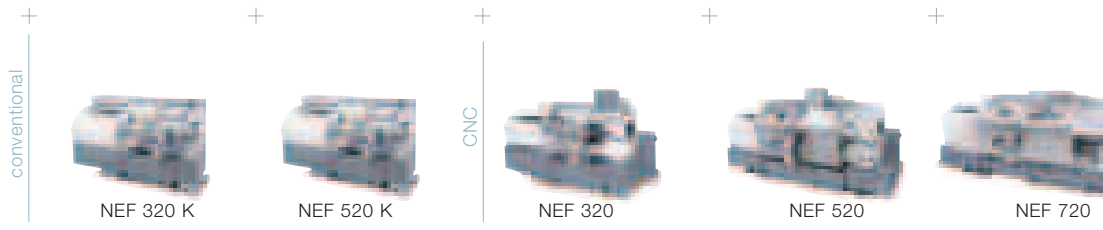
The focal point of Research and Development at DECKEL MAHO Seebach GmbH was the expansion of the DMP V line of high-precision, highly-productive vertical production milling machines with erosion-resistant linear drives and unusually short chip-to-chip tool changing times. In 2003, following the production start-up of the DMP 60 V linear, the company introduced the broadly expanded robot variant. For example, this version allows for the linking of machines to automated manufacturing cells, thereby expanding the field of application in line with market trends. In addition, the DMP V line was expanded with a smaller type at the EMO in Milan. The development project for the expansion of the DMF traversing column machine line with linear X-axes was continued with smaller types; the new machines will be introduced at the METAV in June 2004.

In the GILDEMEISTER group's **"Ultrasonic/Lasertec" division** the development projects were continued as planned. SAUER GmbH is developing a machine for the machining of smaller workpieces. This project will be completed with the presentation at the ABM in Stuttgart in September 2004. Thanks to the ultrasonic technology which is unique in the machine tool building industry, the project safe-guards our head start in the growth market for ultrasound-supported machining of hard-brittle materials (so-called "advanced materials") such as ceramics (zirconium oxide), glass (Zerodur, Macor), silicon, composites (carbon fibre), metal carbide, sapphire or ruby. In addition, our specialists support our customers by expanding the technological database with machining parameters for the various materials used.

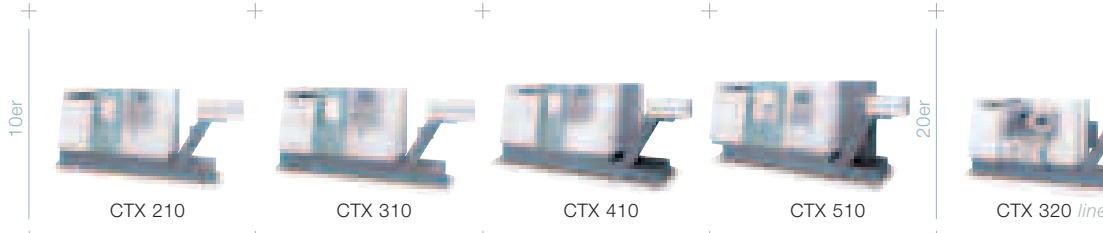
In laser machining, we secure our world-wide competitive edge in the production of filigree, high-precision parts with the aid of in-depth development activities in the technological areas of 3D laser, FineCutting, PowerDrill and the combined HSC laser machining. Based on a modular and therefore flexible machine concept, the DML 80 Powerdrill was introduced in the reporting period. Due to the linking of different laser systems for example, this machine allows for the individual adjustment to a variety of customer needs GILDEMEISTER will continue to safe-guard its technological lead with innovative, user-orientated developments and increase customer satisfaction with contemporary service products and offers.

Turning: With 8 product lines, GILDEMEISTER offers the demanding user a production programme for turning machines, the diversity of which is unique in the world. There are appropriate solutions for every requirement: from universal and vertical turning machines to two-spindle turning centres and multi-spindle automatic turning machines through to turning and milling centres for complex integrated machining using just one setting. Turning machines by GILDEMEISTER can be relied on thanks to their trend-setting functions, such as state-of-the art linear technology, which contributes to an increased productivity for our customers.

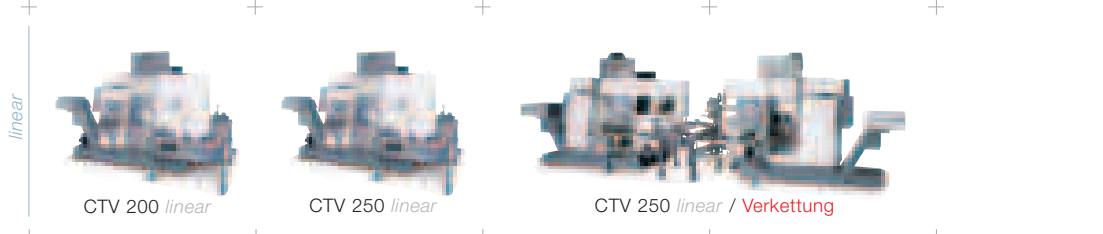
01
NEF
Universal turning machines



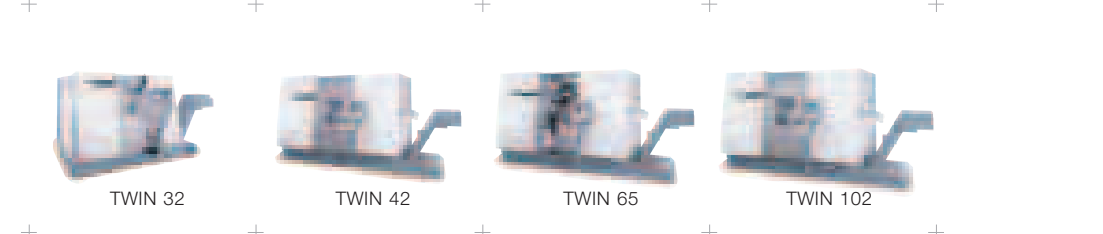
02
CTX
cnc Universal turning machines



03
CTV
Vertical turning machines



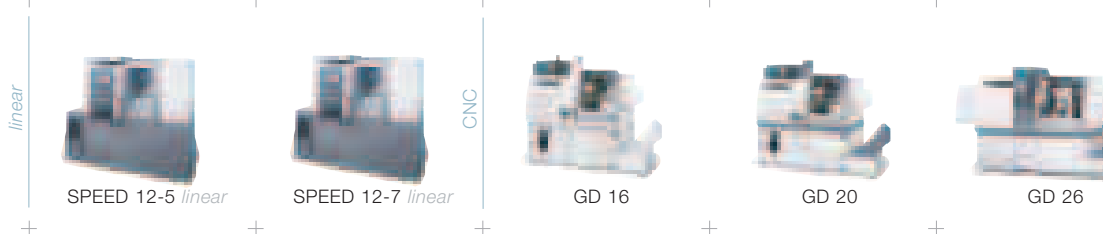
04
TWIN
Twin Spindle Turning Centres



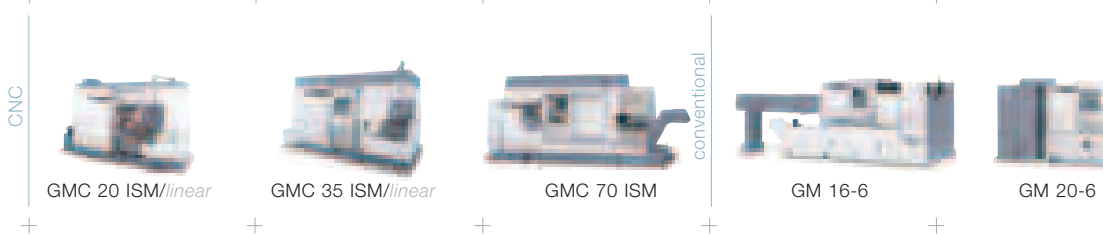
05
SPRINT
cnc Bar Automatics



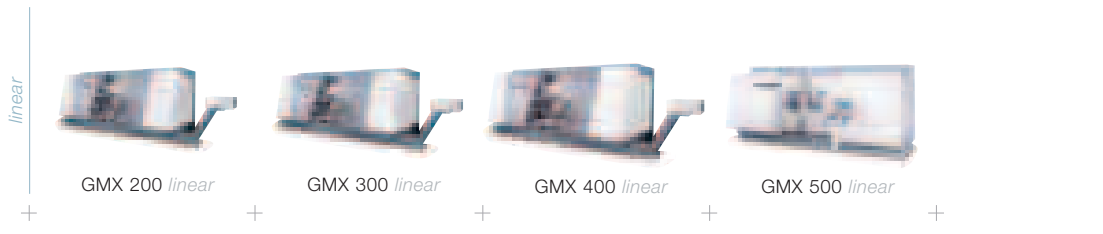
06
SPEED / GD
cnc Swisstype Automatic Lathes



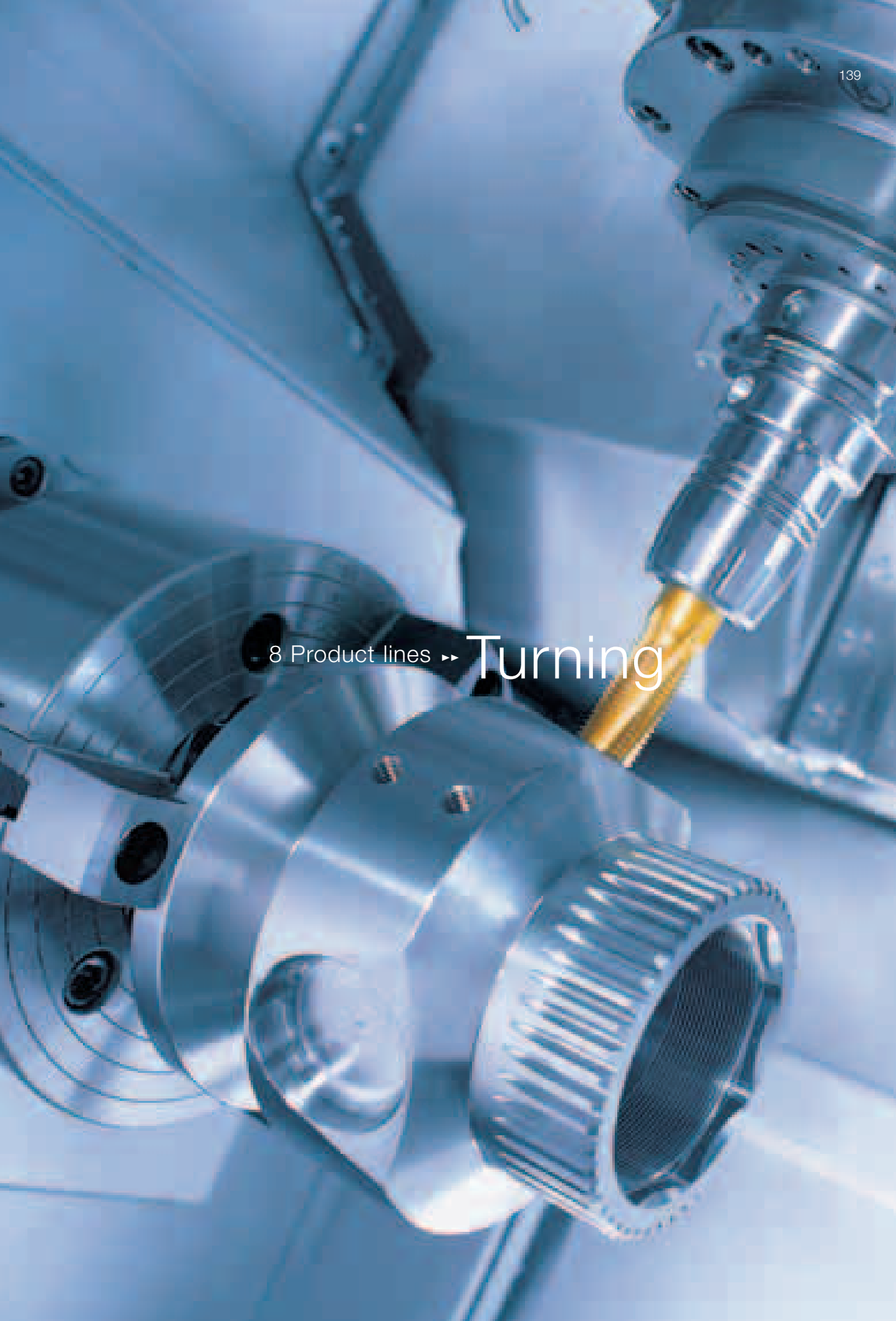
07
GMC / GM
cnc Multi Spindle Turning Centres / Multi-Spindle Automatics



08
GMX
Turning Milling Centres

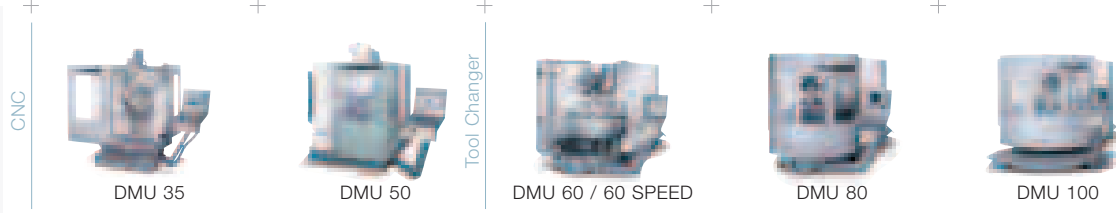


8 Product lines ▶ Turning

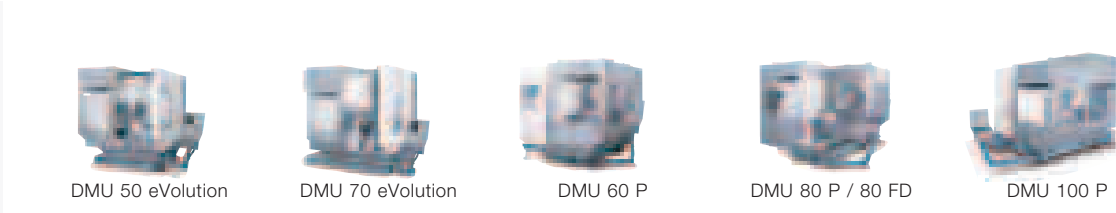


Milling: User-orientated technology, purposeful innovations and trend-setting production strategies – not only within the GILDERMEISTER group does the name of DECKEL MAHO stand for milling technology at its best. Our 7 milling product lines also set global standards when compared internationally. CNC universal milling machines, CNC machining centres for 5-axis machining, vertical and horizontal machining centres, traversing column machines and milling and turning centres - the high-tech solutions provided by DECKEL MAHO open new milling horizons for each machining transaction.

