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ANNUAL REPORT 2004

Customers . Markets . Performance .

GILDEMEISTER

GILDEMEISTER group
Key figures

Sales revenues
Order intake
EBIT
Profit / Loss for the year
Employees

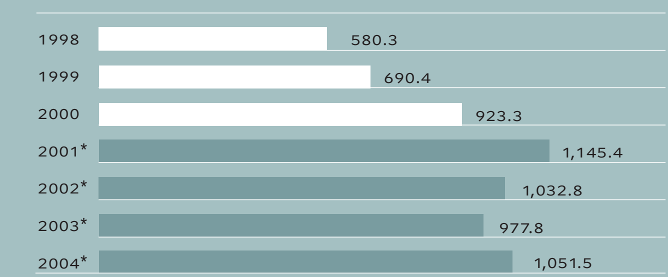
Key figures

The Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft for the year ended 31 Dezember 2004 were prepared in accordance with International Financial Reporting Standards (IFRS).

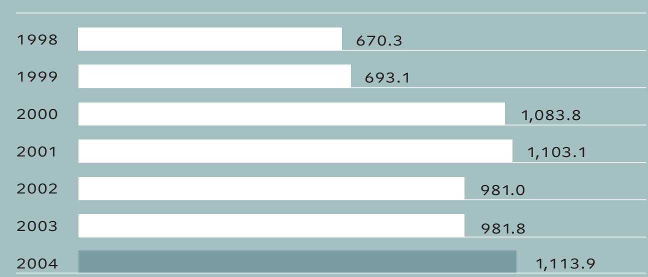
GILDEMEISTER group	2004	2003	Changes 2004 against 2003	
	€ M	€ M	€ M	%
Sales revenues				
Total	1,051.5	977.8	73.7	8
Domestic	502.9	475.7	27.2	6
International	548.6	502.1	46.5	9
% International	52	51		
Order intake				
Total	1,113.9	981.8	132.1	13
Domestic	508.8	457.0	51.8	11
International	605.1	524.8	80.3	15
% International	54	53		
Order backlog*				
Total	321.8	259.4	62.4	24
Domestic	113.6	107.7	5.9	5
International	208.2	151.7	56.5	37
% International	65	58		
Investments	21.8	36.4	-14.6	-40
Personnel costs	282.5	270.6	11.9	4
Employees	4,984	4,823	161	3
plus trainees	190	205	-15	-7
Total employees*	5,174	5,028	146	3
EBITDA	71.2	71.1	0.1	
EBIT	41.9	34.7	7.2	
EBT	12.0	10.3	1.7	
Profit / loss for the year	5.6	-3.6	9.2	

* Reporting date 31 December

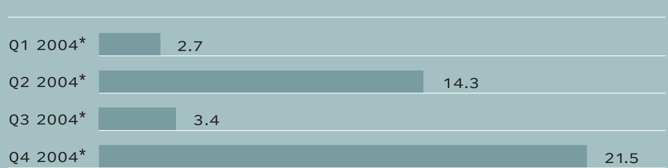
Sales revenues
in € million



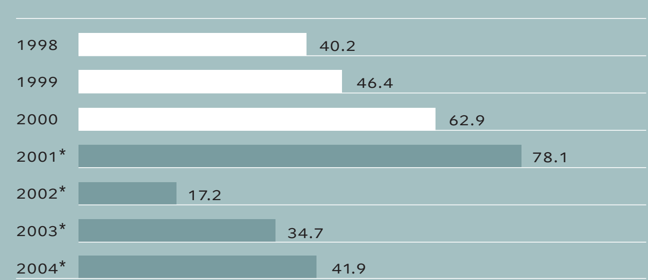
Order intake
in € million



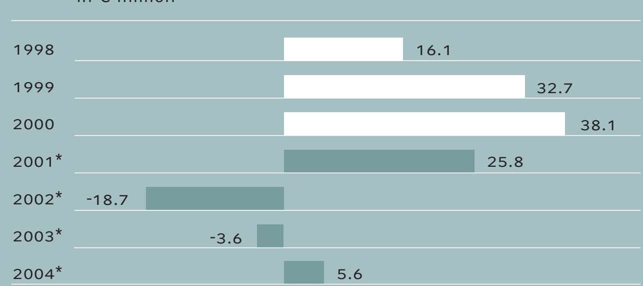
Quarterly results (EBIT)
in € million



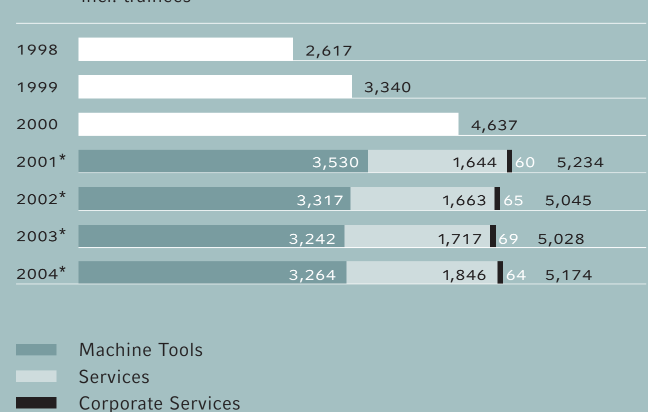
EBIT
in € million



Profit / loss for the year
in € million



Number of Employees
incl. trainees



*in accordance with IFRS

Customers . Markets . Performance .

The strategy for 2005 – Maximum customer proximity, new market potentials and supreme efficiency.

The **maximum customer proximity** of GILDEMEISTER is particularly valuable in the technically demanding markets of Europe. With technology machines for the highest productivity, as well as innovative service and software products, we help our customers to achieve perceptible competitive advantages in their markets. This makes GILDEMEISTER the leading partner of companies in metal cutting production. With a total of 19 new developments in the current financial year we are building on this leading role.

Europe

"Our customers demand maximum precision and uncompromising quality, just in time. We will achieve this goal with DMG machines."