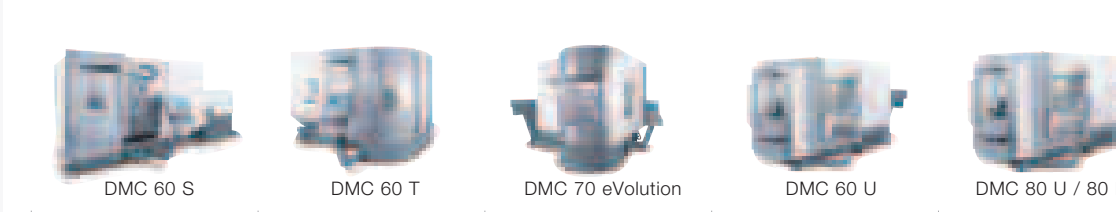
01
DMU
cnc Universal Milling Machines



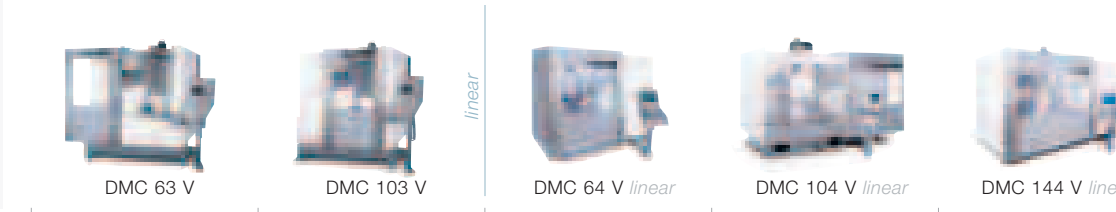
02
DMU P/
DMU eVolution
cnc Universal Milling Machines
for 5-sided/5-axes Machining



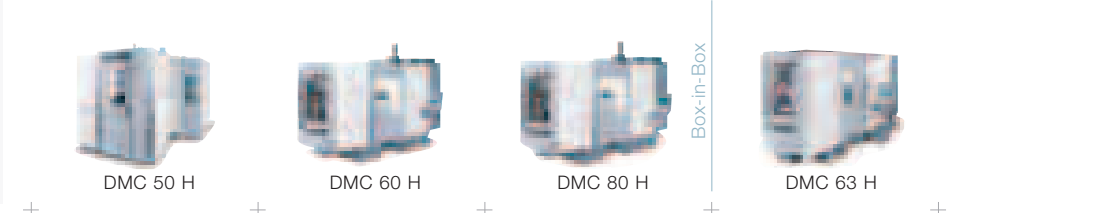
03
DMC U/
DMC eVolution
cnc Machining Centres
for 5-sided/5-axes Machining



04
DMC V
Vertical Machining Centres



05
DMC H
Horizontal Machining Centres

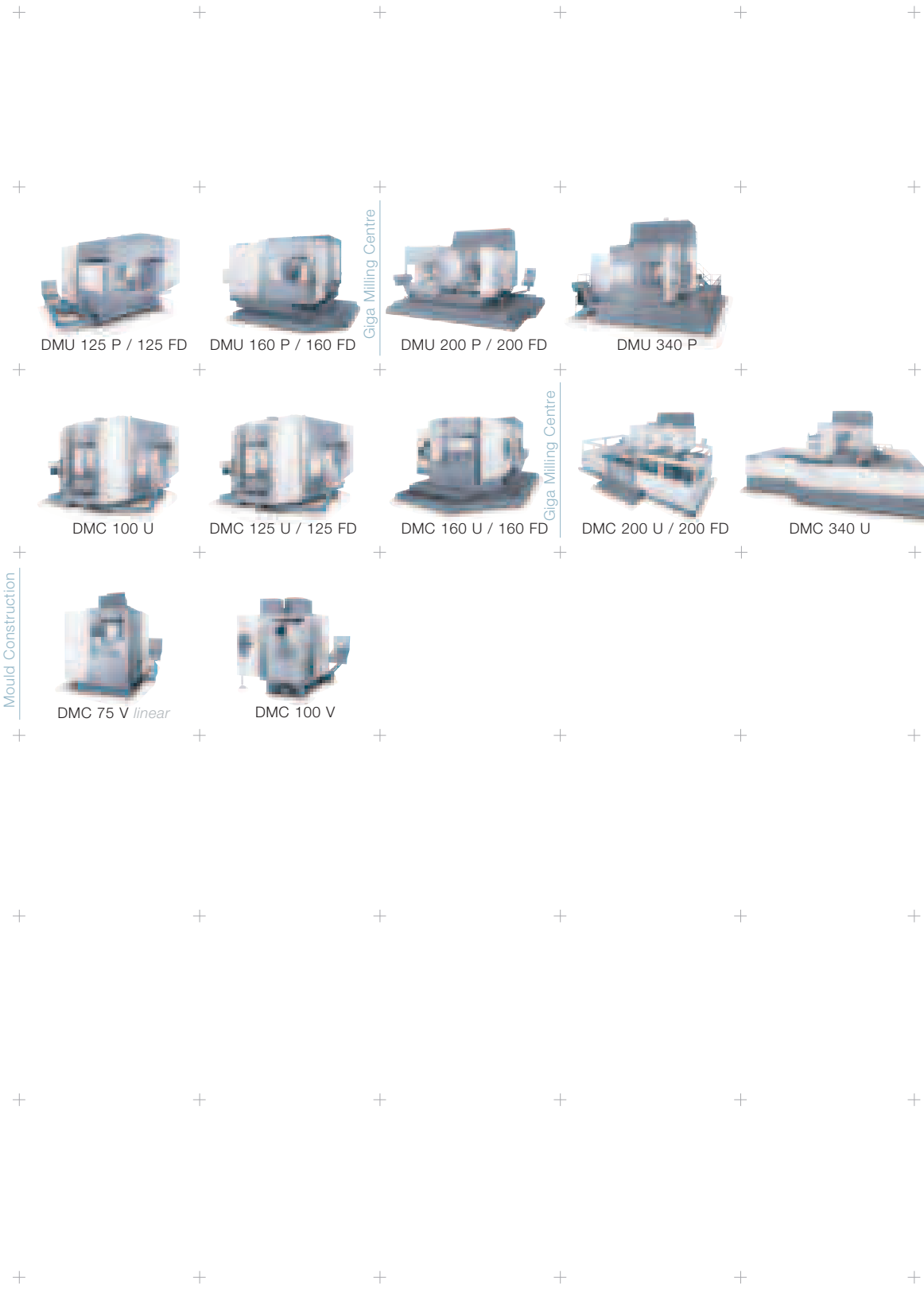


06
DMF
Travelling Column Machines



07
DMP V
Vertical Production Milling





7 Product lines ▶ Milling



Ultrasonic/Lasertec: The new ultrasonic and lasertec technologies offer completely new opportunities in the high-precision machining of “advanced materials” and finest cavities.

Ultrasonic: Thanks to this technology GILDEMEISTER has taken the lead even at international level. The DMS ultrasonic line enables ultrasound-supported machining of “advanced materials”. Compared with traditional machining processes, this innovative machine design results in a productivity that is up to five times higher, with higher precision, better surface quality, and, with regard to the processed work-piece geometries, a substantially higher flexibility.

Lasertec: The future belongs to laser technology – world-wide. Even today, the range of products of our LASERTEC GmbH includes machines for three-dimensional laser machining, laser fine cutting and laser boring or which combine high-speed milling and laser machining.

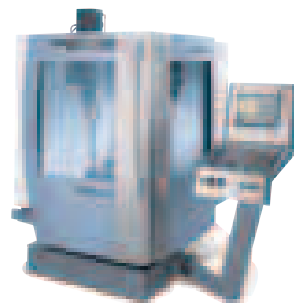
01

Ultrasonic

3 axes



DMS 35 ultrasonic



DMS 50 ultrasonic

5 axes



DMS 70 ultrasonic

02

Lasertec

3D Lasering



DML 40 SI

HSC / Lasering



DML 60 HSC

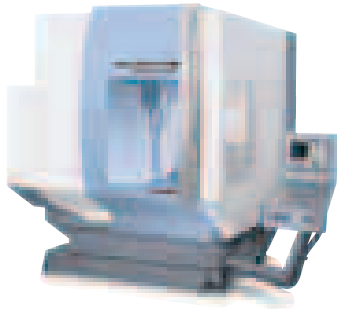
FineCutting



DML 80 HSC

+

+

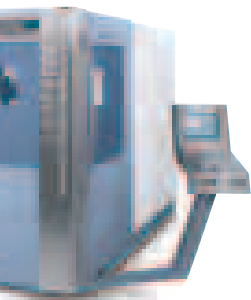


DMS 50-5 ultrasonic

DMS 70-5 ultrasonic

+

+



DML 80 FineCutting



DML 80 PowerDrill

PowerDrill

+

+

Product lines ▶ Ultrasonic / Lasertec



Preliminary Note

In its Annual Report 2003, GILDEMEISTER publishes the group's figures in accordance with IFRS. Since GILDEMEISTER Aktiengesellschaft is still obliged to prepare its Annual Financial Statements pursuant to the German Commercial Code (HGB), the Annual Report and the Financial Statements of GILDEMEISTER Aktiengesellschaft cannot be combined with the Group Annual Report and the Notes to the Annual Consolidated Financial Statements.

The Annual Financial Statements set out below represent only the figures for the GILDEMEISTER group. For the individual accounts of GILDEMEISTER Aktiengesellschaft pursuant to HGB, please refer to the Annual Financial Statements and the Annual Report, which are available as a separate document.

1 Application of
Regulations

The Consolidated Financial Statement of GILDEMEISTER Aktiengesellschaft for the year ended 31 December 2003 were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, Great Britain, applicable on the reporting date. All International Accounting Standards (IAS) and interpretations by the International Financial Reporting Interpretations Committee/Standing Interpretations Committee (IFRIC/SIC) required for the accounting period 2003 were applied. The aim of this presentation on the basis of internationally accepted accounting principles is our group's improved international comparability and increased transparency for an external audience.

The conditions for an exemption of GILDEMEISTER Aktiengesellschaft from the requirement to prepare Consolidated Financial Statements according to German accounting principles are met pursuant to Section 292 a German Commercial Code (HGB). The Consolidated Financial Statements and Group Annual Report that will be lodged at the Commercial Register and published in the Bundesanzeiger (Federal Official Gazette) are in accordance with the group accounting standard laid down by the European Union (83/349/EWG). This standard was interpreted pursuant to the interpretation of the German Accounting Standard No. 1 (DRS 1) "Befreiender Konzernabschluss nach § 292 a HGB" of the Deutsche Rechnungslegungs Standards Committee e.V. (DRSC). For the exemption from the requirement of providing Consolidated Financial Statements in accordance with German law the Consolidated Financial Statements were amended by further notes pursuant to Section 292 a German Commercial Code (HGB).

The following notes include statements and comments that, pursuant to IFRS, must be included as Notes to the Consolidated Financial Statements along with the Balance Sheet, the Income Statement, the Statement of Shareholders' Equity and the Cash Flow Statement. For a better and clearer representation we have summarised individual items in the Balance Sheet and the Income Statement; these are shown separately in the Notes with further explanatory notes.

The group currency is Euro. All amounts are shown in thousand Euro (€ K).

The Consolidated Financial Statements and the Group Annual Report of GILDEMEISTER Aktiengesellschaft are lodged at the Commercial Register of Bielefeld District Court (HRB 7144).

2 Consolidated group

Number of fully consolidated companies	31 Dec. 2003	31 Dec. 2002
Domestic	26	27
International	34	32
Total	60	59

At the reporting date the GILDEMEISTER group comprised of 61 companies (previous year 60), including GILDEMEISTER Aktiengesellschaft, 60 of which (previous year: 59) were included in the Consolidated Financial Statements as part of the full consolidation process. GILDEMEISTER Aktiengesellschaft has the direct or indirect majority of voting rights in, or has a dominant influence over, the fully consolidated companies. This includes three leased companies ("Special Purpose Entities"). DMG Charlotte Inc., Charlotte, USA, the fully owned subsidiary of DMG America Inc., Charlotte, USA, did not have an operative business in the accounting period and is not included in the consolidated group due to its minor impact on the group's net worth, financial and profit situation.

Due to the first-time inclusion of the following companies, the consolidated group has changed since the accounting period 2002:

- _DMG Europe Holding GmbH, Klaus, Austria,
- and
- _DMG Australia Pty. Ltd., Clayton Victoria, Australia.

Whilst 100% of the shares in DMG Europe Holding GmbH were acquired, DMG Australia Pty. Ltd. was newly formed as a fully owned subsidiary of DMG Asia Pacific Pte. Ltd. Both companies were fully consolidated for the first time in December.

DMG Australia Pty. Ltd. will not begin its operative business before the accounting period 2004.

Following the accrual of its shares to the general partner SAUER GmbH, SAUER KG was dissolved in the accounting period 2003 and is therefore no longer included in the consolidated group.

In the past accounting period GILDEMEISTER Aktiengesellschaft acquired 100% of the shares in GILDEMEISTER Italiana S.p.A. from the Holding Macchine Utensili S.p.A.

DMG Gebrauchtmachines GmbH took over 100% of the shares in GILDEMEISTER Italiana s.r.o. from GILDEMEISTER Italiana S.p.A.

Other changes within the consolidated group that occurred during the reporting year included the selling of shares in DMG Bielefeld Vertriebs und Service GmbH, DMG Frankfurt am Main Vertriebs und Service GmbH, DMG München Vertriebs und Service GmbH für Werkzeugmaschinen, DMG Berlin Vertriebs und Service GmbH and DMG Hilden Vertriebs und Service GmbH by DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER to DMG Stuttgart Vertriebs und Service GmbH.

DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER contributed its international subsidiaries to DMG Nederland B.V., with the exception of the DMG sales companies in Canada, Mexico, China, India, Korea and Taiwan, The share in DMG Büll & Strunz GmbH was contributed to DMG Europe Holding GmbH.

The consolidated group has therefore not changed significantly since the previous year so that the comparability with the Consolidated Financial Statements of the previous year is not affected.

There were no disposals or close-downs of plants or operating units in the past accounting period.

No prorata consolidation or inclusion under the equity method was required either in the accounting period or in the previous year.

An overview of all affiliated companies is included at the end of the Notes on pages 184 to 185.

3 Consolidation principles

The consolidation of capital in all affiliated companies is carried out through the acquisition method (IAS 27 “Consolidated Financial Statements and Accounting for Investments in Subsidiaries” or IAS 22 “Business Combinations”). With this method, the initial costs of the investments are set off against the group share in equity of the consolidated subsidiaries at the acquisition date, which normally corresponds to the date of the initial inclusion. Any remaining balance is allocated to the assets and liabilities insofar as their current market value differs from the carrying amount. Any remaining asset-side difference is shown as goodwill and will be written off and recognised as income over a period of up to 15 years.

Any shares in the equity of the subsidiaries that the parent company is not entitled to are shown as “shares held by other shareholders”.

Any reciprocal receivables and payables between the companies included in the Financial Statement were set off against each other. Intercompany profits from intra-group supplies were eliminated; deferred tax charges and deferred tax refunds from consolidation transactions recognised in the Income Statement were included. Intra-group sales revenues are, as is any intragroup income, set off against the relating expenses without being recognised in the Income Statement.

The applied consolidation methods remained unchanged with respect to the figures for the preceding years in comparison with the figures for the accounting period 2003.

4 Accounting and Valuation Principles

All Annual Financial Statements of those companies that were included in the Consolidated Financial Statements were prepared at the reporting date of the Consolidated Financial Statements and in accordance with uniform accounting and valuation principles pursuant to IAS 27 “Consolidated Financial Statements and Accounting for Investments in Subsidiaries”.

For this purpose, those accounts that were prepared in accordance with local regulations were adjusted to the group-standardised accounting and valuation principles of GILDEMEISTER Aktiengesellschaft to the extent that they do not comply with IFRS and the deviations in the valuation are material.

The accounting and valuation principles remained unchanged with respect to the figures for the preceding years in comparison with the figures for the accounting period.

The drawing up of the Consolidated Financial Statements in accordance with IFRS requires that assumptions are made and estimates are used that will affect the amount and the Statement of the Assets and Liabilities, income and expenses and contingent liabilities shown in the balance sheet. These assumptions and estimates relate primarily to the definition of useful economic life, to the accounting and valuation of reserves and to the feasibility of future tax reliefs. In individual cases, the actual values may differ from the assumptions and estimates made. Pursuant to IAS 8 “Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies”, changes will be taken into account at the time of their discovery and recognised in the Income Statement.

Intangible assets and tangible assets

Useful economic life of assets

Software and other intangible assets	3 to 4 years
Development costs	3 to 5 years
Goodwill	10 to 15 years
Office and factory buildings	10 to 50 years
Plant and machinery	6 to 20 years
Office and plant equipment	2 to 20 years

Acquired and internally generated intangible assets were capitalised pursuant to IAS 38 “Intangible Assets”, if it is probable that the use of the asset will result in an economic benefit and the costs of the asset can be reliably determined. They were shown at acquisition or production costs, reduced by scheduled linear depreciation resulting from use.

Development costs of machine tool projects and service products were capitalised at their final manufacturing costs, as far as the definite charging to expense requirement pursuant to IAS 38 “Intangible Assets” was possible, the technical feasibility and marketing established and the anticipated generation of future economic benefit demonstrated. The final manufacturing costs include those costs that can be directly and indirectly ascribed to the development phase. Capitalised development costs are written off by regular depreciation from the start of production over the expected product life cycle. Research costs are shown as expense in the period when they were incurred.

Pursuant to IAS 22 “Business Combinations”, goodwill arising from initial consolidation was capitalised and reduced in value by regular depreciation over its expected useful economic life.

Intangible assets and tangible assets were measured at their procurement or production costs, reduced by regular depreciation through use. Depreciation was normally carried out by the straight-line method in accordance with the useful life. Low value items were fully written off in the year of their addition. A revaluation of tangible fixed assets pursuant to IAS 16 “Property, Plant and Equipment” was not carried out. There was no property held as financial investment pursuant to IAS 40 “Investment Property”.

The production costs of assets produced by the company itself include those that can be directly ascribed to the production process, and necessary elements of production-related overheads. This includes production-related depreciation, pro-rated administration costs and pro-rated costs arising in relation to social contributions.

Pursuant to IAS 23 “Borrowing Costs” are not treated as part of initial or final manufacturing costs. Costs of repair are immediately charged to expenses.

Leases, including plant and equipment leased by way of sale-and-lease-back arrangements, were recognised as finance leases, if all the risks and rewards incident

to ownership are substantially transferred to the lessee. Leasing agreements for leased plant and equipment that meet the criteria of a finance lease pursuant to IAS 17 "Leases", were capitalised at the lessee's at their procurement costs or at the lower cash value of the minimum lease payments. Depreciation is carried out by scheduled linear depreciation corresponding to the economic life at most to the contract period. The relating financial obligations arising from future lease payments were carried as liability under other liabilities.

With respect to intangible assets (including capitalised development costs and goodwill) and tangible fixed assets, the impairment of the carrying amount is regularly reviewed pursuant to IAS 36 "Impairment of Assets". In so far as the asset's recoverable amount is below its carrying amount, non-scheduled depreciation will apply. The recoverable amount is the higher of an asset's net selling price and value in use. If the reasons for non-scheduled depreciation no longer apply, a reversal of depreciation will be carried out with respect to the procurement or production costs depreciated by regular depreciation.

Financial assets

Financial assets were shown in the balance sheet at their initial costs. In the reporting year depreciation amounted to € 3 K.

Current assets

Valuation of the inventories was at the lower of the initial or final manufacturing costs or the net selling price. Pursuant to IAS 2 "Inventories" elements of the production costs include, along with production material and manufacturing labour, pro-rated materials and production overheads and pro-rated administrative expenses and expenses arising in relation to social contributions. Pursuant to IAS 23 "Borrowing Costs" are not treated as part of initial or final manufacturing costs. Inventory risks arising from the period of storage and reduced usability were recognised through appropriate reductions in value.

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

There were no production orders not yet processed in accordance with IAS 11 "Construction Contracts" at the balance sheet date.

Receivables and other assets were shown in the balance sheet at their par value or procurement costs. All identifiable risks were taken into account by adjusting their relating accounts accordingly.

Current asset securities are recognised at the lower of their initial cost or fair market value at the balance sheet date.

Liquid funds are assessed at face value.

Deferred taxes

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

Provisions and liabilities

Pension provisions are calculated on the basis of the "Projected Unit Credit Method" pursuant to IAS 19 "Employee Benefits". Under this method, not only those pensions known and pension rights accrued at the balance sheet date are recognised, but also expected future increases in pension payments and salaries by estimating the relevant factors impacting on such payments. Calculation is based on actuarial reports taking into account biometric calculation principles. The amounts not yet shown in the balance sheet emanate from actuarial gains and losses from inventory changes and deviations between assumptions made and actual development. Actuarial profits and losses are only recognised as income or expense if they exceed a ten percent margin of the defined benefit obligation. Distribution is carried out over the participating employees' expected average residual period of service.

Pursuant to IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” other provisions will only be recognised in case of an existing present obligation to third parties, the use of which is probable and if the anticipated amount of the required provision can be reliably estimated. The probability of occurrence must exceed 50%. In each case the most probable amount of performance was recognised. Calculation was at full cost. Provisions with a remaining term of more than one year were discounted according to the usual market conditions.

Liabilities were recognised at their amounts repayable. Liabilities arising from finance leases are shown in other liabilities at the cash value of the future lease payments. Customer payments on account were charged to liabilities.

Derivative financial instruments

The hedging of risk positions from currency and interest rate fluctuations is often carried out through the use of derivative financial instruments such as forward currency transactions and interest rate swaps. The hedging covers risks arising from changes in interest rates from underlying transactions and, in the case of currency risks, also risks from pending supply transactions. For the hedging of currency risks arising from transactions within the GILDEMEISTER group only forward currency transaction are used. Interest hedging tools (swaps) are used to reduce the effect from changes in the interest rate on the cost of finance for a floating rate investment credit. With respect to derivative financial instruments the GILDEMEISTER group is exposed to a credit risk that arises from the non-performance of contractual agreements by the other party. This credit risk is minimised by only entering into transactions with parties of superb financial standing.

Pursuant to IAS 39 “Financial Instruments: Recognition and Measurement” all derivative financial instruments are recognised at their fair market value, regardless of the purpose or intention for which they were entered into.

Forward currency transaction are measured individually at the futures price at the balance sheet date, and any price differences from the agreed futures price will be recognised in the Income Statement.

The changes in market value of the interest rate swap agreements where hedge accounting is applied are shown in equity. Due to the existence of “cash flow hedges” that are used to counterbalance future cash flow risks arising from existing transactions, the unrealised profits and losses corresponding to the amount of the hedged transaction (hedge effective portion) are initially recognised directly in equity. The portion of the change in fair market value, which is not hedged by the underlying transaction (hedge ineffective portion), is recognised directly in the Income Statement. A book transfer to the Income Statement is carried out at the same time when the hedged underlying transaction affects profit or loss.

The conclusion and processing of derivative financial instruments is based on binding internal regulations defining scope, responsibilities, reporting and controlling.

Sales revenues

Pursuant to the criteria laid down in IAS 18 “Revenue”, sales revenues arising from the sale of products are recognised at the time of transfer of the significant risks and rewards, if a price has been agreed or can be determined and it can be assumed that such price will be paid. Sales revenues from services are recognised after the services were rendered.

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.

5 Foreign currency conversion

The currency conversion of all Annual Financial Statements of the international group companies that were prepared in foreign currencies was carried out in accordance with the “functional currency” principle (IAS 21 “The Effects of Changes in Foreign Exchange Rates”). Since all subsidiaries operate their business independently in financial, economic and organisational respects, their respective currencies represent the respective local currency. All assets and liabilities were translated at the average rate of exchange of the balance sheet date, and all revenue and expense at the average annual market price. The translation differences arising from items being translated at different rates in the Balance Sheet and the Income Statement, were recognised directly in equity. The exchange differences arising from the currency translation of the equity capital were also transferred to equity.

In the individual financial statements monetary items (cash, accounts receivable and liabilities) in a foreign currency were measured at the exchange rate on the reporting date. Non-monetary items in foreign currencies are stated at the historical

values. The differences arising from the currency translation of monetary items were shown in the Income Statement.

Goodwill resulting from the acquisition of international companies was translated at the exchange rates at the time of the transactions.

Accounting in accordance with the regulations contained in IAS 29 “Financial Reporting in Hyper-inflationary Economies” was not required, since the GILDEMEISTER group has no significant subsidiaries with registered offices in a hyper-inflationary economy.

The exchange rates of the major currencies developed as follows:

Currencies	ISO code	Current price / reporting date = 1 €		Average market price = 1 €	
		31 Dec. 2003	31 Dec. 2002	31 Dec. 2003	31 Dec. 2002
British Pound	GBP	0.70700	0.65020	0.68991	0.62786
Swiss Franc	CHF	1.55900	1.45250	1.51762	1.46711
Polish Zloty	PLN	4.72550	4.00720	4.42218	3.85461
Czech Koruna	CZK	32.55000	31.42000	31.92462	30.85308
us-Dollar	USD	1.26100	1.04150	1.13420	0.94532
Canadian Dollar	CAD	1.62900	1.63850	1.59053	1.48353
Mexican Pesos	MXN	14.15000	10.74000	12.23538	9.17769
Brazilian Real	BRL	3.64390	3.71120	3.49605	2.80832
Japanese Yen	JPY	134.85000	124.19000	131.15846	117.91462
Singapore Dollar	SGD	2.14350	1.80860	1.97509	1.69129
Malaysian Ringgit	MYR	4.77410	3.97540	4.30331	3.59109
Indian Rupee	INR	57.50000	49.95000	52.87385	45.91462
Chinese Renminbi	CNY	10.43610	8.62470	9.40129	7.82555
Taiwan Dollar	NTD	42.62680	36.29610	38.92038	32.64442
Korean Won	KRW	1499.13000	1252.42000	1350.97538	1175.77308
Australian Dollar	AUD	1.67880	1.84970	1.74734	1.74050

6 Material accounting and valuation methods deviating from the German Commercial Code (HGB)

When compared with HGB accounting, valuation and consolidation methods the following material differences arise at the GILDEMEISTER group (Section 292 a para. 2 no. 4 b German Commercial Code (HGB)):

- _ Deviating valuation of stocks (IAS 2 “Inventories”),
- _ Formation of deferred taxes based on the balance-sheet orientated liability method (for so-called temporary differences) and for future economic benefits arising from taxable deferred losses (IAS 12 “Income Taxes”),
- _ Reversal of tax depreciation abroad (IAS 16 “Property, Plant and Equipment”),
- _ Change in the assignment of economic ownership in finance leases (IAS 17 “Leases”),
- _ Valuation of the pension provisions in accordance with the Projected Unit Credit Method (IAS 19 “Employee Benefits”),
- _ Foreign currency translation in accordance with the functional currency principle (IAS 21 “The Effects of Changes in Foreign Exchange Rates”),
- _ Treatment of goodwill at the acquisition of 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”),
- _ Exclusion of formation of expense provisions due to the non-existence of an external obligation and of provisions where the probability of their use is below 50% and valuation of provisions at the most probable value (IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”),
- _ Capitalisation of development costs (IAS 38 “Intangible Assets”) and
- _ Accounting and fair market value valuation of derivative financial instruments (IAS 39 “Financial Instruments: Recognition and Measurement”).

Notes to individual balance sheet items

7 Intangible assets

€ 66,084 K of the goodwill shown relates to the asset-side difference, reduced by depreciation, from the consolidation of investments and € 1,072 K (previous year: € 1,556 K) to goodwill, reduced by depreciation, from the individual financial statements. The decrease in value of goodwill is shown by regular depreciation over ten years, with the exception of the goodwill arising from the acquisition of the share in GILDEMEISTER Italiana of € 54,421 K (previous year: € 58,965 K) the value of which is decreased by regular depreciation over 15 years.

In the accounting period depreciation of goodwill amounted to € 6,727 K.

Capitalised development costs relate to new machine tool projects in the domestic and international production companies and to development costs for service products of the DMG Vertriebs und Service GmbH. Development costs capitalised at the end of the accounting period amount to € 23,847 K (previous year: € 19,711 K). Research and development costs directly charged to expenses amount to € 33.4 million in the accounting period 2003 (previous year: € 37.4 million).

The amount stated for industrial property rights and similar rights includes acquired patents, design patents and trade marks as well as data processing software. Rights and software are amortised by regular depreciation over a useful economic life of three to four years.

Decrease in value of intangible assets was accounted for by non-scheduled depreciation and amounted to € 749 K in the reporting year. No reversals of depreciation were carried out.

Changes in the group's intangible assets are shown in the Consolidated Fixed Asset Movement Schedule. Investments are explained in further detail in the Group Management Report.

8 Tangible assets

Changes in the group's tangible assets are shown in the Consolidated Fixed Asset Movement Schedule. Investments are explained in further detail in the Group Management Report.

The change in currency between the balance sheets dates is shown in the Consolidated Fixed Asset Movement Schedule under "Other changes".

Neither non-scheduled depreciation nor reversals of depreciation were required for tangible fixed assets in the reporting year.

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

The tangible assets include leased assets of € 8,900 K (previous year: € 10,660 K), that must be charged to the respective group company as beneficial owner due to the structuring of the underlying leases ("finance lease").

The carrying amounts of capitalised lease items are divided as follows:

	31 Dec. 2003	31 Dec. 2002
	€ K	€ K
Land and buildings	3,935	4,073
Plant and machinery	3,422	4,789
Other fixed assets, office plant and equipment	1,543	1,798
	8,900	10,660

9 Financial assets

Changes in the group's financial assets are shown in the Consolidated Fixed Asset Movement Schedule. Fair market values correspond to the book values.

In the reporting year depreciation amounted to € 3 K.

An overview of the affiliated companies and information on principal places of business, equity capital, capital shares and results for the accounting period 2003 are set out in a separate summary at the end of the Notes on pages 184 to 185.

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

- _GILDEMEISTER Drehmaschinen GmbH,
- _DECKEL MAHO Seebach GmbH,
- _DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER.

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

- _DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- _DMG Berlin Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- _DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER,
- _DMG Service 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.

The management and profit and loss transfer agreement with DECKEL MAHO Pfronten GmbH was terminated in the past financial year.

The management and profit and loss transfer agreements between DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER and DMG Bielefeld Vertriebs und Service GmbH, DMG Hilden Vertriebs und Service GmbH, DMG München Vertriebs und Service GmbH für Werkzeugmaschinen and DMG Frankfurt am Main Vertriebs und Service GmbH also terminated in 2003.

10 Inventories

Inventories increased by € 13,596 K when compared with the previous year. This is primarily due to the increase in finished goods. Interim profits of € 14,759 K were made in inventories from deliveries and services (previous year: € 15,134 K). Differences compared to the previous year were consolidated and recognised in the Income Statement.

Of the inventories reported as at 31. December 2003, € 50,433 K (previous year: € 55,390 K) was reported at their net disposal value.

Due to changed valuations with respect to the usability of production and spare parts in raw materials and consumables the downward valuation adjustments have decreased by approximately € 7.3 million in comparison with the method used in the previous year.

11 Receivables and other assets

	Balance sheet at 31 Dec. 2003	Not due within one year	Balance sheet at 31 Dec. 2002
	€ K	€ K	€ K
1. Trade receivables	259,618	0	295,265
2. Other assets	34,676	2,155	21,360
	294,294	2,155	316,625
Balance sheet at 31 Dec. 2002		1,642	316,625

Existing individual risks are recognised by direct method of depreciation. In receivables the fair market values correspond with the values shown in the balance sheet. Other assets include the following items:

	As at 31 Dec. 2003	As at 31 Dec. 2002
	€ K	€ K
Tax refund claims	16,790	9,081
Accounts receivable debtors and payments on account	7,406	4,898
Factoring settlement account	2,460	740
Receivables from employees and former employees	1,251	1,110
Security deposits and other security payments	1,152	1,191
Re-insurance for social-security for the employees	955	696
Short-term lending to third parties	642	443
Market value of derivative financial instruments	308	430
Other	3,712	2,771
	34,676	21,360

12 Securities

The current asset securities include securities available-for-sale that are shown at market prices. These are held by GILDEMEISTER Aktiengesellschaft.

13 Cash in hand,
Bundesbank balances
and bank balances

The statement pertains mainly to bank balances.

The movement of liquid funds constituting the financial resources pursuant to IAS 7 "Cash Flow Statements" is shown in the Cash Flow Statement.

14 Deferred taxes

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

	31 Dec. 2003		31 Dec. 2002	
	Assets € K	Liabilities € K	Assets € K	Liabilities € K
Fixed assets	2,652	15,186	3,831	15,936
Current assets	527	1,621	574	1,436
Provisions	3,670	378	3,454	403
Liabilities	6,306	704	8,275	7
Taxable deferred losses	21,661	-	23,785	-
Consolidation	6,041	2,392	5,418	2,667
	40,857	20,281	45,337	20,449
Balancing out	-11,359	-11,359	-12,449	-12,449
Total	29,498	8,922	32,888	8,000

The total deferred taxes shown in the balance sheet of € 29,498 K (previous year: € 32,888 K) include capitalised tax reduction claims of € 21,661 K (previous year: € 23,785 K) arising from the expected future utilisation of existing deferred losses carried forward. The realisation of these deferred losses is guaranteed with sufficient security.

In December 2003 the law implementing the German Government's protocol declaration regarding the mediation committee's proposals to the Tax Concessions Pruning Act (Gesetz zur Umsetzung der Protokollerklärung der Bundesregierung zur Vermittlungsempfehlung zum Steuervergünstigungsabbaugesetz) (so-called Basket II Act) was passed.

Due to these changes, deferred losses in corporations can only be utilised to up to 60% of taxable income.

Only losses of up to € 1 million (the so-called basic sum) can be carried forward indefinitely. The minimum taxation regulation applies to both corporate income and trade deferred losses and has, in principle, been effective since 1 January 2004. With respect to time, tax losses at home can still be carried over indefinitely.

The valuation of deferred taxes is adjusted if sufficient future income cannot be expected when all impacting factors are taken into account. The valuation applied is subject to changes due to future development.

Deferred taxes amounted to € 78,083 K (previous year: € 72,243 K), of which € 15,332 K (previous year: € 8,722 K) were not recognised.

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

Taking into account trade earnings tax and the solidarity surcharge (Solidaritätszuschlag), this results in a tax rate of 39% (previous year: 39%) for domestic companies. Tax rates abroad are between 22% and 42%.

15 Prepaid expenses

The prepaid expenses primarily include interest, rent and leases as well as insurance premiums. The capitalised total of € 4,740 K (previous year: € 3,935 K) is due within one year.

16 Equity

The movement of individual components in group equity for the accounting periods 2003 and 2002 are shown in the Statement of Changes in Equity and in shares held by other shareholders.

Subscribed capital

The share capital of GILDEMEISTER Aktiengesellschaft is € 75,086,510.20 and is divided into 28,879,427 individual share certificates issued to the holders with an accounting par value of € 2.60.

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital by up to € 37,500,000.00 in nominal terms during the period up to 31 March 2006 by issuing new shares for contributions in cash or in kind. This authority can be exercised in tranches. For tranches of at least € 29,000,000.00 the shareholders' statutory subscription right is guaranteed. With respect to a tranche of up to € 7,500,000.00

a) new shares can be issued for contributions in kind;

or

b) new shares can be issued for a cash payment, which at the time of its deposit does not fundamentally fall short of the stock exchange quotation.

In cases a) and b) the shareholders' statutory subscription right is to be excluded by resolution of the Executive Board.