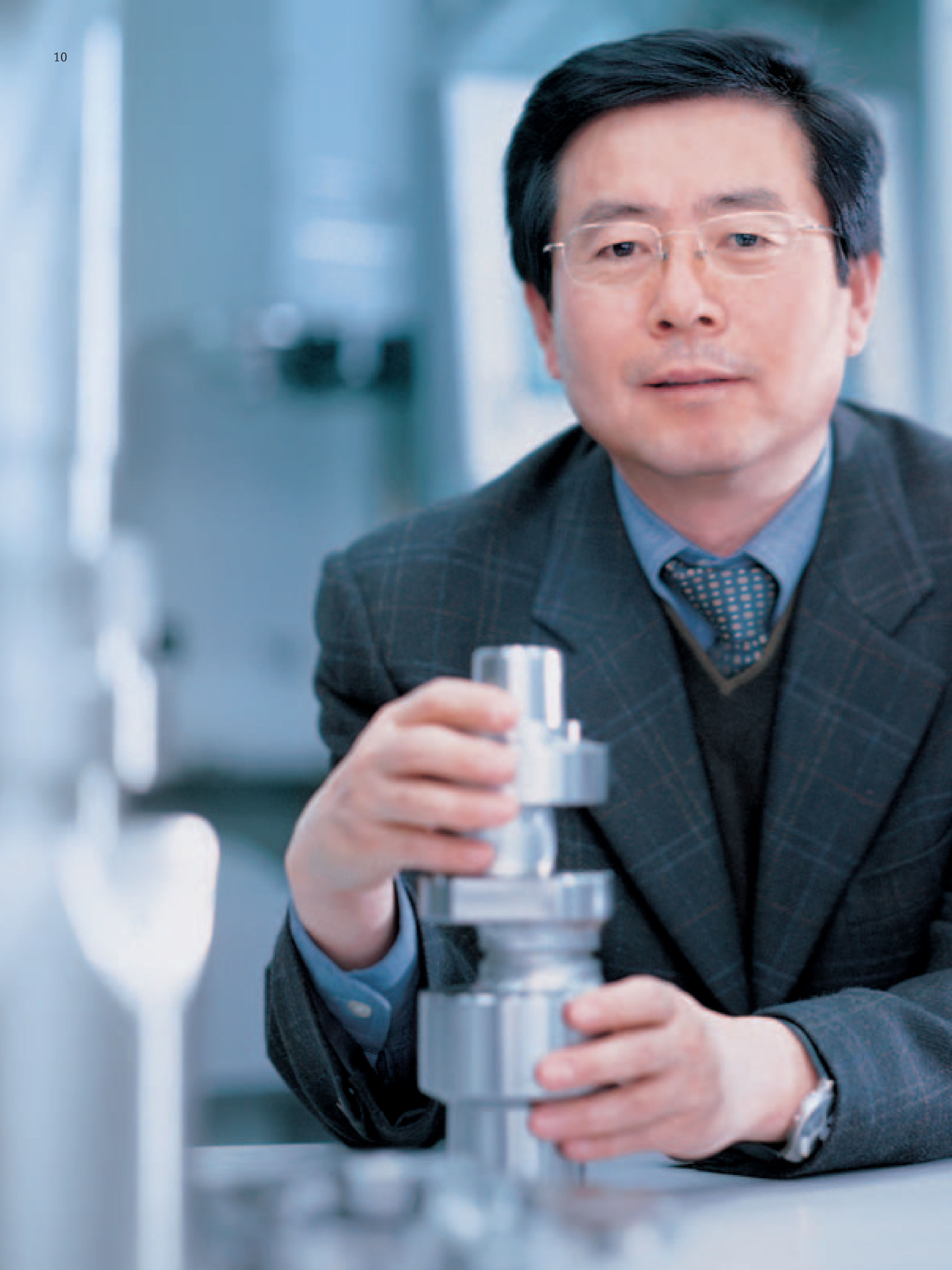
Manfred Zimmer,
Manager of Production,
Aerotech Peissenberg GmbH & Co. KG,
Peissenberg, Germany

Our order volume in the USA shows that the investment blockage there is dispersing and there is a large demand for innovative technology machines. In the year under review GILDEMEISTER more than doubled the number of machines sold. Our innovations and our customer proximity, which are continually opening **new market opportunities** for us, form the basis of this success. We will continue to extend our distribution and service activities this year, so that we can give our customers the best possible care.

USA

"Using DMG Machines, Oberg was able to significantly lower set-up and running times. At the same time we have increased throughput and have proved our position as world class manufacturer."

Karl Binner, Toolroom Manager, Oberg Industries, Freeport, USA



GILDEMEISTER has established itself well in Asia and participated in the demand for machine tools. The largest market for machine tools, worldwide, has developed in China in recent years. GILDEMEISTER recognised this at an early stage and has continued to consolidate its presence. With our production plant in Shanghai we offer our customers expertise at close quarters and therewith an additional **increase in efficiency.**

Asia

"With the performance and flexibility of DMG Machines we can extend our services and venture into new markets."

Chang Ho Lee, President,
Sehwa Machine, Kyungju, Korea

Key Figures

14 GILDEMEISTER in Brief / Group Structure

16 Report: Supervisory Board / Executive Board

30 Business Report for GILDEMEISTER Aktiengesellschaft

16 Chairman of the Supervisory Board
17 Report of the Supervisory Board
22 The Executive Board
23 Letter from the Chairman
26 The Year 2004

30 Business Report:
30 GENERAL ECONOMIC SITUATION
30 Overall Economic Development
33 Development of the Machine Tool Industry
39 COMPANY SITUATION AND COURSE OF BUSINESS
39 Sales Revenues
40 Order Intake
43 Order Backlog
44 Results of Operations, Net Worth and Financial Position
57 The GILDEMEISTER Share and Bond
63 Corporate Governance
66 Risk Reporting
70 Investments
73 Organisation and Administration
74 Legal Corporate Structure
77 Procurement
81 Production and Logistics, Products and Services
87 Research and Development
91 Employees
95 Marketing / Public Relations
98 Segments
98 "Machine Tools"
101 "Services"
103 "Corporate Services"

106 Supplement / Forecast

106 **Supplementary Report**
109 **Forecast 2005**

120 Annual Financial Statements

120 **Annual Financial Statements of GILDEMEISTER Aktiengesellschaft in accordance with IFRS**
120 Notes to the Consolidated Financial Statements
158 Affiliated Companies
160 Corporate Directory
162 Consolidated Income Statement
163 Consolidated Balance Sheet
166 Statement of Changes in Group Equity and in Shares to other Shareholders
167 Consolidated Cash Flow Statement
169 Consolidated Fixed Assets Movement Schedule
173 Segmental Reporting relating to Consolidated Financial Statements 2004
176 Auditor's Report

178 Multiple Year Overview

178 **Group Overview / Multiple Year Overview**
182 **Glossary**
188 **Financial Calendar**
Index

GILDEMEISTER is one of the leading manufacturers worldwide of machining tools. Our business activities comprise three segments: The "Machine tools" segment has been formed by the new machine business of the group and includes the Turning and Milling technologies as well as the innovative future technologies of Ultrasonic and Lasers. In the "Services" segment all services covering our machines are offered, encompassing all areas from DMG Vertriebs und Service GmbH and from their affiliated companies. The acti-

Group Structure*

GILDEMEISTER Aktiengesellschaft
Bielefeld

Production Plants

- GILDEMEISTER Drehmaschinen GmbH, Bielefeld 100%
- GILDEMEISTER Italiana S.p.A. Brembate di Sopra 100%
- GRAZIANO Tortona S.p.A. indirect 100%
- DECKEL MAHO Pfronten GmbH indirect 100%
- DECKEL MAHO Geretsried GmbH indirect 100%
- DECKEL MAHO Seebach GmbH 100%
- FAMOT Pleszew S.A. 100%
- SAUER GmbH Idar-Oberstein, Kempten indirect 99%
- DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd. 100%

Sales and Service organization

- DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld 100%

"Machine Tools"
"Services"

* Simplified organizational structure acc. to leadership criteria
Reporting date: March 2005

vities of GILDEMEISTER Aktiengesellschaft with its central group functions form the focal points of the third segment "Corporate Services". A total of 5,174 committed employees in 11 places of production and 57 national and international distribution and service sites look after our customers with innovative machine technologies, authorised maintenance services and the most recent software products. The strengthening of the earnings performance and the increase in the value of the company are our most important goals.