For a further tranche of up to € 1,000,000.00, new shares for contributions in cash can be issued to employees of the company and to employees of subsidiaries and affiliated companies; in this case the shareholders' statutory subscription right is likewise to be excluded by resolution of the Executive Board.

Capital provision

Capital provision includes the share premium and has not changed since the previous year.

Revenue provision

Statutory provision

The statutory provision of € 680,530.00 has not changed compared to the previous year.

Other revenue provisions

Revenue provisions also include prior-period profits generated by the companies included in the Consolidated Financial Statements as far as they were not distributed. Revenue provisions also include the offset of liabilities-side differences from the consolidation of investments of those subsidiaries that were consolidated before 1 January 1995, and the adjustments made directly in equity in accordance with the first application of IFRS rules. Finally, they show the differences arising from foreign currency translation not reported in profit or loss in the financial statements of international subsidiaries and the post-tax effects from the valuation of financial instruments in equity. Deferred taxes recognised directly in equity amount to € 548 K (previous year: € 894 K).

A detailed overview of the composition of, or changes in, other revenue provisions in the accounting period 2003 and in the previous year is included in the Statement of Changes in Equity and in shares held by other shareholders.

Proposed appropriation of earnings

In accordance with the German Companies Act (AktG), the Annual Financial Statements of GILDEMEISTER Aktiengesellschaft form the basis for the appropriation of profits of the accounting period. The dividend payable to shareholders depends from the balance sheet profits shown in the Annual Financial Statements of GILDEMEISTER Aktiengesellschaft.

The accounting period 2003 of GILDEMEISTER Aktiengesellschaft closes with an annual profit of € 4,744,886.20. It will be proposed at the General Meeting of Shareholders on 14 May 2004 to transfer the balance sheet profits of € 9,094,374.70 to other revenue provisions.

17 Shares held by other shareholders

Shares held by other shareholders include external holdings in the consolidated equity capital of the included companies and totalled in the accounting period 2003 to € 1,198 K (previous year: € 1,193 K).

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. According to the respective legal, economic and tax conditions prevailing in each country, there are different forms of pension insurance, which are usually based on the duration of employment and the employees' remuneration.

Employee pension schemes are usually based on either contribution-oriented or performance-oriented benefit systems.

For Defined Contribution Plans, the respective company does not enter into any liabilities other than the payments of contributions to purpose-built funds. In the accounting period 2003, the relating expenses amounted to € 2,208 K (previous year: € 1,380 K).

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

In the GILDEMEISTER group, pension commitments are financed through transfer to provisions. The fund-financed pension commitments are marginal.

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

	2003	Germany 2002	2003	Rest of Europe 2002
	%	%	%	%
Interest rate	5.50	5.75	4.00-6.00	4.50-6.00
Salary trend	0.00	0.00	3.00-6.00	3.00-6.00
Pension trend	1.00	1.20	0.00	1.50

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

Due to increases or reductions in the present value of defined-benefit obligations, actuarial gains or losses may arise, which may result, amongst others, from changes

in the calculation parameters or changes in the risk development assessment relating to the pension commitments. The pension provisions net value can be derived from the following:

	31 Dec. 2003	31 Dec. 2002
	€ K	€ K
Cash value of the provisions-financed pension commitments	32,987	32,663
+ Cash value of the funds-financed pension commitments	714	395
= Cash value of the pension commitments	33,701	33,058
- Market value of planned assets	-1,239	-949
= Cash value of pension commitments (after deducting of the planned assets)	32,462	32,109
- Balance of actuarial profits/loss not yet included in the balance sheet	-4,389	-3,383
= Net value of the balanced amounts on the reporting date	28,073	28,726
of which are pension provisions	28,930	29,328
of which are assets (-)	-857	-602

Of the company pension provisions amounting to € 28,930 K (previous year: € 29,328 K), € 27,982 K (previous year: € 28,514 K) are attributed to German group companies; representing about 97% of the total.

In the accounting period 2003, total expenditure amounted to € 1,905 K (previous year: € 1,766 K), comprising of the following components:

	31 Dec. 2003	31 Dec. 2002
	€ K	€ K
Current expenditure for service	136	104
+ Interest expenditure	1,790	1,725
- Expected asset income of the fund	-53	-64
+ Actuarial profits (-) and losses (+)	32	1
= Total expenditure of payment-oriented pension plans	1,905	1,766

	31 Dec. 2003	31 Dec. 2002
	€ K	€ K
Balance sheet value as at 1 January	28,726	29,870
+ Personnel costs	1,905	1,766
- Pension payments made on allocation to funds	-2,558	-2,911
+ Asset transfers	0	1
= Balance sheet value as at 31 December	28,073	28,726
of which pension provisions	28,930	29,328
of which assets (-)	-857	-602

In Germany, pension-like obligations include provisions for future contributions to the Pension Security Association (Pensionsversicherungsverein) that were also determined by actuarial methods.

19 Tax provisions and other provisions

The following lists the major contents of provisions:

	As at 31 Dec. 2003		As at 31 Dec. 2002	
	Total	due within 1 year	Total	due within 1 year
	€ K	€ K	€ K	€ K
Tax provisions for deferred taxes	13,004	13,004	19,324	19,324
Personnel costs	40,986	20,151	38,169	20,852
Risks from warranties and retrofittings	25,933	25,933	31,280	31,280
Obligations arising from sales	9,949	9,949	11,992	11,761
Invoices not yet received	5,259	5,259	7,933	7,933
Legal and consultancy fees and costs of preparation of accounts	3,283	3,283	4,130	4,130
Anticipated losses related to incomplete contracts	1,209	1,209	920	920
Other	5,405	5,405	5,310	5,310
	92,024	71,189	99,734	82,186
Total	105,028	84,193	119,058	101,510

The tax provisions include taxes on profit and other company taxes that were set up for prior accounting periods and for the accounting period 2003.

Tax provisions of € 4,530 K were set up for tax arrears arising from a tax investigation relating to the accounting periods 1999 to 2001.

The provisions for personnel costs in the group include € 10,117 K for part-time retirement (previous year: € 7,920 K) and € 3,622 K for anniversary bonuses (previous year: € 3,299 K). The provisions for anniversary bonuses and part-time retirement will be discounted and carried as liability at their present value.

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

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

	As at 01 Jan. 2003	Transfers	Used	Retransfers	Other changes	As at 31 Dec. 2002
	€ K	€ K	€ K	€ K	€ K	€ K
Tax provisions	19,324	10,699	15,968	908	-143	13,004
Personnel costs	38,169	25,365	20,871	1,509	-168	40,986
Risks from warranties and retrofittings	31,280	8,028	12,830	500	-45	25,933
Obligations arising from sales	11,992	8,676	8,868	1,605	-246	9,949
Invoices not yet received	7,933	5,225	7,716	204	21	5,259
Legal and consultancy fees and costs of preparation of accounts	4,130	3,115	3,549	378	-35	3,283
Anticipated losses related to incomplete contracts	920	726	352	85		1,209
Other	5,310	3,112	2,394	483	-140	5,405
	99,734	54,247	56,580	4,764	-613	92,024
Total	119,058	64,946	72,548	5,672	-756	105,028

The other changes include changes in the consolidated group, foreign currency adjustments and book transfers.

20 Liabilities

	Balance sheet at 31 Dec. 2003	of which due within 1 year	of which due within 1-5 years	of which due after 5 years	Balance sheet at 31 Dec. 2002
	€ K	€ K	€ K	€ K	€ K
1. Bank loans and overdrafts ¹⁾	322,216	227,062	76,381	18,773	324,223
2. Payments received on account	21,243	21,243	0	0	30,461
3. Trade creditors	125,099	124,107	992	0	131,296
4. Bills of exchange payable	31,360	31,360	0	0	13,149
5. Other payables ^{2), 3)}	35,379	29,678	4,400	1,301	38,141
	535,297	433,450	81,773	20,074	537,270
Outstanding in each maturity period at 31 Dec. 2002		409,289	108,578	19,403	537,270

1) of which secured by mortgage: € 53,767 K (previous year: € 53,255 K)

2) of which from taxes: € 10,392 K (previous year: € 10,729 K), of which social security contributions: € 6,754 K (previous year: € 6,421 K)

3) of which fair market values of derivative financial instruments: € 1,406 K (previous year: € 2,292 K)

Set out below are major bank loans and overdrafts

	31 Dec. 2003				31 Dec. 2002			
	Currency	Carrying amount	Rem. term in years	Effective interest rate	Currency	Carrying amount	Rem. term in years	Effective interest rate
		€ K		%		€ K		%
Loans	EUR	129,955	up to 13	2.69-10.90	EUR	158,278	up to 9	1.50-12.00
Loans	JPY	2,197	up to 8	0.95-2.50	JPY	2,416	up to 9	0.95-2.50
Overdrafts	various	190,064	up to 1	3.00-21.00	various	163,529	up to 1	3.00-12.00
		322,216				324,223		

The group's bank loans and overdrafts include a credit with an initial volume of € 80.0 million, on which 67.0% of the share capital of GILDEMEISTER Italiana S.p.A., Brembate di Sopra, Italy, was pledged to the lending banks. The credit's value at 31 December 2003 was stated at an amount of € 36,364 K. With respect to another credit, originally amounting to € 18,783 K, to finance the acquisition of further shares in GILDEMEISTER Italiana S.p.A., a further 14.0% of the share capital of GILDEMEISTER Italiana S.p.A. was pledged to the lending bank. The value of this credit at the end of the accounting period was stated at an amount of € 14,449 K.

In addition, DECKEL MAHO Seebach GmbH, Seebach, and various DMG sales and service companies assigned fixed and current assets to the lending banks as further securities for long-term credits.

Short-term working funds are provided by several banks for GILDEMEISTER Aktiengesellschaft and - as part of the group's cash management - for all domestic subsidiaries. At the balance sheet date 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 remaining term of the basic consortium agreement (STUFF - Short Term Unique Financial Facility) was until 31 December 2003 and was extended in December 2003 for a further two years until 31 December 2005.

The shares of DECKEL MAHO Pfronten GmbH, Pfronten, DECKEL MAHO Seebach GmbH, Seebach, DECKEL MAHO Geretsried GmbH, Geretsried, GILDEMEISTER Drehmaschinen GmbH, Bielefeld and DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld, to the nominal value of € 69,181 K are pledged firstly in favour of the lending banks and secondly to a foreign banking consortium.

The international share in bank loans and overdrafts amounts to approximately 42.4%.

All bank loans and overdrafts of € 322,216 K correspond with their fair market values. In other liabilities, the fair market values of short-term liabilities and of medium and long-term liabilities correspond with the values shown in the balance sheet. Liabilities that, in legal terms, arise after the balance sheet date, only have a minor impact on the company's financial situation.

Liabilities arising from finance leases amount to € 5,451 K (previous year: € 7,792 K). They are recognised, without future interest payable, under other liabilities. All future payments arising from finance leases total € 6,178 K (previous year: € 8,817 K).

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

	31 Dec. 2003	31 Dec. 2002
	€ K	€ K
Total future minimum lease payments		
Due within one year	2,046	4,400
Due between one and five years	3,902	4,225
Due in more than five years	230	192
	6,178	8,817
Interest included in future minimum lease payments		
Due within one year	307	398
Due between one and five years	407	598
Due in more than five years	13	29
	727	1,025
Cash value of future minimum lease payments		
Due within one year	1,738	4,002
Due between one and five years	3,495	3,627
Due in more than five years	218	163
	5,451	7,792

21 Deferred income

Deferred income results primarily from the subgroup GILDEMEISTER Italiana at an amount of € 1,857 K (previous year: € 1,958 K). It pertains to deferred future interest earnings from a specific financing programme of the Italian state (Sabatini funding).

Pursuant to IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance", this account also includes investment allowances of € 3,951 K (previous year: € 4,147 K) granted by the joint aid programme "Improvement of the Regional Economic Structure". In the accounting period 2003 investment subsidies of € 249 K (previous year: € 2,266 K) were paid that were included in the deferred income. This item will be closed in accordance with the depreciation procedure for tax-privileged capital assets and recognised in the Income Statement.

22 Contingencies
and other financial
liabilities

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

	As at 31 Dec. 2003	As at 31 Dec. 2002
	€ K	€ K
Contingencies		
Bill commitments	19,724	19,971
Guarantees	4,841	6,181
Warranties	6,680	5,523
Other contingencies	13,035	9,709
	44,280	41,384

Other financial obligations consist mainly of lease agreements and long-term tenancy agreements.

The total of minimum lease payments from permanent tenancies and lease agreements (finance leases and operating leases) is made up as set out below (by due dates). The agreements have terms of 2 to 22 years; some of them include options to extend or purchase options.

	31 Dec. 2003	31 Dec. 2002
	€ K	€ K
Total face value of future minimum lease payments		
Due within one year	15,614	17,509
Due between one and five years	12,913	18,703
Due in more than five years	678	599
	29,205	36,811

Of which are attributed to operating leases:

	31 Dec. 2003	31 Dec. 2002
	€ K	€ K
Total face value of future minimum lease payments		
Due within one year	13,568	13,111
Due between one and five years	9,011	14,478
Due in more than five years	448	405
	23,027	27,994

There are no irredeemable sublettings agreements that have to be included in the total future minimum lease payments. There are no contingent rents that are recognised in the Income Statements.

Tangible assets commitments amount to € 2,354 K (previous year: € 1,959 K).

23 Derivative financial instruments

The face and fair market values of derivative financial instruments existing at the balance sheet date are set out below:

	Face values		Fair market values	
	31 Dec. 2003	31 Dec. 2002	31 Dec. 2003	31 Dec. 2002
	€ K	€ K	€ K	€ K
Forward currency transactions	29,271	33,269	306	430
Interest rate swaps	36,364	50,909	-1,406	-2,292
	65,635	84,178	-1,100	-1,862

The face values correspond with the non-balanced total of the currency and interest portfolio. The fair market values shown correspond to the price, at which third parties would assume the rights or obligations arising from the financial instruments. The fair market values are the current values of the derivative financial instruments excluding any adverse trends in value from underlying transactions. The fair market values of the derivative financial instruments used are determined on the basis of quoted market prices or through accrual methods based on customary market models.

All of the forward exchange dealings carried out mature within one year.

Interest rate swaps are used by the group company Holding Macchine Utensili S.p.A., Milan, Italy, and mature within 3 years. They provide for payment at a fixed interest rate with a 5.41% - 5.42% p.a. margin and a 3-month Euribor as reference rate.

As of 31 December 2003, positive effects of € 541 K arising from the market valuation of financial instruments allotted to cash flow hedges were recognised directly in equity.

Notes to segmental reporting

24 Explanatory notes to segments

In segmental reporting pursuant to IAS 14 “Segment Reporting”, the business activities of the GILDEMEISTER group are distinguished between business segments requiring primary segment reporting and geographical areas requiring secondary segment reporting.

The business activities of the GILDEMEISTER group consist of the “Machine Tools”, “Services” and “Corporate Services”. This segmentation follows the group's corporate governance. Each group company is allocated to the segment pertaining to its respective economic activities.

The **“Machine Tools”** segment includes the group's new machines business and consists of the “turning”, “milling” and “ultrasonic/lasertec” technologies. This includes the lathes and turning centres of

- _GILDEMEISTER Drehmaschinen GmbH, Bielefeld,
- _GILDEMEISTER Italiana S.p.A., Brembate di Sopra, Italy,
- _GRAZIANO Tortona S.p.A., Tortona, Italy,
- _FAMOT Pleszew S.A., Pleszew, Poland,
- _DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd.,

the milling machines and machining centres of

- _DECKEL MAHO Pfronten GmbH, Pfronten,
- _DECKEL MAHO Seebach GmbH, Seebach,
- _DECKEL MAHO Geretsried GmbH, Geretsried,
- _DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd.,

the ultrasonic machines of

- _SAUER GmbH, Stipshausen/Idar-Oberstein,

and the laser machines of

- _LASERTEC GmbH, Pfronten.

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

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

Along with the remuneration for introduction and consulting services, the segment also includes the service and spare parts business, service products such as DMG Powertools, tuition products and training services, initial operations and the used machine business. It also includes the procurement services of a & f Stahl- und Maschinenbau GmbH, Würzburg, the components and tools of SACO S.p.A., Castelleone, Italy, as well as the setting equipment of DMG Microset GmbH.

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 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 in order to meet the increasing globalisation of international companies. The Holding Macchine Utensili S.p.A., Milan, Italy, is also allocated in this business segment as finance company for the Italian production plants.

25 Explanatory notes to segmental information

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

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

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

Investments include additions to property, plant and equipment and intangible assets.

Depreciation pertains to segmental fixed assets and includes depreciation of goodwill arising from the consolidation of investments.

The “Reconciliation” column represents the elimination of intercompany accounts receivable and liabilities, income and expenses and results between the segments.

The secondary segmentation is based on the corporate seats of the group companies and is divided into the geographical areas: Germany, rest of Europe, North America, Asia and rest of the world, which includes Mexico and Brazil.

Notes to the Cash Flow Statement

26 Cash Flow Statement The Cash Flow Statement pursuant to IAS 7 “Cash Flow Statements” records the payment flow in an accounting period and represents the inflow and outflow of the company's liquid funds. The payment flow is distinguished between cash flow from running operations and cash flow from investment and financing activity.

The financing resources set out in the Cash Flow Statement includes all liquid funds stated in the balance sheet, i.e. cash in hand, Bundesbank balance and bank balances as far as that these are available within three months. The cash flow from running operations was determined indirectly by adding to the group's profit for the year those expenses that are not set off against any payments, and subtracting from it income that does not result in the receipt of monies. Effects from foreign currency translation and changes in the consolidated group are adjusted accordingly. By contrast cash flow from investment and financing activities has been calculated based on payments.

The financial investments of the accounting period 2003 include the acquisition of the remaining 49.0% shares in DMG Microset GmbH, Bielefeld, at a purchasing price of € 123 K and the acquisition of 100.0% of the shares in DMG Europe Holding GmbH, Klaus, Austria, at a purchasing price of € 35 K. The purchasing prices were settled with cash. Cash amounting to € 35 K was taken over with the acquisition.

The outflow of interest of € 24,736 K (previous year: € 25,361 K) and the inflow of interest of € 1,882 K (previous year: € 2,414 K) correspond to interest paid and interest earnings, with the exception of interest components in the transfer to reserves.

Income tax paid in the accounting period 2003 amounted to € 21,891 K (previous year: € 13,595 K).

Notes to individual accounts in the Income Statement

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

The sales revenues are broken down by distribution areas as follows:

	2003	2002
	€ K	€ K
Germany	475,688	491,719
EU (exc. Germany)	253,362	284,579
USA	52,263	65,811
Asia	96,277	93,214
Rest of the world	100,173	97,491
	977,763	1,032,814

The sales revenues are explained in detail in the “Segmental Reporting” chapter of the Management Report.

28 Other capitalised payments

Other own work capitalised primarily arises from the capitalisation of development costs of machine tool projects according to IAS 38 “Intangible Assets”.

29 Other operating revenues

	2003	2002
	€ K	€ K
Income unrelated to accounting period		
Retransfer of provisions	4,779	10,373
Retransfer of value adjustments	1,817	1,080
Profit on asset disposals	1,389	385
Receipt of payment for written off delinquent accounts	17	42
Other income unrelated to accounting period	1,089	1,167
	9,091	13,047
Other operating income		
Use of provisions	5,946	2,882
Changes in exchange rates	4,051	4,266
Cost allocation and reimbursement of expenses	2,026	1,657
Compensation for damages	820	532
Letting and leasing	599	725
Release of asset-based bonuses	447	506
Bonus and allowances	318	157
Other	3,277	2,483
	17,484	13,208
Total	26,575	26,255

30 Cost of materials

Payments received primarily pertain to expenses for external production.

31 Personnel costs

In the accounting period the group's employee pension plan contributions amounted to € 2,323 K (previous year: € 1,421 K).

Remuneration of the active Executive Board members totalled € 1,926 K (previous year: € 1,385 K), including € 450 K for variable profit-sharing bonuses (previous year: € 450 K). € 625 K (previous year: € 642 K) were paid to former Executive Board members and their surviving dependants.

Company pension provisions of 7,240 K (previous year: 6,731 K) were set up for former Executive Board members and their surviving dependants.

Advances and credits to officers were not granted. No liability in favour of officers was assumed.

There are no stock option plans or similar security-orientated incentive systems of the company. Stock option plans or similar remuneration components with a long-term incentive effect for officers do therefore not exist either. Notices by members of the company's Executive or Supervisory Boards or by certain other persons affiliated to such members, on the acquisition or disposal of shares or related rights of purchase or disposal (such as options) or rights that are directly dependent on the company's stock exchange price, were not received.

Neither did the group companies of the GILDEMEISTER group pay any remuneration, or grant similar benefits, to officers for services personally rendered, including, without limitation, consulting and introduction services.

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

	Average number of persons employed		At the balance sheet date	
	2003	2002	2003	2002
Wage earners	1,788	1,891	1,725	1,830
Salary earners	3,061	3,021	3,098	2,991
Trainees	199	199	205	224
	5,048	5,111	5,028	5,045

32 Other operating expenses

	2003	2002
	€ K	€ K
Expenses unrelated to the accounting period		
Losses from fixed asset disposal	444	280
Other taxes	353	17
Other expenses unrelated to the accounting period	766	1,052
	1,563	1,349
Other operating expenses		
Rental and leases	18,272	17,147
Travelling and entertainment expenses	17,629	18,951
Freight out, packaging	16,880	17,085
Other external services	16,397	17,654
Marketing and trade fairs	16,098	22,537
Sales commissions	11,263	16,037
Cost of preparation of accounts, legal and consultancy fees	9,923	13,874
Exchange rate and currency losses	8,117	8,795
Stationery, post and telephone expenses	7,803	8,983
Transfer to provisions	7,049	10,146
Other personnel costs	4,819	4,767
Losses from the decline in the value of current assets	3,365	4,241
Insurance	3,284	3,129
Investor Relations	1,034	1,246
Monetary transactions and capital procurement	1,725	1,703
Other taxes	1,165	792
Licences and trade marks	503	620
Other	8,368	8,786
	153,694	176,493
Total	155,257	177,842

The transfer to provisions results primarily from expenses for guarantee commitments, retrofitting and losses from pending transactions.

In the accounting period 2003 € 158 K (previous year: € 135 K) were transferred to provisions for Supervisory Board members' remuneration.

The Supervisory Board members' remuneration pursuant to Section 12 of the GILDEMEISTER Aktiengesellschaft Articles of Association breaks down as follows:

	Fixed	Remuneration	Variable	Total
	Remuneration	for committee	Remuneration	
	€ K	€ K	€ K	€ K
Dr.-Ing. Manfred Lennings, Chair	20	3	0	23
Gerhard Dirr, Deputy Chair	15	3	0	18
Wulf Bantelmann (since 16 May 2003)	6	-	0	6
Günther Berger (since 16 May 2003)	6	-	0	6
Harry Domnik	10	5	0	15
Alfred Geißler	10	3	0	13
Dr.-Ing. Jürgen Harnisch (since 16 May 2003)	6	-	0	6
Ulrich Hocker (since 16 May 2003)	6	-	0	6
Prof. Dr.-Ing. Walter Kunerth	10	3	0	13
Hans Henning Offen	10	6	0	16
Peter Oxfart	10	-	0	10
Günther-Johann Schachner	10	-	0	10
Prof. Dr.-Ing. Peter-Jürgen Kreher (until 16 May 2003)	4	-	0	4
Arno Kruck (until 31 Jan. 2003)	1	-	0	1
Dr. jur. Rupert Pfeffer (until 16 May 2003)	4	-	0	4
Heinz-Dethlef Rother (01 Feb. to 16 May 2003)	3	-	0	3
Hans Peter Schreib (until 16 May 2003)	4	-	0	4
Total	135	23	0	158

- 33 **Other interest receivables and similar income** Interest receivable and similar income of the entire group amounted to € 2,113 K (previous year: € 2,414 K).
- 34 **Net interest payable and other similar charges** Net interest payable, amounting to € 24,736 K (previous year: € 25,361 K), primarily relates to the group's loan interests.
Net interest payable and other similar charges also include the interest component of € 1,791 K (previous year: € 1,725 K) from the transfer to company pension provisions.
- 35 **Extraordinary charges and income** There were no extraordinary charges and income in the accounting period 2003.

36 Taxes on profits

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

	2003	2002
	€ K	€ K
Current taxes	10,886	19,781
Deferred taxes	2,953	-8,568
	13,839	11,213

Current taxes for the domestic companies include corporate income and trade tax, and for the international companies comparable earnings-linked taxes that were determined on the basis of the appropriation of profits. The computation was made on the basis of the tax regulations applicable to the individual companies. In the accounting period 2003, an amount of € 1,320 K (previous year: € 1,160 K) resulted from tax income for prior years. An amount of € 4,445 K (previous year: € 3,391 K) is included for tax expenses for prior years.

Deferred tax income unrelated to the accounting period of € 3,816 K (previous year: € 472 K) is set off by deferred tax expenditure unrelated to the accounting period of € 4,150 K (previous year: € 5,441 K).

Current income tax expenditure was reduced by € 1,552 K (previous year: € 384 K) due to the use of tax loss credits not yet recognised from previous accounting periods. Another reduction of € 876 K (previous year: € 418 K) was carried out with respect to deferred tax expenditure due to tax loss not yet recognised from prior periods.

Writedowns of recognised deferred tax assets from tax losses in prior years were carried out in the reporting year at an amount of € 3,645 K (previous year: € 3,662 K).

Current taxes in relation to extraordinary items and the discontinuance of business divisions did not occur in the reporting year. Due to the continued application of the accounting methods no additional tax expenditure or income arose. There were no material errors in the past so that no consequences arose in this respect.

Deferred taxes are calculated on the basis of income tax rates that at the time of realisation apply or are expected in the individual countries in accordance with the current legal status. Taking into account trade earnings tax and the solidarity surcharge (Solidaritätszuschlag), this results in a tax rate applicable to the valuation of deferred taxes of 39% (previous year: 39%) for domestic companies. Tax rates abroad are between 22% and 42%.

Deferred tax assets and liabilities were recognised directly in equity, and at the balance sheet date amounted to € 548 K (previous year: € 894 K). In the accounting period 2003, the recognised income tax expenditure of € 13,839 K (previous year: € 11,213 K) increased by € 9,725 K (previous year: increase of € 14,136 K) when compared with the expected income tax expenditure of € 4,114 K (previous year: income tax earnings of € 2,923 K), which would in theory arise if the domestic tax rate of 40% (previous year: 39%) applicable for the accounting period 2003 had been applied at group level. The increase in the domestic tax rate was due to the German Flood Victim Solidarity Act (Flutopfersolidaritätsgesetz) which provided for an increase in the statutory corporate income tax rate to 26.5% for the tax assessment period 2003. The previous corporate income tax rate of 25.0% has applied again since the start of the assessment period 2004.

The difference between current and expected income tax expenditure is due to the following:

	2003	2002
	€ K	€ K
Result of ordinary business before taxes	10,284	-7,496
GILDEMEISTER revenue tax in percent	40	39
Theoretical tax income/expenditure	4,114	-2,923
Tax consequences on the following influences		
Adjustment due to differing tax rate	220	705
Effects from changes in tax rate	247	0
Tax reduction due to revenues exempt from taxation	-898	-1,514
Depreciation of goodwill from capital consolidation	2,478	2,118
Deferred taxable losses	2,477	4,902
Tax increase due to non-deductible expenses	4,809	3,440
Tax yield or losses for prior years	-807	2,231
Current tax expenses arising from a tax investigation	4,228	0
Deferred tax assets arising from a tax investigation	-2,709	0
Other adjustments	-320	2,254
Taxes on corporate income and revenue	13,839	11,213

37 Profit share to other shareholders Other shareholders are entitled to a profit of € 153 K (previous year: € 347 K).

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

		2003	2002
Group result excluding profit share to other shareholders	€ K	-3,732	-19,057
Number of shares		28,879,427	28,879,427
Earnings per share	€	-0.13	-0.66

There are no diluted earnings per share for either the accounting period 2003 or the preceding year.

Other explanatory notes

39 Events occurring after the reporting date No material events have occurred after the balance sheet date except for those set out in the “Business Development” chapter of the Group Annual Report.

40 Information about relationship to closely related companies and persons Affiliated companies and persons in accordance with IAS 24 “Related Party Disclosures” are, in principle, members of the Executive Board and the Supervisory Board as well as the companies of the GILDEMEISTER group including non-consolidated subsidiaries.
Sales and proceeds between affiliated companies are carried out “at arm's length”.

41 Corporate Governance The declaration of compliance in accordance with Section 161 AktG was made on 28 November 2003 and has been made accessible to the shareholders on our website www.gildemeister.com.

Affiliated Companies

	Equity ¹¹		Participation quota	Profit/loss for the accounting period 2003 ¹¹	
	National Currency	€ k	in %	€ k	
Production plants and procurement/components					
GILDEMEISTER Drehmaschinen GmbH, Bielefeld ^{2/17)}		16,650	100.0	0	
Holding Macchine Utensili S.p.A., Milano, Italy		20,289	100.0	-5,163	
GILDEMEISTER Italiana S.p.A., Brembate di Sopra, Italy ⁶⁾		40,212	100.0	-3,193	
GRAZIANO Tortona S.p.A., Tortona, Italy ⁶⁾		4,189	100.0		
SACO S.p.A., Castelleone, Italy ⁶⁾		9,302	100.0		
DECKEL MAHO Geretsried GmbH, Geretsried ¹⁷⁾		57,423	100.0	14,934	
DECKEL MAHO Pfronten GmbH, Pfronten ^{3/16/17)}		26,000	100.0	0	
LASERTEC GmbH, Pfronten ^{4/16/17)}		4,487	100.0	0	
DECKEL MAHO Seebach GmbH, Seebach ^{2/17)}		8,363	100.0	0	
FAMOT Pleszew S.A., Pleszew, Poland	PLN k	10,140	2,146	99.4	274
SAUER GmbH, Stipshausen/Idar-Oberstein ¹⁷⁾		2,455	95.0	923	
DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China	CNY k	7,792	747	100.0	-1,592
a & f Stahl- und Maschinenbau GmbH, Würzburg ¹⁷⁾		1,248	90.0	1,066	
Sales and service companies					
DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld ^{2/17)}		-15,666	100.0	-18,186	
(Group financial statements)					
DMG Stuttgart Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Leonberg ^{7/8/17)}		3,001	100.0		
DMG München Vertriebs und Service GmbH für Werkzeugmaschinen					
DECKEL MAHO GILDEMEISTER, Munich ^{9/17)}		929	100.0		
DMG Hilden Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Hilden ^{9/17)}		935	100.0		
DMG Bielefeld Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Bielefeld ^{9/17)}		957	100.0		
DMG Berlin Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Berlin ^{8/9/17)}		301	100.0		
DMG Frankfurt am Main Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Bad Homburg ^{9/17)}		310	100.0		
DMG Europe Holding GmbH, Klaus, Austria ⁷⁾		291	100.0		
DMG Büll & Strunz GmbH, Wiener Neudorf, Austria ¹⁰⁾		1,427	51.0		
DMG Nederland B.V., Veenendaal, Netherlands ⁷⁾		25,173	100.0		
DMG Italia S.r.l., Gorgonzola, Italy ¹¹⁾		1,046	100.0		
DMG Paris S.a.r.l., Les Ulis, France ¹¹⁾		4,298	100.0		
DMG Lyon S.A.S, Lyon, France ¹⁴⁾		766	100.0		
DMG (Schweiz) AG DECKEL MAHO GILDEMEISTER, Dübendorf, Switzerland ¹¹⁾	CHF k	8,315	6,161	100.0	
DMG (U.K.) Ltd., Luton, Great Britain ¹¹⁾	GBP k	283	536	100.0	
DMG Belgium B.V.B.A., Zaventem, Belgium ¹¹⁾		993	100.0		
DECKEL MAHO GILDEMEISTER Iberica S.L., Berriz, Spain ¹¹⁾		273	100.0		
DMG Czech s.r.o., Brno, Czech Republic ¹¹⁾	CZK k	57,512	1,761	100.0	
DMG Polska Sp.z o.o., Pleszew, Poland ¹¹⁾	PLN k	3,810	728	100.0	
DMG America Inc., Charlotte, USA ¹¹⁾	USD k	11,228	8,904	100.0	
DMG Charlotte Inc., Charlotte, USA ¹²⁾	USD k	1	1	100.0	
DMG Chicago Inc., Schaumburg, USA ¹²⁾	USD k	163	129	100.0	
DMG Houston Inc., Houston, USA ¹²⁾	USD k	224	178	100.0	
DMG Los Angeles Inc., Los Angeles, USA ¹²⁾	USD k	1,092	866	100.0	

Affiliated Companies

	Equity ¹⁾		Participation	Profit/loss for
	National Currency	€ k	quota	the accounting
			in %	period 2003 ¹⁾
				€ k
Sales and service companies (continued)				
DECKEL MAHO GILDEMEISTER Brasil Ltda., São Paulo, Brasil ¹¹⁾	BRL K	36	11	100.0
DMG Asia Pacific Pte. Ltd., Singapore ¹¹⁾	SGD K	4,605	1,841	100.0
DMG Australia Pty. Ltd., Clayton Victoria, Australia ¹⁴⁾	AUD K	1,567	933	100.0
DMG Malaysia SDN BHD, Puchong/Kuala Lumpur, Malaysia ¹¹⁾	MYR K	1,898	405	100.0
DMG Nippon K.K., Yokohama, Japan ¹¹⁾	JPY K	300,298	2,227	100.0
DMG Canada Inc., Toronto, Canada ⁷⁾	CAD K	741	454	100.0
DECKEL MAHO GILDEMEISTER México, S.A. de C.V., Monterrey, Mexico ⁷⁾	MXN K	22	2	100.0
DMG Technology Trading (Shanghai) Co. Ltd., Shanghai, China ⁷⁾	CNY K	2,893	66	100.0
DMG DECKEL MAHO GILDEMEISTER (India) Pvt. Ltd., Bangalore, India ⁷⁾	INR K	5,996	104	100.0
DMG Machinery Taiwan Ltd., Taichung, Taiwan ⁷⁾	NTD K	2,009	47	100.0
DMG Korea Ltd., Seoul, Korea ⁷⁾	KRW K	100,146	67	100.0
DMG Service Dreher GmbH DECKEL MAHO GILDEMEISTER, Bielefeld ^{7/8/17)}			1,500	100.0
DMG Service BAZ GmbH DECKEL MAHO GILDEMEISTER, Geretsried ^{7/8/17)}			1,000	100.0
DMG Service UFB GmbH DECKEL MAHO GILDEMEISTER, Pfronten ^{7/8/17)}			1,500	100.0
DMG Service UFB Seebach GmbH DECKEL MAHO GILDEMEISTER, Seebach ^{7/8/17)}			110	100.0
DMG Gebrauchtmachines GmbH DECKEL MAHO GILDEMEISTER, Geretsried ^{7/8/17)}			2,517	100.0
GILDEMEISTER Italiana s.r.o., Zlín, Czech Republic ¹⁵⁾	CZK K	3,175	98	100.0
DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER, Bielefeld ^{7/8/17)}			271	100.0
Other				
GILDEMEISTER Beteiligungen Aktiengesellschaft, Bielefeld			45	100.0
DMG Microset GmbH, Bielefeld ¹⁷⁾			668	100.0
MITIS Grundstücks-Vermietungs Gesellschaft mbH & Co. Objekt Bielefeld KG, Düsseldorf ¹⁸⁾			-	98.0
DMG Marketing & Services SDN BHD, Selangor, Malaysia ⁷⁾	MYR K	500	105	40.0
BIL Leasing GmbH & Co 736 KG, Munich ¹⁹⁾			-	
BIL Leasing GmbH & Co 748 KG, Munich ²⁰⁾			-	

1) The figures correspond with the financial statements prepared in accordance with local regulations; they do not show the respective companies' contribution to the Consolidated Financial Statements. Foreign currencies with respect to equity were translated at the market price on reporting date.