DMG Deutschland Stuttgart	DMG Europe Klaus, Austria	DMG America Chicago	DMG Asia Singapore	DMG Services Bielefeld, Pfronten
DMG Stuttgart Vertriebs und Service GmbH	DMG Italia S.r.l. Brembate di Sopra, Tortona	DMG Chicago Inc. Chicago / Schaumburg	DMG Shanghai Co. Ltd. Shanghai	DMG Service Fräsen Pfronten GmbH, Pfronten, Geretsried
DMG München Vertriebs und Service GmbH	DMG Austria GmbH Klaus, Wiener Neudorf	DMG America Inc. Charlotte	DMG Beijing Sales Office Beijing	DMG Service Fräsen Seebach GmbH, Seebach, Geretsried
DMG Hilden Vertriebs und Service GmbH	DMG (Schweiz) AG Zürich / Dübendorf	DMG Los Angeles Inc. Los Angeles	DMG Guangdong Sales Office Guangdong	DMG Service Drehen GmbH Bielefeld
DMG Bielefeld Vertriebs und Service GmbH	DMG (UK) Ltd. Luton	DMG Houston Inc. Houston	DMG Chongquing Sales Office Chongquing	DMG MICROSET GmbH Bielefeld
DMG Berlin Vertriebs und Service GmbH, Berlin, Chemnitz	DMG Paris S.a.r.l. Les Ulis	DMG Canada Inc. Toronto	DMG Shenyang Sales Office Shenyang	SACO S.p.A. Castelleone, mittelbar 100%
DMG Frankfurt Vertriebs und Service GmbH	DMG Lyon S.A.S. Lyon, Scionzier	DMG México S.A. de C.V. Monterrey	DMG Xian Sales Office Xian	a & f Stahl- und Maschinen- bau GmbH, Würzburg 100%
DMG Trainings-Akademie GmbH Bielefeld, Geretsried, Pfronten	DMG Benelux Veenendaal, Zaventem	DMG Brasil Ltda. São Paulo	DMG Asia Pacific Pte. Ltd. Singapore	DMG Gebrauchtmaschinen GmbH, Geretsried, Bielefeld, Zlin
	DMG Ibérica S.L. Barcelona, Bilbao		DMG Malaysia SDN BHD Kuala Lumpur	
	DMG Czech s.r.o. Brno, Trenčin		DMG (Thailand) Co. Ltd. Bangkok	
	DMG Polska Sp.z.o.o. Pleszew		DMG Vietnam Sales Office Hanoi	
	DMG Danmark Kvistgård		DMG Nippon K.K. Yokohama, Nagoya	
	DMG Russland o.o.o. Moskau		DMG India Pvt. Ltd. Bangalore, Neu-Delhi	
	DMG Istanbul Ltd. Istanbul		DMG Korea Ltd. Seoul	
			DMG Taiwan Ltd. Taichung	
			DMG Australia Pty. Ltd. Melbourne, Sydney	

Hans Henning Offen (64)
has been Chairman of the Supervisory Board since May 2004 and has been a member of this Board since 1994. After taking a degree in Management Studies (Dipl.-Kaufmann) at the Universities of Cologne and Hamburg, he started his career at Citibank in Hamburg, New York and Frankfurt. In 1979 he became a member of the Executive Board at Handelsbank in Lübeck AG and in 1985 spokesman for the Executive Board of Deutsche Bank Asia AG. Both of these institutes are subsidiaries of Deutsche Bank AG. In 1990, Offen was appointed member of the Executive Board at Westdeutsche Landesbank Girozentrale and subsequently acted as Deputy Chairman of the Executive Board from 1992 to 2002.

Hans Henning Offen elected as new Chairman of the Supervisory Board on 14 May 2004

For many years, these pages of the Annual Report have been prepared by Dr.-Ing. Manfred Lennings. He has been a member of the Supervisory Board since August 1984, acting as it's Chairman since January 1985. Following the general meeting of shareholders in 2004, Dr.-Ing. Lennings resigned from the chairmanship for reasons of age. To maintain the continuity of the Supervisory Board's work, Dr.-Ing. Lennings will continue to be a member until after this year's general meeting of shareholders. At the meeting of the Supervisory Board on 14 May 2004, and after ten years as member of this Board, I, Hans Henning Offen, was entrusted with the role of Chairman of the Supervisory Board of GILDEMEISTER Aktiengesellschaft. It is my pleasant duty to thank my predecessor on behalf of all the members of the Supervisory Board and the Executive Board for his many years of service as Chair of the Supervisory Board and for his active commitment to the interests of the group. The experience and skill of Dr.-Ing. Lennings were essential elements that contributed to GILDEMEISTER's success.

In the past financial year the Supervisory Board has been intensively involved in the group's long-term orientation and capital measures. For this purpose it remained in close and regular contact with the Executive Board. Profound discussions resulted in strategically important decisions. The Supervisory Board advised the Executive Board and supervised the Management, and was therefore part of all major decision-making processes.

There were seven meetings in the reporting year. The Supervisory Board was informed about the group's current economic situation, about major business developments including the risk situation and risk management, corporate planning and the group's strategic development. In the periods between meetings as well, the Executive Board informed the Supervisory Board promptly and comprehensively, providing regular written reports on all relevant decisions and developments. Budget variances were presented in detail and discussed. Resolutions of the Executive Board which required the agreement of the Supervisory Board were laid before it for decision. In the financial year 2004, the Supervisory Board has passed three resolutions through written procedures. Subjects included the capital increase, the bond issue and corporate governance compliance.

The first meeting held on 28 January 2004 was attended by all members of the Supervisory Board. This meeting focused on the GILDEMEISTER group's strategic orientation.

At the meeting on 25 March 2004, the Supervisory Board, in the presence of the auditor, discussed and adopted the Annual Consolidated Financial Statements, the Group Management Report, the Annual Financial Statements and the Management Report of GILDEMEISTER Aktiengesellschaft for the year ended 31 December 2003. The subject of capital measures was also discussed. Ten of the twelve members of the Supervisory Board attended this meeting.

The Supervisory Board is continously informed about the latest business developments.

The meeting held on 5 May 2004, which was also attended by ten members of the Supervisory Board, continued to work on the subject of the capital measures discussed at the second meeting. The Supervisory Board was thus informed about further steps with regard to implementation of the capital increase.

The meeting on 13 May 2004 focused on preparing for the general meeting of shareholders. Along with details of the capital measures, the Executive Board informed the Supervisory Board, all of whose members were in attendance, about the latest business developments.

Following the general meeting of shareholders on 14 May 2004, the members of the Supervisory Board, who were all in attendance, elected me as their new Chairman.

Items on the agenda of the meeting on 15 September 2004 included the efficiency of the work of the Supervisory Board and the group's long-term strategic positioning. In addition, the Executive Board informed the Supervisory Board, all of whose members were in attendance, about the course of business up to 31 August 2004 and about expectations with respect to further developments over the year.

At the planning meeting on 1 December 2004, the Supervisory Board, represented by eleven members, discussed group planning and strategy and unanimously approved the plans for 2005.

The Supervisory Board's Staff Committee met twice during the past financial year. It discussed personnel matters of the members of the Executive Board. 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 four times in the reporting year. The Committee prepared resolutions for the Supervisory Board with regard to reporting and risk management. In addition, it reviewed the exchange of information between the Committee and the plenum and the timely and sufficient supply of information to the Supervisory Board. The Committee focused particularly on preparation of the audit and approval of the Annual and Consolidated Financial Statements. Further points on the Committee's agendas included the required independence of the auditor, preparations for the audit assignment, establishing key items of the audit and agreement of the fee. The Executive Board presented and explained to the Committee the group's financing strategy, the contents of the finance and tax plan for 2004 as well as the capital measures carried out and the application of these funds. 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 Finance and Auditing Committee reported in detail on its meetings and its work.

The Executice Board and the Supervisory Board declared their compliance.

Transparent and intensive corporate control is an established principle at GILDEMEISTER. In accordance with the recommendation of the German Code of Corporate Governance each member of the Supervisory Board is obliged to disclose to the Supervisory Board promptly any conflicts of interest that may arise from his/her appointment as an advisor or officer with customers, suppliers, lenders or other business partners. No such conflicts of interest occurred during the reporting period. As of 31 December 2004, both the Executive Board and the Supervisory Board declared their compliance in accordance with Sect. 161 of the German Companies Act (AktG). The joint report of the Supervisory Board and the Executive Board on "Corporate Governance" is included on pages 63 et sqq. of this Annual Report.

The accounts auditor issued an unqualified audit opinion.

For the meeting of the Supervisory Board on Financial Statements held on 29 March 2005 the Annual Financial Statements, Consolidated Financial Statements, Management Report and Group Management Report of GILDEMEISTER Aktiengesellschaft were all available, as were the Audit Reports issued by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, auditing company, Berlin/Frankfurt am Main. The auditor was present at the Supervisory Board's deliberation on the Accounts and reported in detail on the course and the main findings 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 Section 91 para. 2 of the German Companies Act (AktG), particularly in respect of the establishment of a monitoring system. This means that the system is suitable for early recognition of developments that put the ongoing existence of the company at risk. All of the twelve members of the Supervisory Board attended this meeting. The Finance and Auditing Committee also met to prepare for the meeting. The main items on the agenda included the risk management report and the Annual Financial Statements for 2004.

The Annual Financial Statements for the year ended 31 December 2004 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 14 May 2004 and subsequent assignment to KPGM Deutsche Treuhand-Gesellschaft Aktiengesellschaft, auditing company, Berlin/Frankfurt am Main, by the Supervisory Board. The accounts auditor issued an unqualified audit opinion.

The Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft were prepared in accordance with the International Financial Reporting Standards (IFRS). In accordance with the exemption provision in Sect. 292a HGB, Consolidated Financial Statements in accordance with HGB were not prepared. The auditor also issued an unqualified audit opinion to the Consolidated Financial Statements prepared in accordance with IFRS, and to the

The Annual Financial Statements have been adopted in accordance with § 172 of the Stock Corporation Act (AktG).

Group Management Report. On the basis of its own examination of the Annual Financial Statements, the Consolidated Financial Statements, the Management Report and the Group Management 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 adopted in accordance with Section 172 of the Stock Corporation Act (AktG).

As of 31 January 2005, Peter Oxfart has retired from the Supervisory Board. We would like to thank him for his successful and helpful service. His successor is Rainer Stritzke. The members of the Supervisory Board would like to extend their thanks to the Executive Board, and the management and all employees of the group companies for their active commitment and resulting achievements. Many thanks also to the employee-elected representatives for their target-oriented dialogue in the interest of the GILDEMEISTER group's development.

Bielefeld, 29 March 2005
THE SUPERVISORY BOARD

Hans Henning Offen
Chairman

Dr. Rüdiger Kapitza (50)
Has been Chairman of the Executive Board since April 1996. Following his training as a machinist and industrial clerk at GILDEMEISTER, Dr. Kapitza studied economics in Paderborn and obtained his doctorate at the Johannes Gutenberg University in Mainz. He has responsibility for Corporate Strategy, Product Development, Sales and Services, Purchasing, Personnel and Public/Investor Relations. He was appointed to the Executive Board of GILDEMEISTER Aktiengesellschaft in 1992.

Prof. Dr.-Ing. Raimund Klinkner (40)
Studied Mechanical Engineering at the Munich University of Technology and has been a member of the Executive Board since May 1998; from 1 January 2003 as Deputy Chairman of the Executive Board. His areas of responsibility include Procurement, Production, Logistics and Investments as well as interdisciplinary projects such as development of the production site in Shanghai. Prof. Dr.-Ing. Raimund Klinkner is Honorary Professor of Production Logistics at Berlin Technical University, Faculty for Technology and Management. Before his appointment to the Executive Board, Dr. Raimund Klinkner worked in the car industry.

Michael Welt (50)
Has been a member of the Executive Board since January 2003. He is responsible for Controlling, Finances 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, a function which he continues to perform. Before he joined GILDEMEISTER, Michael Welt was a Manager in the mechanical and plant engineering area.

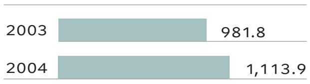
Dear Ladies and Gentlemen,

Over the past year GILDEMEISTER has demonstrated that, with the right strategy and the full commitment of everybody involved, a company can return to growth even in the face of difficult circumstances. We have achieved our published targets and exceeded the € 1 billion mark in terms of both order intake and sales revenues. However, these results are still not satisfactory. Order intake increased by 13% to € 1,113.9 million. Sales revenues were up by 8% to € 1,051.5 million. The GILDEMEISTER group reports an annual profit of € 5.6 million. EBIT amounted to € 41.9 million and EBT to € 12.0 million. In the past financial year, extraordinary gains and additional expenditure had to be taken into account. The Executive Board and Supervisory Board will propose to the general meeting of shareholders, to be held on 20 May 2005, that no dividend is distributed for the financial year 2004.

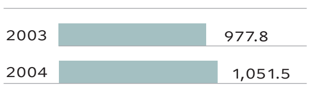
In the past financial year we have succeeded in standing our ground in the market environment and have played our part in the positive developments of global demand for machine tools. As you are aware, Asia has turned into an important landmark for us. China has developed into the largest market for machine tools worldwide over the past few years. We recognised this at an early stage and have gradually expanded our local presence in this market. Our production plant in Shanghai, which was opened in early 2003, is currently being expanded and now covers five locally produced machine types. In the entire Asian region demand remains high, with strong competitive and pricing pressures. We succeeded in strengthening our competitive position in America. Despite the unfavourable development of the US dollar exchange rate we achieved a noticeable increase in our sales figures and more than double the volume. Particularly in the USA the demand for innovative technology machines has increased.