2) Management and profit and loss transfer agreement with GILDEMEISTER Aktiengesellschaft

3) Participating interest of DECKEL MAHO Geretsried GmbH

4) Participating interest of DECKEL MAHO Pfronten GmbH

5) Management and profit and loss transfer agreement with DECKEL MAHO Geretsried GmbH

6) Participating interest of GILDEMEISTER Italiana S.p.A.

7) Participating interest of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER

8) Management and profit and loss transfer agreement with DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER

9) Participating interest of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER

10) Participating interest of DMG Europe Holding GmbH

11) Participating interest of DMG Nederland B.V.

12) Participating interest of DMG America Inc.

13) Participating interest of DMG France S.a.r.l.

14) Participating interest of DMG Asia Pacific Pte. Ltd.

15) Participating interest of DMG Gebrauchtmachines GmbH DECKEL MAHO GILDEMEISTER

16) Management and profit and loss transfer agreement with DECKEL MAHO Pfronten GmbH

17) The domestic subsidiary has complied with the conditions required by Section 5 264 para. 3 German Commercial Code (HGB) regarding the application of the exemption regulations and therefore waives the disclosure of its annual financial statements and relating documents.

18) Percentage in voting shares 49,0%, special purpose entity of GILDEMEISTER Aktiengesellschaft

19) Special purpose entity of DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bad Homburg, excluding capital share

20) Special purpose entity of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg, excluding capital share

Corporate Directory

- Supervisory Board seats pursuant to Sect § 100 AktG
- * Membership with comparable domestic and international control bodies of business enterprises

Supervisory Board

Dr.-Ing. Manfred Lennings,

Essen, Chairman,
Independent Industry Consultant

- Deutsche Post AG, Bonn
- ENRO AG, Essen
- IVG Immobilien AG, Bonn
- * Bauunternehmung E. Heitkamp GmbH, Herne (since 6 Nov. 2003)
- * Deilmann-Haniel GmbH, Dortmund (since 6 Nov. 2003)
- * Heitkamp-Deilmann-Haniel GmbH, Herne, Chairman

Gerhard Dirr,

Viels/Österreich, Deputy Chairman,
Chairman of the Works Council at
DECKEL MAHO Pfronten GmbH, Pfronten

Wulf Bantelmann (since 16 May 2003),
Bielefeld, Chairman of the Works Council at
GILDEMEISTER Drehmaschinen GmbH, Bielefeld

Günther Berger (since 16 May 2003),
Munich, Divisional Executive Board member at the
Bayerischen Hypo- und Vereinsbank AG, Munich

Harry Domnik,

Bielefeld, 1st Secretary of the
IG Metall-headquarters, Bielefeld

- * ThyssenKrupp Umformtechnik GmbH,
Ludwigsfelde

Alfred Geißler,

Pfronten, Senior Executives' representative

Dr.-Ing. Jürgen Harnisch (since 16 May 2003),
Bochum, Board member at

ThyssenKrupp AG, Düsseldorf
Chairman of the Executive Board at
ThyssenKrupp Automotive AG, Bochum

- ThyssenKrupp Bilstein GmbH, Ennepetal
- ThyssenKrupp Drauz GmbH, Heilbronn, Chair
- ThyssenKrupp Federn GmbH, Hagen
- ThyssenKrupp Gerlach, Homburg/Saar, Chair
- ThyssenKrupp Technologies AG, Essen
- ThyssenKrupp Umformtechnik GmbH,
Ludwigsfelde, Chair
- * Hülsbeck & Fürst GmbH & Co. KG, Velbert, Chair

- * INPRO Innovationsgesellschaft für fortgeschrittene Produktionssysteme in der Fahrzeugindustrie mbH, Berlin
- * KMC Klausmeier Marketing Consultants GmbH, Meerbusch
- * ThyssenKrupp Automotive Sales & Technical Center, Inc., Troy/Michigan, USA, Chairman
- * ThyssenKrupp Budd Company, USA
- * ThyssenKrupp Presta AG, Eschen, Liechtenstein
- * ThyssenKrupp Sofedit s.a.s., France

Ulrich Hocker (since 16 May 2003),
Düsseldorf, Legal counsel, Chief manager
Member of the Executive Board at the Deutsche
Schutzvereinigung für Wertpapierbesitz e.V. (DSW),
Düsseldorf

- CBB Holding AG, Cologne
- E.ON AG, Düsseldorf
- Feri Finance AG, Bad Homburg
- Karstadt Quelle AG, Essen
- ThyssenKrupp Steel AG, Duisburg
- * Phoenix Mecano AG, Switzerland,
Chairman of the Board of Directors
- * Gartmore Capital Strategy Fonds, Jersey

Prof. Dr.-Ing. Walter Kunerth,

Zeitlarn, Independent Industry Consultant

- Basler AG, Ahrensburg, Chairman
- Götz AG, Regensburg, Chairman
- Paragon AG, Delbrück, Chairman
- * Autoliv Inc., Stockholm
- * Suspa Holding GmbH, Altdorf, Chairman

Hans Henning Offen,

Großhansdorf, Former Deputy Chairman of the
Executive Board at the

- WestIntell AG, Düsseldorf, Chairman
(until 30 July 2003)
- Kaufhof Warenhaus AG, Cologne
(until 13 March 2003)
- RWE Plus AG, Essen (until 30 Aug. 2003)
- ThyssenKrupp Materials AG, Düsseldorf
(until 30 Aug. 2003)
- TUI AG, Hanover/Berlin (until 18 June 2003)
- * Familienstiftung Schwarz, Neckarsulm
- * Kaufland Stiftung & Co. KG, Neckarsulm
- * Lidl Stiftung & Co. KG, Neckarsulm

Executive Board

Peter Oxfart,

Creuzburg, Chairman of the Works Council at
DECKEL MAHO Seebach GmbH, Seebach

Günther-Johann Schachner,

Peiting, Executive Board member at
IG Metall Frankfurt,
1st Secretary of the IG Metall headquarters, Weilheim

Prof. Dr.-Ing. Peter-Jürgen Kreher

(until 16 May 2003), Grünwald,
Senior Advisor Droege & Comp., Düsseldorf
• Dürkopp Adler AG, Bielefeld, Deputy Chairman
* DST Werkzeugmaschinenbau GmbH,
Mönchengladbach
* Burton Holding GmbH, Melle/Buer, Chairman
* Albert Ziegler GmbH & Co. KG, Giengen/Brenz,
Chairman

Arno Kruck (until 31 Jan. 2003),

Bielefeld, former Chairman of the Works Council at
the DMG Vertriebs und Service GmbH
DECKEL MAHO GILDEMEISTER, Bielefeld

Dr. jur. Rupert Pfeffer (until 16 May 2003),

Geretsried, Chairman of the Executive Board at LfA
Förderbank Bayern i. R., Munich
* König Ludwig Musical AG & Co. KG, Füssen

Heinz-Dethlef Rother

(01 Feb. to 16 May 2003),
Bielefeld, Chairman of the Works Council at the
DMG Vertriebs und Service GmbH
DECKEL MAHO GILDEMEISTER, Bielefeld

Hans Peter Schreib (until 16 May 2003),

Düsseldorf, Legal counsel,
Member of the Executive Board at Deutschen
Schutzvereinigung für Wertpapierbesitz e.V. (bsw),
Düsseldorf
• K + S AG, Kassel
• Metro AG, Cologne

Bielefeld, 24 March 2004

GILDEMEISTER Aktiengesellschaft

The Executive Board

Dr. Rüdiger Kapitza

Prof. Dr.-Ing. Raimund Klinkner

Dipl.-Kfm. Michael Welt

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

Prof. Dr.-Ing. Raimund Klinkner,
Bielefeld,
Deputy Chairman (since 01 Jan. 2003)
• Dürkopp Adler AG, Bielefeld

Dipl.-Kfm. Michael Welt,
Pfronten (since 01 Jan. 2003)
• Staufen Akademie
Beratung und Beteiligung AG,
Bad Boll

Dipl.-Kfm. Dieter Schäfer,
Steinhagen (until 31 Oct. 2003)

**Consolidated Income Statement for the period from 1 January to 31 December 2003
of GILDEMEISTER Aktiengesellschaft, Bielefeld**

	App.	2003		2002	
		€	€	€	€
1. Sales revenues	27		977,762,604		1,032,814,223
2. Increase in finished goods and work in progress			9,567,188	987,329,792	3,969,693
3. Other capitalised payments	28			8,379,319	9,814,819
4. Other operating revenues	29			26,574,946	26,254,602
				1,022,284,057	1,072,853,337
5. Cost of materials	30				
a) Cost of raw materials, consumables and goods for resale		436,648,416			466,066,779
b) Cost of purchased services		88,696,599	525,345,015		103,855,300
6. Personnel costs	31				
a) Wages and salaries		224,912,914			226,630,161
b) Social contributions and pensions and other benefits		45,663,764	270,576,678		43,525,840
7. Depreciation of assets			36,430,415		37,757,207
8. Other operating expenses	32		155,257,325	987,609,433	177,842,485
9. Operating result				34,674,624	17,175,565
10. Net interest payable	33		2,112,710		2,414,000
11. Interest payable and other similar charges	34		26,526,852	24,414,142	27,085,637
12. Profit/loss on ordinary activities				10,260,482	-7,496,072
13. Taxes on profit	36			13,839,399	11,213,443
14. Annual profit/loss				-3,578,917	-18,709,515
15. Profit share of other shareholders	37			-153,282	-347,105
16. Annual profit/loss to GILDEMEISTER				-3,732,199	-19,056,620
Earnings per share in accordance with IAS 33				-0.13	-0.66

**Group Balance Sheet as at 31 December 2003
of GILDEMEISTER Aktiengesellschaft, Bielefeld**

Assets	App.	As at	
		31 Dec. 2003	31 Dec. 2002
		€	€
A. Fixed Assets			
I. Intangible assets	7		
1. Goodwill		67,156,425	73,883,164
2. Development costs		23,846,698	19,711,170
3. Industrial property and similar rights		8,765,826	6,001,440
4. Payments on account		26,010	1,760,616
		99,794,959	101,356,390
II. Tangible assets	8		
1. Land and buildings		127,888,995	124,948,331
2. Technical equipment and machinery		17,416,380	22,930,158
3. Other equipment, factory and office equipment		22,587,039	25,512,976
4. Payments on account and construction in progress		2,657,695	1,090,053
		170,550,109	174,481,518
III. Financial assets	9		
1. Shares in affiliated companies		206,970	87,793
2. Securities		16,774	355,115
		270,568,812	276,280,816
B. Current Assets			
I. Inventories	10		
1. Raw materials and consumables		75,421,184	69,022,576
2. Work in progress		88,417,178	90,628,502
3. Finished goods and goods for resale		98,876,857	88,851,507
4. Payments on account		1,649,398	2,265,624
		264,364,617	250,768,209
II. Receivables and other assets	11		
1. Trade debtors		259,617,967	295,265,443
2. Other assets		34,675,819	21,359,665
		294,293,786	316,625,108
III. Securities	12		
		21,276	177,656
IV. Cash in hand, Bundesbank balances and bank balances	13		
		11,424,971	17,689,040
C. Deferred Taxes	14		
		29,497,986	32,887,802
D. Prepaid Expenses	15		
		4,740,174	3,934,674
		874,911,622	898,363,305

Equity and Liabilities

	Notes	As at	
		31 Dec. 2003	31 Dec. 2002
		€	€
A. Equity	16		
I. Subscribed Capital		75,086,510	75,086,510
II. Capital provisions		48,734,269	48,734,269
III. Revenue provisions			
1. Statutory provisions		680,530	680,530
2. Other revenue provisions		63,091,651	69,322,876
		187,592,960	193,824,185
B. Shares to other Shareholders	17	1,198,004	1,193,154
C. Provisions			
1. Pension provisions	18	28,929,573	29,327,719
2. Tax provisions	19	13,003,959	19,324,439
3. Other provisions	19	92,024,593	99,733,735
		133,958,125	148,385,893
D. Gross Liabilities	20		
1. Bank loans and overdrafts		322,215,606	324,223,113
2. Payments received on account		21,243,021	30,461,347
3. Trade creditors		125,099,138	131,296,022
4. Bills of exchange payable		31,360,323	13,148,476
5. Other creditors		35,379,268	38,141,449
		535,297,356	537,270,407
E. Deferred Taxes	14	8,921,452	8,000,348
F. Deferred Income	21	7,943,725	9,689,318
		874,911,622	898,363,305

▶▶ Group Balance Sheet as at 31 December 2003
of GILDEMEISTER Aktiengesellschaft, Bielefeld

**Development of Group Equity and in shares to other Shareholders
of GILDEMEISTER Aktiengesellschaft, Bielefeld, for the period 1 January 2002 to 31 December 2003**

	Revenue provisions							Total
	Changes from Market valuation							
	Subscribed Capital	Capital provisions	Revenue provisions	Foreign currency translation	Derivate financial instruments	Group equity	Shares to other shareholders	
€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K	
As at 01 Jan. 2002	75,087	48,734	106,046	2,547	-1,237	231,177	10,773	241,950
Dividend			-17,328			-17,328	-755	-18,083
Annual profit/loss			-19,057			-19,057	347	-18,710
Changes in currency				-3,012		-3,012		-3,012
Change in market valuation of derivative financial instruments					-161	-161		-161
Withdrawals from revenue provisions								
Consolidation transactions/ other changes			2,205			2,205	-9,172	-6,967
As at 31 Dec. 2002	75,087	48,734	71,866	-465	-1,398	193,824	1,193	195,017

	Revenue provisions							Total
	Changes from Market valuation							
	Subscribed Capital	Capital provisions	Revenue provisions	Foreign currency translation	Derivate financial instruments	Group equity	Shares to other shareholders	
€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K	
As at 01 Jan. 2003	75,087	48,734	71,866	-465	-1,398	193,824	1,193	195,017
Dividend							-129	-129
Annual profit/loss			-3,732			-3,732	153	-3,579
Changes in currency				-3,040		-3,040	13	-3,027
Change in market valuation of derivative financial instruments					541	541		541
Withdrawals from revenue provisions								
Consolidation transactions/ other changes							-32	-32
As at 31 Dec. 2003	75,087	48,734	68,134	-3,505	-857	187,593	1,198	188,791

See explanatory notes included in the Consolidated Financial Statements p. 164 ff.

**Consolidated Cash Flow of
GILDEMEISTER Aktiengesellschaft, Bielefeld**

	2003	2002	Change against previous year
	€ K	€ K	€ K
Cash flow from current operations			
1. Annual profit/loss	-3,579	-18,710	15,131
2. Depreciation of assets	36,430	37,757	-1,327
3. Change in deferred taxes	4,310	-4,849	9,159
4. Change in long-term provisions	3,120	-76	3,196
5. Other income not affecting payments	-445	-506	61
6. Change in short-term provisions	-17,547	14,059	-31,606
7. Profit/loss from disposal of fixed assets	-945	-105	-840
8. Changes in current assets and in liabilities			
_Inventories	-13,597	997	-14,594
_Trade receivables	35,647	4,133	31,514
_Other assets not from investment or financing activity	-13,965	14,785	-28,750
_Trade payables	-6,197	17,610	-23,807
_Other equity liabilities not from investment or financing activity	5,503	-17,425	22,928
	28,735	47,670	-18,935
Cash flow from investment activity			
1. Amounts received from the disposal of property, plant, equipment and intangible assets	3,880	4,766	-886
2. Amounts paid out for investments in tangible assets	-23,162	-38,706	15,544
3. Amounts paid out for investments in intangible assets	-13,115	-14,493	1,378
4. Amounts paid out for investments in financial assets	-243	-23,484	23,241
5. Amounts received from the disposal of financial assets	335	28	307
	-32,305	-71,889	39,584
Cash flow from financing activity			
1. Amounts paid out (prev. year received) for repayments (prev. year from raising) of (financing) credits	-2,008	43,402	-45,410
2. Distribution of dividends to shareholders	0	-17,328	17,328
3. Distribution of dividends to other shareholders	-63	-755	692
4. Amount received from investment allowance / grant	249	2,266	-2,017
	-1,822	27,585	-29,407
Changes affecting payments	-5,392	3,366	-8,758
Consolidation and exchange rate related changes not affecting payments	-872	-955	83
Liquid funds as at 1 January	17,689	15,278	2,411
Liquid funds as at 31 December	11,425	17,689	-6,264

Consolidated Fixed Asset Movement Schedule
as at 31 December 2003 of GILDEMEISTER Aktiengesellschaft, Bielefeld

Aquisition and production costs

I. Intangible assets

1. Goodwill
2. Development costs
3. Industrial property and similar rights
4. Payments on account

II. Tangible assets

1. Land and buildings
2. Technical equipment and machinery
3. Other equipment, factory and office equipment
4. Payments on account and construction in progress

III. Financial assets

1. Shares in affiliated companies
2. Securities

Total fixed assets

Depreciation

	As at 01 Jan. 2003	Other changes
	€	€
I. Intangible assets		
1. Goodwill	31,525,935	0
2. Development costs	2,272,897	0
3. Industrial property and similar rights	31,530,912	-80,120
4. Payments on account	555,249	0
	65,884,993	-80,120
II. Tangible assets		
1. Land and buildings	38,725,119	-318,011
2. Technical equipment and machinery	37,930,181	-784,238
3. Other equipment, factory and office equipment	55,547,786	-622,662
4. Payments on account and construction in progress	0	0
	132,203,086	-1,724,911
III. Financial assets		
1. Shares in affiliated companies	0	0
2. Securities	1,641	0
	1,641	0
Total fixed assets	198,089,720	-1,805,031

As at 01 Jan. 2003	Other changes	Additions	Disposals	Book transfers	As at 31 Dec. 2003
€	€	€	€	€	€
105,409,099	0	0	31,727	0	105,377,372
21,984,067	-4,857	8,107,337	0	482,560	30,569,107
37,532,352	-117,633	4,981,852	34,515	1,239,996	43,602,052
2,315,865	-135	26,145	0	-1,708,170	633,705
167,241,383	-122,625	13,115,334	66,242	14,386	180,182,236
163,673,450	-1,532,477	8,519,536	520,154	1,572,509	171,712,864
60,860,339	-1,312,885	2,149,286	3,413,844	52,899	58,335,795
81,060,762	-1,129,873	8,648,879	2,550,711	376,415	86,405,472
1,090,053	-115,457	3,844,270	144,962	-2,016,209	2,657,695
306,684,604	-4,090,692	23,161,971	6,629,671	-14,386	319,111,826
87,793	-949	120,126	0	0	206,970
356,756	0	0	339,982	0	16,774
444,549	-949	120,126	339,982	0	223,744
474,370,536	-4,214,266	36,397,431	7,035,895	0	499,517,806

Net book value

Additions	Disposals	Book transfers	As at 31 Dec. 2003	As at 31 Dec. 2003	As at 31 Dec. 2002
€	€	€	€	€	€
6,695,012	0	0	38,220,947	67,156,425	73,883,164
4,449,512	0	0	6,722,409	23,846,698	19,711,170
3,417,595	32,161	0	34,836,226	8,765,826	6,001,440
52,446	0	0	607,695	26,010	1,760,616
14,614,565	32,161	0	80,387,277	99,794,959	101,356,390
5,491,329	74,568	0	43,823,869	127,888,995	124,948,331
5,174,729	1,401,257	0	40,919,415	17,416,380	22,930,158
11,146,433	2,253,124	0	63,818,433	22,587,039	25,512,976
0	0	0	0	2,657,695	1,090,053
21,812,491	3,728,949	0	148,561,717	170,550,109	174,481,518
0	0	0	0	206,970	87,793
3,359	5,000	0	0	16,774	355,115
3,359	5,000	0	0	223,744	442,908
36,430,415	3,766,110	0	228,948,994	270,568,812	276,280,816

- ▶▶ Consolidated Fixed Asset Movement Schedule
as at 31 December 2003 of GILDEMEISTER Aktiengesellschaft, Bielefeld

**Segmental Reporting relating to the Consolidated Financial Statements 2003
for GILDEMEISTER Aktiengesellschaft, Bielefeld**

Segmentation by business segments

	"Machine Tools"		Change		"Se 2003 € K
	2003	2002	against previous year		
	€ K	€ K	€ K	%	
Sales revenues with third parties	704,185	768,552	-64,367	-8.4	272,989
EBITDA	47,493	43,019	4,474	10.4	32,043
EBIT	19,798	16,235	3,563	21.9	25,346
Net interest income	-12,992	-15,865	2,873	18.1	-7,872
Profit/loss on ordinary business	6,806	369	6,437	1,744.4	17,474
Segment assets	664,679	675,339	-10,660	-1.6	371,126
Segment liabilities	463,615	486,295	-22,680	-4.7	371,619
Investments	25,819	46,016	-20,197	-43.9	7,643
Depreciation	27,695	26,784	911	3.4	6,697
Employees	3,242	3,317	-75	-2.3	1,717

Segmentation by geographical areas

	Germany		Change		Rest of Europe		Change		North America		Change	
	2003	2002	against previous year		2003	2002	against previous year		2003	2002	against previous year	
	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	%
Sales revenues with affiliated companies	483,180	534,624	-51,444	-9.6	105,432	89,669	15,763	17.6	3,692	3,811	-119	-3.1
Sales revenues with third parties	586,877	615,082	-28,205	-4.6	289,622	310,343	-20,721	-6.7	49,074	62,216	-13,142	-21.1
Segment assets	1,200,499	1,144,942	55,557	4.9	378,472	511,894	-133,422	-26.1	30,269	49,221	-18,952	-38.5
Investments	28,780	61,763	-32,983	-53.4	5,884	39,824	-33,940	-85.2	222	181	41	22.7

Services"	Change			"Corporate Services"		Change		Transition		Group		Change	
	2002	against previous year		2003	2002	against previous year		2003	2002	2003	2002	against previous year	
	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	€ K	€ K	%
	263,644	9,345	3.5	589	618	-29	-4.7	0	0	977,763	1,032,814	-55,051	-5.3
	17,681	14,362	81.2	-3,377	-7,918	4,541	57.4	-5,054	2,151	71,105	54,933	16,172	29.4
	10,528	14,818	140.7	-5,496	-11,738	6,242	53.2	-4,974	2,151	34,674	17,176	17,498	101.9
	-6,091	-1,781	-29.2	-3,550	-2,716	-834	-30.7	0	0	-24,414	-24,672	258	1.0
	4,437	13,037	293.8	-9,046	-14,453	5,407	37.4	-4,974	2,151	10,260	-7,496	17,756	-236.9
	348,274	22,852	6.6	484,513	484,604	-91	0.0	-645,406	-609,854	874,912	898,363	-23,451	-2.6
	328,305	43,314	13.2	226,402	230,804	-4,402	-1.9	-375,515	-342,058	686,121	703,346	-17,225	-2.4
	24,203	-16,560	-68.4	3,739	37,623	-33,884	-90.1	-804	-34,691	36,397	73,151	-36,754	-50.2
	7,153	-456	-6.4	2,119	3,820	-1,701	-44.5	-80	0	36,431	37,757	-1,326	-3.5
	1,663	54	3.2	69	65	4	6.2	0	0	5,028	5,045	-17	-0.3

	Asia		Change		Other		Change		Transition		Group		Change	
	2003	2002	against previous year		2003	2002	against previous year		2003	2002	2003	2002	against previous year	
	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	€ K	€ K	%
	8,619	9,294	-675	-7.3	1,225	615	610	99.2	-602,148	-638,013	0	0	0	0.0
	50,815	45,173	5,642	12.5	1,375	0	1,375	0.0	0	0	977,763	1,032,814	-55,051	-5.3
	72,094	56,773	15,321	27.0	1,348	440	908	206.4	-807,770	-864,907	874,912	898,363	-23,451	-2.6
	2,222	5,640	-3,418	-60.6	93	988	-895	-90.6	-804	-35,245	36,397	73,151	-36,754	-50.2

- ▶▶ Segmental Reporting relating to the Consolidated Financial Statements 2003
for GILDEMEISTER Aktiengesellschaft, Bielefeld

Auditor's Report

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in shareholders' equity and cash flows as well as the notes to the financial statements prepared by the GILDEMEISTER Aktiengesellschaft for the business year from 01 January 2003 to 31 December 2003. The preparation and the content of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. It should be understood that auditing the content of the "Entsprechendserklärung", in particular § 161 German Stock Corporation Law in the group management report, is not object of our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements is examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the GILDEMEISTER group for the business year in accordance with International Financial Reporting Standards.

Our audit, which also extends to the group management report prepared by the Company's management for the year from 01 January 2003 to 31 December 2003, has not led to any reservations. In our opinion on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risk of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from 01 January 2003 and 31 December 2003 satisfy the conditions required for the Company's exemption from its duty to prepare consolidated financial statements and the group management report in accordance with German law.

Berlin and Frankfurt am Main, 24 March 2004

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rehnen
Auditor

Droste
Auditor

GILDEMEISTER group		HGB				IFRS			Change against prev. year in %
		1997	1998	1999	2000	2001	2002	2003	
Sales revenues	€ k	444,543	580,328	690,363	923,298	1,145,390	1,032,814	977,763	-5
Domestic	€ k	249,357	340,361	408,987	483,363	567,900	491,719	475,688	-3
International	€ k	195,186	239,967	281,376	439,935	577,490	541,095	502,075	-7
% International		44%	41%	41%	48%	50%	52%	51%	
Total work done	€ k	447,319	583,558	700,012	912,884	1,198,623	1,046,599	995,709	-5
Personnel costs	€ k	126,877	145,786	171,405	212,544	274,152	270,156	270,577	0
Depreciation	€ k	7,388	9,960	14,946	25,492	34,952	37,757	36,430	-4
Financial result	€ k	-11,339	-10,562	-11,903	-18,681	-23,387	-24,672	-24,414	-1
Profit/loss on									
ordinary activities	€ k	9,371	29,615	34,452	44,192	54,737	-7,496	10,260	237
Annual profit/loss	€ k	6,433	16,142	32,663	38,079	25,785	-18,710	-3,579	81
Adjusted results									
EBITDA	€ k	28,097	50,137	61,302	88,365	113,076	54,933	71,105	29
EBIT	€ k	20,710	40,177	46,356	62,873	78,124	17,176	34,675	102
EBT	€ k	7,243	17,015	34,452	44,192	54,737	-7,496	10,261	237
Result before shares to									
other shareholders	€ k	6,810	17,991	33,586	39,667	24,672	-19,057	-3,732	80
Fixed assets	€ k	54,162	73,939	98,234	210,486	247,634	276,281	270,569	-2
Intangible assets	€ k	11,140	16,327	18,676	80,179	85,099	101,356	99,795	
Tangible assets	€ k	42,771	57,497	79,452	130,300	162,225	174,482	170,550	
Financial assets	€ k	251	115	106	7	310	443	224	
Current assets	€ k	234,019	279,835	320,830	490,050	629,792	622,082	604,343	-3
Inventories	€ k	116,819	123,908	124,973	160,420	249,771	250,768	264,365	
Receivables incl. deferred tax assets + prepaid expenses	€ k	108,723	147,366	182,270	305,534	364,743	353,625	328,553	
Liquid funds	€ k	8,477	8,561	13,587	24,096	15,278	17,689	11,425	
Equity¹⁾	€ k	46,179	81,582	107,174	195,687	231,177	193,824	187,593	-3
Subscribed capital	€ k	48,697	55,453	56,398	75,087	75,087	75,087	75,087	
Capital reserve	€ k	0	13,513	12,568	48,734	48,734	48,734	48,734	
Revenue reserve	€ k	0	681	19,793	39,068	83,055	70,003	63,772	
Accumulated profit/loss	€ k	-6,579	6,713	13,202	18,455	24,301	0	0	
Shares to other shareholders	€ k	4,061	5,222	5,213	14,343	10,773	1,193	1,198	0
Outside capital	€ k	242,002	272,192	311,890	504,849	635,476	703,346	686,121	-2
Participating certificate capital	€ k	7,669	0	0	0	0	0	0	
Special account for investment allowances	€ k	66	50	1,632	1,219	0	0	0	
Provisions	€ k	57,434	62,141	81,472	113,928	139,302	148,386	133,958	
Payables incl. deferred tax liabilities + deferred income	€ k	176,833	210,001	228,786	389,702	496,174	554,960	552,163	
Balance sheet total	€ k	288,181	353,774	419,064	700,536	877,426	898,363	874,912	-3
Employees (annual average)		2,239	2,442	3,142	3,936	4,918	4,912	4,849	-1
Employees (31 Dec.)		2,255	2,496	3,175	4,447	5,030	4,821	4,823	0
Trainees		101	121	165	190	204	224	205	-8
Total employees		2,356	2,617	3,340	4,637	5,234	5,045	5,028	0

GILDEMEISTER group	HGB				IFRS			Change against prev. year in %	
	1997	1998	1999	2000	2001	2002	2003		
Efficiency ratios									
Profit on sales (EBIT) = EBIT / Sales revenues	%	4.7	6.9	6.7	6.8	6.8	1.7	3.5	106
Profit on sales (EBT) = EBT / Sales revenues	%	1.6	2.9	5.0	4.8	4.8	-0.7	1.0	243
Equity return ¹⁾ = Annual Profit/loss / equity (as of 01 Jan.)	%	14.6	35.0	40.0	35.5	11.4	-8.1	-1.8	78
Return on total assets = EBT + Interest on outside capital / average total capital	%	7.5	8.7	12.1	11.5	9.7	2.2	4.1	86
ROI - Return on Investment = EBT / average total capital	%	2.6	5.3	8.9	7.9	6.6	-0.8	1.2	250
Sales per employee = Sales revenue / average number of employees (exc. trainees)	€ k	198.5	237.6	219.7	234.6	232.9	210.3	201.4	-4
EBIT per employee = EBIT / average number of employees (exc. trainees)	€ k	9.2	16.5	14.8	16.0	15.9	3.5	7.2	106
ROCE - Return on capital employed ¹⁾ = EBIT / Capital Employed	%	10.9	16.2	14.8	12.0	12.0	2.6	5.2	100
Value added	€ M	147.6	173.5	218.1	275.7	352.6	287.5	305.4	6
Value added per employee	€ k	65.9	71.0	69.4	70.0	71.7	58.5	63.0	8
Balance sheet ratios									
Capitalisation ratio of fixed assets = Fixed assets / total assets	%	18.8	20.9	23.4	30.1	28.2	30.8	30.9	0
Working intensity of current assets = Current assets / total assets	%	80.7	78.4	75.9	69.3	68.6	65.1	65.2	0
Equity ratio = Equity / total capital	%	16.0	23.1	25.6	27.9	26.3	21.6	21.4	-1
Ratio of outside capital to total capital = Outside capital / total capital	%	84.0	76.9	74.4	72.1	73.7	78.4	78.6	0
Assets and liabilities structure = Fixed assets / current assets	%	23.3	26.6	30.9	43.4	41.2	47.2	47.5	1
Capital structure = Equity / outside capital	%	19.1	30.0	34.4	38.8	35.8	27.5	27.3	-1