In anticipation of improved business developments from 2005, GILDEMEISTER has increased its share capital in the ratio of 2:1, in order to strengthen its financial base. The subscription price per share was € 4.15; the gross issue proceeds amounted to € 60.1 million. Following the issue of 14.4 million new individual share certificates the number of shares rose to 43.3 million and the company's share capital from € 75.1 million to € 112.6 million. To further improve its financial structure, GILDEMEISTER has placed a long-term corporate bond with a volume of € 175.0 million and a remaining term of seven years. In addition, an existing syndicated loan in the amount of € 141.0 million has been extended until June 2007.

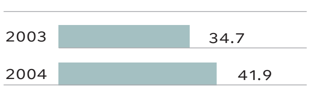
Order intake
in € million



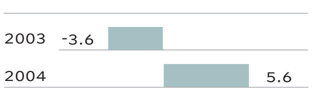
Sales revenues
in € million



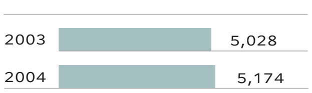
EBIT
in € million



Profit/loss for the year
in € million



Employees
(incl. trainees)



GILDEMEISTER starts the year 2005 with confidence.

For the year 2005 the motto is "Customers, Markets and Performance".

The year 2004 marked a turning point for our company. We have returned to the "road to growth" of the preceding years. This Annual Report presents you with details of this development in its usual informative and varied form. We intend to continue last year's positive developments into the current financial year. GILDEMEISTER starts the year 2005 with confidence. We have set ourselves the following goals: to increase our order intake to more than € 1,150 million; to increase sales to around € 1.1 billion; EBT to exceed € 25 million; annual profit of more than € 10 million. Due to the positive business and performance prospects, we are planning to distribute a dividend for the current financial year.

At GILDEMEISTER, the motto for 2005 is **"Customers, Markets and Performance"**. The basis for this success is the strategically targeted orientation of our core expertise. We expect fresh stimulus from EMO 2005 particularly, which will take place from 14 to 21 September in Hanover. This is the most important trade fair in the world and plays a trendsetting role for our industry and its customers. The EMO trade fair will be the industry's highlight of the year. We will present our latest developments at this event particularly. Our excellent technical knowledge and many years' experience are the basis for our company to remain the global market leader among the producers of cutting machine tools. Our goal is also to play a leading role among the machine tool manufacturers in terms of profitability. In 2005 we will take an important step in this direction. Following the restructuring measures done in the past financial year and through ongoing optimisation of our cost and process management, we expect a noticeable strengthening of our profitability. The "GILDEMEISTER 2010" efficiency programme, which continuously monitors all measures, will result in sustained earnings growth. Improvements in results will become apparent as early as the financial year 2005.

We would like to thank for your commitment to GILDEMEISTER.

These are just a few highlights of our prospects and the opportunities we intend to exploit. For this purpose we have a highly motivated and committed team standing by us, to whom we would like to express our thanks. My colleagues and I are convinced that GILDEMEISTER will successfully carry on the growth process it has already started. We are working on this with the utmost vigour. We would also like to thank our customers, suppliers, investors and business partners for their trust. And I would like to thank you, ladies and gentlemen, on behalf of my colleagues, for your commitment to GILDEMEISTER.

Yours sincerely,

Rüdiger Kapitza

Dr. Rüdiger Kapitza
Chairman of the Executive Board
Bielefeld, 29 March 2005

January

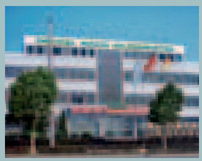
GILDEMEISTER starts the new financial year with 16 new machines. Its market position should continue to strengthen following its participation in 67 national and international trade fairs and exhibitions as well as the further extension of its distribution and service organisations.

February

The DMG Trainings-Akademie GmbH is awarded the Innovation Prize for Further Training in the State of North-Rhine Westphalia. With this award the Federal Institute for Professional Training acknowledges the special efforts of GILDEMEISTER for qualifying unemployed CNC skilled workers for work.

March

Following the opening of its production plant in Shanghai GILDEMEISTER is also strengthening its external presence in China. The company founds a chair for the study of Mechanical Engineering at the Chinese-German University College (CDHK) of Tongji University.



April

The first signs of an upward trend appear at the end of the first quarter of the financial year 2004. GILDEMEISTER increases its order intake in comparison to the previous year by 5%. The measures for increasing earnings performance and efficiency continue.

May

On 14 May the Annual General Meeting with 1,200 shareholders takes place in Bielefeld town hall. Dr.-Ing. Manfred Lennings (Picture) stands down from the Chair of the Supervisory Board, due to age, but remains active as a member for another year. His successor is Hans Henning Offen.

GILDEMEISTER announces a capital increase through a rights issue with a ratio of 2:1 to strengthen the capital base. The subscription price is set at € 4.15 for each share.

June

The issue of 14.4 million new owner shares resulted in an increase in the number of shares to 43.3 million and in the company's registered capital from € 75.1 million to € 112.6 million. Gross cash received by the company from the capital increase was € 60.1 million.

GILDEMEISTER once again demonstrates its innovative leadership. With an intake of new orders to the value of € 24.3 million and 124 machines sold GILDEMEISTER's attendance at the METAV in Düsseldorf was successful. As one of the major exhibitors, GILDEMEISTER introduces 22 technology machines – six of which are premièred to the world.

July

As a further improvement to the financial structure GILDEMEISTER has placed a long term company bond with a volume of € 175 million and a term of seven years and extended a syndicated loan of € 141 million until June 2007.

These measures aim to strengthen the financial base of the company, to increase financial flexibility and to optimise the structure of the company financing.

August

GILDEMEISTER continues its good business trend in the first half year and aims to increase the order intake by 15% in comparison to the previous year.

The American market begins to pick up again and shows noticeable buoyant trends. The four important autumn trade fairs for the sector and the recently developed machines convey very positive signs.

September

For the fifth year in succession GILDEMEISTER achieves the top position in the annual Business Report Competition of "manager magazin". The panel again confirms the company's role model character with respect to a transparent information policy.

With a successful start at the international specialist trade fairs in Chicago (IMTS) and Stuttgart (AMB) a revival in demand is evident for the second half of the year.

October

The BIMU in Milan is another highlight in the series of international specialist trade fairs. GILDEMEISTER impresses the specialist world with its technological innovations. The 2004 development programme meets with a very good response.

SAUER GmbH merges with LASERTEC GmbH. This provides for the strategic alignment of both innovative technologies in one company under a single management structure.

November

GILDEMEISTER receives the Innovation Prize of the Bundesverband Materialwirtschaft, Einkauf und Logistik e.V. (Federal Association for Materials Management, Purchase and Logistics) (bme). The award is made for the modern procurement programme, which is continuously increasing the efficiency of purchasing and logistics.