Fortsetzung ►►

GILDEMEISTER group		HGB				IFRS			Change against prev. year in %
		1997	1998	1999	2000	2001	2002	2003	
Ratios pertaining to financial position									
Cash ratio	%	4.8	4,2	5,8	7,0	3,5	3,6	2,2	-39
= Liquid funds (from balance sheet) / short-term liabilities (up to 1 year)									
Ratio of financial current assets to short-term liabilities	%	66.1	75.0	81.2	91.5	80.7	67,1	59,1	-12
= ((liquid funds + short-term receivables) / short-term liabilities (up to 1 year))									
Current ratio	%	132.9	135.5	134.3	137.9	130.2	111.4	106.1	-5
= ((liquid funds + short-term receivables + stocks) / short-term liabilities (up to 1 year))									
Net indebtedness	€ M	85.7	104.1	124.4	214.9	278.0	319.5	342.1	7
= amounts owed to banks + bills payable – liquid funds – current investments									
Gearing ¹⁾	%	185.5	127.6	116.1	109.8	120.3	164.8	182.4	11
= net indebtedness – equity before shares held by other shareholders									
Working Capital	€ M	89.8	109.7	136.5	226.4	283.2	176.0	136.7	-22
= current assets – short-term borrowed capital									
Net Working Capital	€ M	155.4	179.1	217.9	318.9	402.1	386.5	379.3	-2
= stocks + payments on account – customer prepayments + trade receivables – trade payables									
Capital Employed	€ M	189,3	247,8	313,0	524,5	648,5	661,7	663,7	0
= equity + provisions + net indebtedness									
Structural analysis ratios									
Turnover rate of raw materials and consumables		4.9	5.1	6.3	5.9	6.9	6.8	5.8	-15
= Cost for raw materials and consumables / stocks of raw materials and consumables									
Turnover rate of stocks		3.8	4.7	5.5	5.8	4.6	4.1	3.7	-10
= sales / stocks									
Turnover rate of receivables		5.3	5.5	5.2	4.7	4.4	3.7	3.8	3
= sales revenues (incl. 16% VAT on domestic revenues) / average trade receivables									
Total capital-sales ratio		1.5	1.6	1.6	1.3	1.3	1.1	1.1	0
= Sales revenues / total capital									
D50 (Days sales outstanding)		69.4	66.0	70.0	77.7	83.6	97.6	96.1	-2
=(average trade receivables / (sales revenues (incl. 16% VAT on domestic revenues)) x 365									

GILDEMEISTER group		HGB				IFRS		Change against prev. year in %	
		1997	1998	1999	2000	2001	2002		2003
Productivity ratios									
Intensity of materials	%	56.4	54.9	55.0	53.1	54.0	54.5	52.8	-3
= cost of materials / gross performance									
Intensity of staff	%	28.4	25.0	24.5	23.3	22.9	25.8	27.2	5
= Staff costs / gross performance									
Cash flow & investments									
Cash flow from current operations	€ M	20.3	18.6	23.9	-5.0	31.5	47.7	28.7	-40
Cash flow from investment activity	€ M			-38.7	-144.7	-70.7	-71.9	-32.3	55
Cash flow from financing activity	€ M			20.1	161.0	31.3	27.6	-1.8	-107
Free cash flow	€ M			-8.2	-39.4	-29.7	-0.8	-3.7	-363
= cash flow from current operations + cash flow from investment activity (exc. cash flow from financial investments)									
CapEx (Capital Expenditure)	€ M	13.5	29.8	37.6	39.5	80.2	73.2	36.4	-50
Share & valuation									
Market capitalisation	€ M	95.2	125.4	147.6	235.3	269.2	109.2	237.4	117
Company value	€ M	224.3	272.9	319.3	506.8	619.9	496.1	643.8	30
= market capitalisation + amounts owed to banks + bills of exchange + other liabilities + pension reserves – liquid funds									
Earnings per share ²⁾	€	-0.07	0.46	0.76	0.91	0.85	-0.66	-0.13	80
= result after minority interests / number of shares									
Price-earnings ratio (PER)		13.1	7.4	4.3	5.3	4.9	-14.6	23.1	258
= market capitalisation / EBT									
Company value-EBITDA ratio		8.0	5.4	5.2	5.7	5.5	9.0	9.1	1
= company value / EBITDA									
Company value-EBIT ratio		10.8	6.8	6.9	8.1	7.9	28.9	18.6	-36
= company value / EBIT									
Company value-Sales ratio		0.5	0.5	0.5	0.5	0.5	0.5	0.7	40
= company value / Sales									

1) Under HGB inc. minority interests; under IFRS exc. minority interests

2) Under HGB in acc. w. BVFA/SG; the share capital was split 1:10 in 1999; the figures for the previous years were adjusted accordingly.

- A** Administration 88
 Affiliated Companies 189
- B** Balance sheet 64, 160, 189
 Branch offices 90
 Business Report 44
- C** Cash flow 68, 193
 Communication 105
 Corporate Governance 77
 "Corporate Service" segment 56, 114, 175, 199
 Corporate Situation 54, 117
 Corporate suggestion system 96
 Course of business 37, 54
- D** Depreciation 62, 85, 195
 Dividend 63, 72, 75
- E** Equity 69
 Executive Board/executive units 36, 88, 187
- F** Financial assets 83, 154, 161
 Financial position 64
 Flow of funds analysis 68, 193
 Forecast 120
 Further training 103, 129
- G** Group Structure 55, 86, 89, 184
- I** Income Statement 62, 176, 188
 Internet 166
 Investments 83, 125
 Investor Relations 75
- L** Legal Corporate Structure 89, 128
 Logistics 96, 127
- M** "Machine Tools" segment 56
 Market capitalisation 74
 Market environment 72
 Market presence 55
 Marketing 105
- N** Net worth position 64
 Notes 149
- O** Orders position 38, 60, 116, 117, 124
 Organigramme 86
 Organisation 88
 Overall Development 45, 117, 121
- P** Part-time retirement 103
 Press 107
 Procurement 191, 126
 Production 96, 127
 Products 96, 128
 Profitability 54, 61
 Public Relations 107
- R** Research and Development 129, 130
 Results 61, 124
 Risk management 75, 125
- S** Sales 56, 117, 124
 Sector trends 48, 117, 120, 122
 Segmental Reporting 108, 174, 199
 "Services" Segment 56, 112, 174, 199
 Share prices 73
 Staff 102
 Supervisory Board 27, 35, 186
 Supplementary report 200
 Supplying plants 86
- T** Technical services 101
 Training 102
- V** Value added 70
- Y** Year 2003 116, 120

Commercial glossary

Accruals and deferrals	Payments in the reporting period that affect the profit or loss of a period after the balance sheet date
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.
Cashflow	Flow of financial funds from current business activities over a certain period, adjusted by significant charges and income not affecting payment
CIMT	“China International Machine Tool”. The CIMT is the third largest trade fair world-wide for engineering and tools. It takes place every other year, alternating between Peking and Shanghai
Corporate Governance	The responsible management and supervision of companies geared towards the creation of long-term value
Current assets	Assets for the short-term operation of the business
DAX	Bluechip Index of the Deutsche Börse. It includes the 30 largest equities by market capitalisation and order-book business from traditional and technology industries that are listed in the “Prime Standard”
Deferred taxes	Interperiod 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 securities
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EBIT	Earnings before interest and taxes
EBT	Earnings before taxes
EGG	Profit or loss on ordinary activities
EMO	“Exposition mondiale de la Machine Outil”. The EMO is seen as the main trade fair in metal working and is the largest trade fair for machine tools world-wide. It takes place every other year, alternating between Hanover and Milan.
Equity / equity capital	Funds made available to a company by its owners through deposit and/or contribution or from retained earnings
Equity return	Profit for the year to equity ratio
EURO-STOXX 50	This index consists of the 50 major companies from the EU states (the so-called Blue Chips) and is weighted by market capitalisation, trading volume and industry.
Finance Lease	Leasing relation in which risks and rewards are mainly carried by the lessee. The lessee becomes the beneficial owner of the leasing object without the title being passed to him. The leasing object is reported in the lessee's balance sheet.

Fixed assets	Assets intended to serve the company's business activities 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
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
Goodwill	Percentage of the purchase price of a company which exceeds the value of the assets calculated as fractional values
IFRS	International Financial Reporting Standards. Internationally applicable accounting standards to ensure international comparability of group accounts and to meet information requirements of investors and other readers of annual accounts by providing a higher degree of transparency.
Market capitalisation	This is the current price of a listed company. It is determined by the share's market value multiplied by the total number of shares.
MDAX	Index for medium-sized companies from traditional industries; as index for selected securities ranking directly below the DAX. It includes 50 securities listed in the "Prime Standard" segment.
NASDAQ	National Association of Securities Dealers Automated Quotations is an electronic trading system run by NASD. The NASDAQ sees the trading of young dynamic companies from growth industries.
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-Index	Japanese stock market index. Criterion is the market capitalisation rate.
Operate Lease	Risks and rewards are borne by the lessee, who thereby carries the investment risk. From the lessee's point of view, an operating lease operates like a tenancy agreement. These agreements are entered into on the condition that they cannot be terminated during the agreed term.
Outside capital	Summarising term for provisions, creditors and deferred income shown on the liabilities side of a balance sheet
Return on total capital employed	Profit before taxes and interest on borrowed capital to average total capital ratio
ROCE	Return on capital employed: EBIT to total capital, reserves and net indebtedness ratio (Return on capital employed)
ROI	Return on investment: earnings before taxes to average total capital (Return on investment)
SDAX	Index for selected smaller companies (small caps) from the classic sector. It ranks directly below the MDAX and includes 50 securities listed in the "Prime Standard" segment

TecDAX	is the index for selected medium-sized (midcap) companies from the technology industry. As index for selected companies it ranks directly below the DAX and included 30 securities listed in the "Prime Standard" segment.
Three major global markets	The three global markets, America, Asia and Europe
Trading for own account	DMG Vertriebs und Service GmbH and/or its subsidiaries sell machines purchased from the production companies in their own name for own account
Xetra trading system	Electronic stock exchange trading system

Technical glossary

Benchmark	External or in-house comparison of companies or departments using selected key figures.
Cavity	A cavity is a small hollow mould.
CKD set	At sites where complex procurement processes are (as yet) not possible or profitable, so-called completely knocked down sets are used for the assembly of multistage products. CKD sets include all component parts and sub-assemblies of a product and only require assembly processes for the construction of the end product.
coSupply®	coSupply® represents the comprehensive partnership approach for powerful supply partnerships at GILDEMEISTER, characterised by the three functions: "communication", "co-operation" and "competence" and striving for enhanced competitiveness.
CTV	The CTV product line includes universally arranged lathes with a vertically placed head spindle, providing for integrated handling of components and an option of automated integrated machining.
CTX	The CTX product line provides a differentiated programme of CNC universal lathes with a variety of options for both simple and demanding machining tasks.
DMC eVolution/DMC U	The DMC eVo/DMC U product line provides CNC machining centres for 5-sided / 5-axis machining in serial production.
DMC H	The DMC H product line provides horizontal machining centres with high dynamics and precision for a wide range of uses, from general machine construction to serial production.
DMC V	The DMC V product line provides vertical machining centres with high dynamics and precision for high demands in both the tools manufacture and mould making industries and for small-lot and medium-sized serial production.
DMF	The DMF product line provides traversing column machines with large machining areas, effective pendulum machining in two separate work areas, high cutting performance, dynamics and precision with fast traverse speeds of the traversing column.
DMG Netservice	Interactive online remote access to the control of machines for fault analysing and programming support.

DML	The laser machines from the DML product line offer economic options for high-precision machining of filigree workpieces, including those made from materials that are difficult to machine.
DMP V	The DMP v product family includes vertical machining centres for production milling with especially high dynamics and short non-productive times through linear direct drives and a new type of tool change design.
DMS	The DMS product line consists of ultrasonic machines for ultrasound-supported machining of hard-brittle materials. The product line offers boring, milling and grinding operations in one machine – with optional five axes for 5-sided integrated machining (see also “Ultrasonic”)
DMU	This products line with its well developed programme of CNC universal milling machines for 5-sided machining offers a good starting point into modern milling.
DMU eVolution/DMU P	This product line includes CNC machining centres for 5-sided / 5-axis machining used in serial production
DUOBLOCK®	The patent applied for Duoblock™ construction combines the advantages of a traversing column structure with those of a portal construction and thanks to its thermo-symmetrical design ensures maximum precision, rigidity and dynamics.
E-Business/ e-Commerce	These terms represent the whole range of electronic Internet-supported communication between companies and end users. Their essential contribution is the paperless exchange of business information. Applications range from relaying information through sales to world-wide simultaneous auctions between partners via the Internet.
ERP-System	Standard application software for Enterprise Resource Planning (for example SAP /R3, BaaN); It is intended to be used in, and adapted to, a variety of organisational conditions and business processes in various companies. It continuously supports processes, for example in materials and merchandise management or finances.
GMC / GM	The GMC / GM product line includes CNC multi-spindle turning centres and multi-spindle automatic lathes. GMC machines offer state-of-the-art control technology with 3D programming and integrated spindle engines, which can be equipped with linear drives on the x-axes to achieve the highest dynamics and precision.
GMX	The turning and milling centres of the GMX product line integrate state-of-the-art milling and turning technology into high-precision 6-sided integrated machining of complex workpieces.
Intranet	Based on Internet technology, the Intranet is a universal network for company-internal communication protected from external dangers.
Laser technology	Laser technology or laser beam machining is an eroding process for machining metallic materials and materials that are not easily machinable, such as high-tech ceramics, silicon or metal carbide. Using a spotbeam 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 2D and 3D areas.
Linear drive technology	Linear drive technology uses a contactless, 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 but with hardly any wear.

monoblock™	Unlike a traditional construction, where the machine frame consists of several components (bed, stand, etc.), the core of the machine in monobloc construction is formed by a rigid and compact basic body
NEF	The NEF product line offers an operator-friendly entry-level universal lathe for modern turning technology at an affordable price. Thanks to their universal design, the machines are suitable for piece part manufacture and small-lot production.
PDA system:	A production data acquisition system for the capture of company-specific information (such as technical and logistical production parameters). The PDA forms the database of the technical and logistical monitoring and controlling, thereby representing the key basis of the corporate control system (for example as part of an ERP system).
PULL	PULL stands for Produktions- und Logistik-Leistung (performance of production and logistics) and has been the GILDEMEISTER production system since June 1998. Modelled on examples from the motor industry (Toyota production system, TPS), it combines different components and individual activities with the aim of increasing efficiency, in one continual improvement process, in production and in the production-related areas, such as materials planning, receipt of goods and stock of goods.
Series start-up management:	System-supported method for recording, communication, processing and control of start-up specific tasks with the aim of taking new machines to serial maturity faster. The GILDEMEISTER-internal system uses the Lotus Notes communication and GroupWare application.
SPEED	The SPEED product line provides CNC Swiss-type automatic lathes for the machining of simple to complex long parts in small to medium lot sizes.
SPRINT	The SPRINT product line consists of one-spindle CNC automatic bar machines for flexible and economic integrated machining of short parts in small to medium lot sizes.
Transshipmentpoint	A logistical programme where a service provider brings together incoming freight from various suppliers to one place and delivers them to the plants in time for production. Outgoing freights are transhipped in a similar way. The service provider is also responsible for the fine-tuning of the process with the suppliers.
TWIN	The TWIN product line provides two-spindle turning centres with independent turning spindles for the integrated machining of demanding chuck and rod parts.
Ultrasonic	An ultrasound-supported manufacturing process for the economic machining of hard-brittle high-tech materials ("advanced materials") such as ceramics, glass, silicon, composites, metal carbide, hardened steel, sapphire, ruby or mother-of-pearl. The ultrasonically energised main spindles combine with the traditional machining process (for example milling) through a high-frequency oscillating motion. Compared with traditional machining processes, this machine design results in a productivity that is up to five times higher, longer tool lives and at the same time better surface quality, and, with regard to the processed workpiece geometries, a substantially higher flexibility.

29 March 2004	Press conference on Financial Statements
29 March 2004	Publication of the Annual Report 2003
30 March 2004	Discussion with analysts
06 May 2004	1st Quarterly Report 2004 (1 January to 31 March)
14 May 2004	General meeting of shareholders at 10am at the town hall in Bielefeld
05 August 2004	2nd Quarterly Report 2004 (1 April to 30 June)
09 November 2004	3rd Quarterly 2004 (1 July to 30 September)
15 February 2005	Press release on provisional figures for the financial year 2004
20 May 2005	General meeting of shareholders at 10am at the town hall in Bielefeld

Contact

GILDEMEISTER Aktiengesellschaft
Public Relations
Gildemeisterstraße 60
D-33689 Bielefeld, Germany
Phone: +49 (0) 52 05/74-3001
Fax: +49 (0) 52 05/74-3081
Internet: www.gildemeister.com
E-Mail: info@gildemeister.com