A further highlight is the JIMTOF in Tokyo, which has been the greatest success for the DMG in recent years in Japan. For the first time many transactions and offers were made in respect of business after the fair.

December

With an increase of 13% to € 1,113.9 million GILDEMEISTER achieved, in difficult market conditions, the highest order intake in its 134 year company history. GILDEMEISTER again exceeded the 1 billion Euro mark in turnover and with € 1,051.5 million achieved a plus of 8%.

Innovative Turning.

Optimum results in the shortest production time. With our extensive turning lathe programme and our many innovations we offer our DMG customers the highest performance worldwide. With over eight product lines, 39 different machines and leading control technologies our customers save both time and money. To employ DMG machines means a maximum in productivity and competitive lead.

40% faster

Up to 40% shorter machining times – through 6 sided integrated machining, linear drives, 12 unit turret and milling spindle.

Workpiece Steel ratchet wheel for the electrical industry – manufactured on the GMX 400 *linear*

Business Report: GENERAL ECONOMIC SITUATION

In 2004, overall economic development initially moved towards growth; in the second half of the year, however, it lost its vigour. One of the causes of this was the development in oil prices. The global economy was primarily driven by the USA and China. But growth in Japan was also above average. In the European Union (EU) on the other hand, general economic expansion was less strong. This also applied to Germany, which once more was barely able to keep up with the general trend.

Overall Economic Development

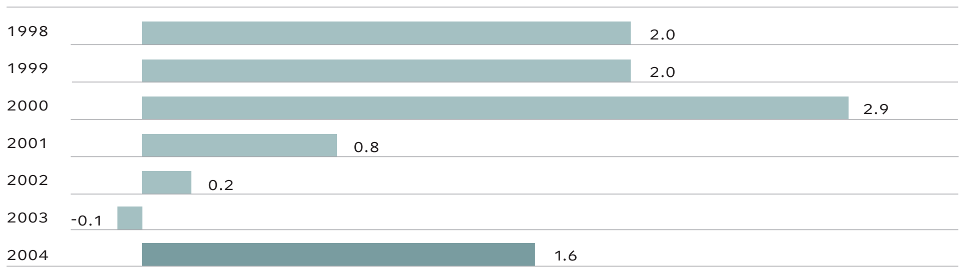
In 2004 the **global economy** expanded strongly. However, the trend returned to normal levels over the year. This was partly due to a large increase in the prices of crude oil. The rate of growth in the USA was initially high but weakened again during the second half of the year. A similar development was observed in the Asian region. In the European Union the comparatively moderate expansion continued in the reporting year, whilst in Germany upward trends remained weak. According to provisional calculations by the Institute for World Economics (IfW) based at Kiel University, aggregate output rose globally by 4.9% (previous year: 3.9%).

In **Asia** the economy continued to improve. Here, too, growth rates decreased again over the year. In Japan, growth faltered after a strong surge during the first months of the year. Once more, the Chinese economy appeared strongly expansive, confirming its position as one of the most significant centres of global economic revival. According to figures from the IfW, gross domestic product in Japan was up by 2.6% (previous year: 2.5%) and in China by 9.0% (previous year: 9.1%).

The **USA** remained the global driving force in 2004, although with reduced vigour toward the end of the year. Private consumption in particular expanded only moderately. This was partly due to the lack of fiscal stimulus, and partly to a temporary weakening in consumers' purchasing power due to the increase in oil prices. Capital investment on the other hand increased considerably. The exchange rate of the US dollar has lately developed into a risk factor in economic performance. Gross domestic product rose by 4.4% over the year as a whole (previous year: 3.0%).

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

Source: Statistisches Bundesamt (Federal Statistical Office), Wiesbaden



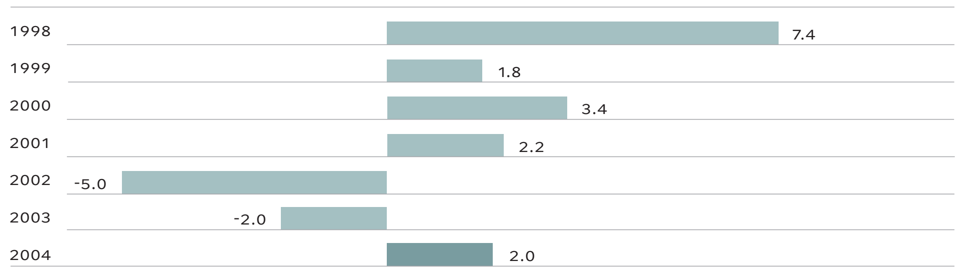
In many parts of **Europe** the economy picked up again – this was mainly the case in the first half of the year rather than the second half. Fresh stimulus was triggered by exports in particular, whereas domestic demand continued to be subdued. Here, too, private consumption was hindered by the considerable increase in the prices of energy. Despite low interest rates and partial improvements in the profitability of enterprises, investment in plant and equipment increased only slightly. There were no major improvements in the job market. According to provisional figures, gross domestic product in the "euro states" was up by 2.0% (previous year: 0.5%). The EU, now with 25 member states, recorded a 2.4% increase (previous year: 1.9%).

By international comparison, growth in **Germany** was once more below the average of the EU countries in 2004. According to provisional figures from the Federal Statistical Office in Wiesbaden, gross domestic product increased by 1.6% (previous year: -0.1%). According to estimates by the Munich-based ifo institute, only exports improved susbtantially, with an increase of 9.3%. Based on provisional figures, private consumption on the other hand decreased by 0.3%. Investment in plant and equipment was up by 1.2%, following a 4% drop in the previous year. The job market situation continued to be tight, and no dramatic improvement was in sight. The annual average number of unemployed was 4.38 million, slightly above even the preceding year's figure. In accordance with the previous statistic collection method, 4.46 million people were out of work by the end of 2004. Another sign of the problematic overall situation was that, at approximately 40,000, the number of insolvencies reached the same high level as the previous year. The rate of inflation was 1.6% (2003: 1.1%). The precarious financial situation in most of the public authorities hardly changed at all. New borrowings in public spending were up again. With a deficit rate of approximately 3.8%, Germany again infringed the reference value of 3.0% stipulated in the Maastrich Treaty.

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

Investments in the German manufacturing sector
Nominal changes against the previous year in %

Source: ifo Institute (Economic Research Institute), Munich



Despite unfavourable currency effects, GILDEMEISTER was able to profit from the slight global improvement in the investment climate and defend its leading competitive position in the reporting year. Over the year, both the US dollar and the Japanese yen have again lost in value in relation to the euro. The weak US dollar had an impact on our competitive position with regard to standard machines in the US dollar region. Starting with a US dollar exchange rate of $ 1.18 in mid-May, the US currency has weakened by a good 15% before reaching its high of $ 1.36 on 30 December 2004. In the past reporting year, the average exchange rate was $ 1.24. The movements of the Japanese Yen in relation to the euro are also significant to GILDEMEISTER because of the relationship with our Japanese competitors. By the end of the year, both the yen and the dollar weakened again in relation to the euro. On 29 December 2004 the yen reached its annual high of ¥ 141.5. This resulted in an annual average rate of exchange in relation to the euro of ¥ 134.5. More detailed explanatory notes on the movements of the euro in comparison with selected currencies are set out on page 35.

Development of the Machine Tool Industry

International Development

For the first time since the year 2000, worldwide demand for machine tools has increased in the reporting year. According to its latest figures, the German Association of Machine Tool Factories (VDW) expects an increase in **global production** of 12% to € 36.4 billion for 2004 (previous year: € 32.5 billion). As in the previous year, Japan was the largest producer and, with an output volume to the value of € 8.5 billion, succeeded in increasing its global market share by one percentage point to 23%. Germany's global market share dropped by one percentage point to 20%. With an output of € 7.4 billion (+8%), Germany, as in the previous year, maintained second place ahead of Italy (production: € 3.7 billion, global market share: 10%). Output in China, which was placed fourth, was € 3.2 billion (global market share: 9%). It was followed by Taiwan and the USA. The above six nations together produced 75% of global output (previous year: 74%).

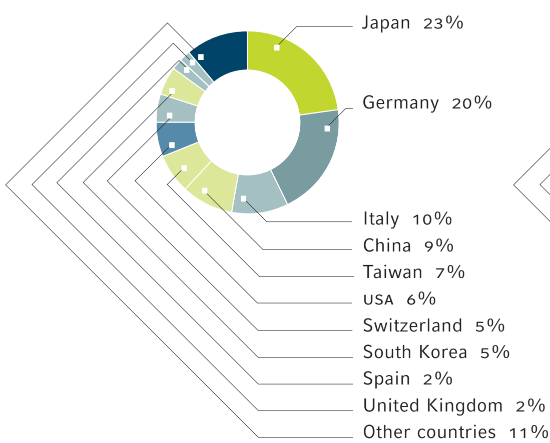
The individual world regions' shares in international production*

Shares in worldwide production	2004 in %	2003 in %
Europe	46	49
(of which Germany)	(20)	(21)
Pacific Region	45	42
(of which Japan)	(23)	(22)
America	9	9

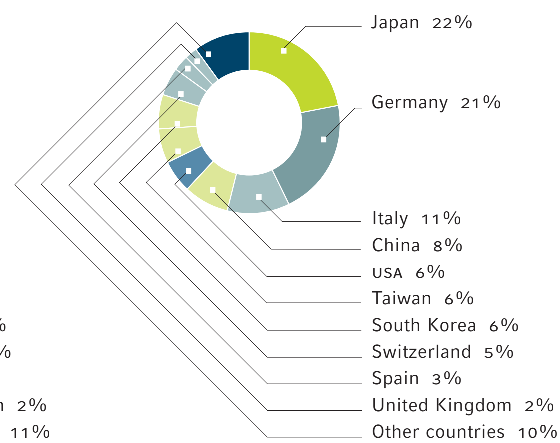
* Provisional figures for 2004; updated figures for 2003

Worldwide production of machine tools

2004: Total of € 36.4 billion



2003: Total of € 32.5 billion



In the reporting year 55% of global production was exported (previous year: 56%). In respect of **exports**, there was further confirmation of the leading roles of Germany with an export share of 61% (previous year: 60%) and Japan with an export share of 49% (previous year: 53%). These two countries together accounted for 43% by value of world exports (previous year: 43%). 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%.

With respect to **global consumption**, also estimated at € 36.4 billion (previous year: € 32.5 billion), China succeeded in expanding its position. Based on a global market share of 18% in 2003, approximately 20% of all machine tools (€ 7.4 billion) were sold in the largest market worldwide in the reporting year. Japan, too, increased its consumption by almost two percentage points to € 4.8 billion, thereby remaining ahead of Germany.

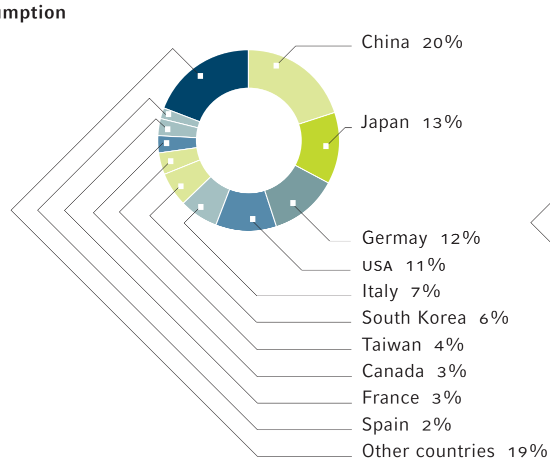
Worldwide consumption of machine tools*

Shares in worldwide consumption	2004 in %	2003 in %
Europe	36	39
(of which Germany)	(12)	(13)
Pazific Region	46	42
(of which Japan)	(13)	(11)
America	17	17
Rest of the world	1	2

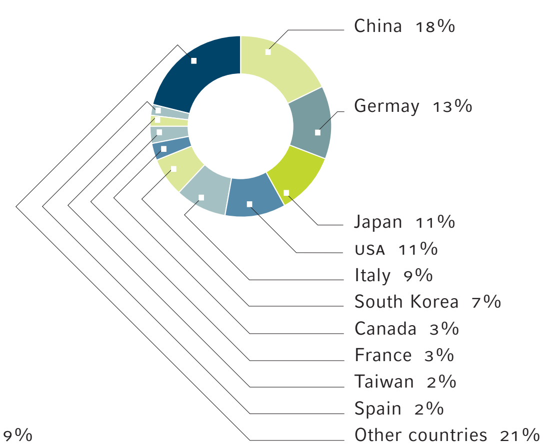
* provisional values 2004; revised values 2003

Shares in worldwide consumption

2004: Total of € 36.4 billion



2003: Total of € 32.5 billion



With respect to the **import** of machine tools, China, with a 26% increase to € 4.6 billion against € 3.7 billion in the previous year, remained first ahead of the USA. The USA increased its imports by 18% to € 2.7 billion compared with € 2.3 billion in 2003. Place three is held by Germany, which with an increase of 4% expanded its lead over South Korea (-1%). The three largest import nations take 45% of world imports (previous year: 42%). In terms of total consumption, China increased its import share by around 1% to 62%, while in the reporting year the USA relied on imports to meet 69% of its consumption (previous year: 67%). Germany's import share fell from 34% in 2003 to 33% in the reporting year.

Sources: The basis of the world machine tool statistics is the data published by the VDW (German Association of Machine Tool Factories) (excluding parts and accessories). This data is collected from 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.

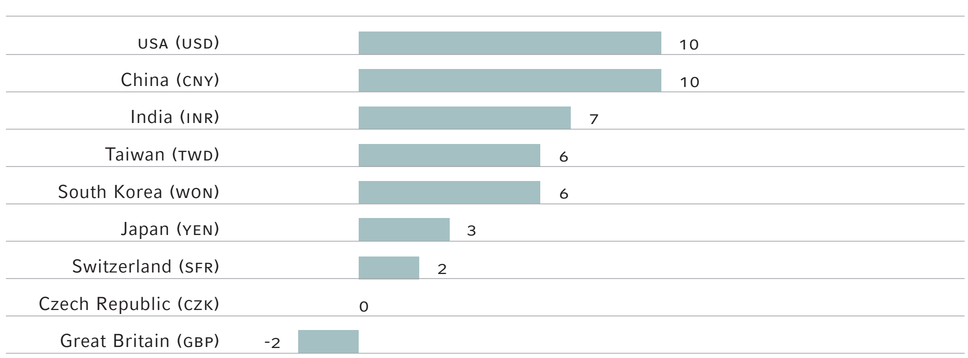
Explanatory notes on the problem of exchange rates

World Machine Tools Statistics

With the introduction of the common currency, possible exchange rate distortions ceased to play a role within the Euro countries, but remain relevant with regard to third currencies, for example in respect of the US dollar or the yen. As the chart of the movements of the euro in relation to selected currencies demonstrates, there were no significant shifts in purchasing power in the European region, particularly with respect to the non-euro states such as Switzerland, the Czech Republic and Great Britain. The changes against 2003 are 2% for Switzerland, 0% for the Czech Republic and -2% for Great Britain. For US and Asian customers on the other hand prices for the Euro have continued to rise following the strong increases in the previous year. The appreciation rate of the euro for investors in the United States and China thereby amounts to 10%, in India to 7% and in Taiwan and South Korea to 6%.

Changes in the Euro 2004 compared with 2003 against the individual national currencies in %

Source: Deutsche Bundesbank

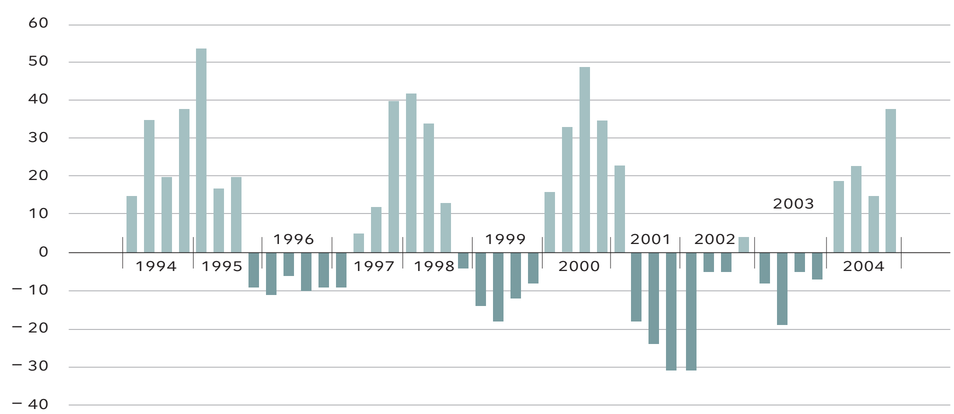


German Machine Tool Industry

For the German Machine Tool Industry the year 2004 was dominated by positive developments. As had become apparent by the end of 2003, the improvement in economic conditions and strong international demand in the reporting year caused a turn-round in the difficult business environment of the previous few years. For the first time since 2001, growth was achieved in the industry's central parameters: order intake in the machine tool industry rose by 17%. Production (8%), exports (10%) and domestic consumption (4%) also increased noticeably.

The **order intake** in particular reflects these positive trends. Compared with the previous year, new orders increased to € 10.3 billion (previous year: € 8.8 billion). This growth was primarily driven by international demand which had increased by 22% (previous year: 3%), whilst domestic orders contributed 10% to total growth (previous year: -18%).

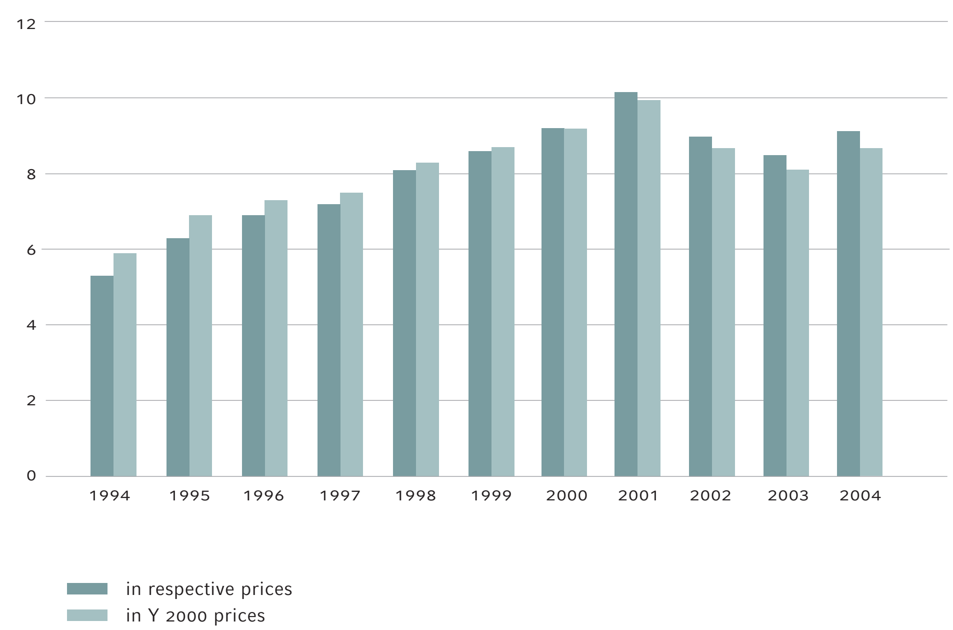
Machine Tool order intake in Germany
Real changes against the previous year in %



The business climate index of the Munich-based ifo Institute illustrates the positive business environment through an appropriate assessment of the principal purchaser industries. General engineering, road vehicle construction and electrical engineering recorded almost entirely positive balances. The assessment of the business climate cooled off markedly toward the end of 2004, however, particularly in road vehicle construction and electrical engineering.

In contrast to previous years, the German machine tool industry increased its **production** by 8% in the reporting year, producing machines to a total value of € 9.1 billion (previous year: € 8.5 billion). With this increase of € 0.6 billion the industry achieved its second highest production level in the past ten years. An expansion of production by 10% was recorded in the first half of 2004, whilst the increase over the second half of the year turned out to be lower.

Machine tool production in Germany
in € billion



From production, machines to the value of almost € 5.5 billion went into **exports** (previous year: € 5.0 billion). The export share thereby increased from 59% in 2003 to 60%. While the USA was the largest market for German machine tools in previous years, this position was taken by China in 2004. Although, with few exceptions, all major German exporting countries recorded sometimes substantial growth rates, China thanks to its continued dynamism developed into the most significant market for the German machine tool industry. According to currently available figures for the first three quarters of the year 2004, China's share of German exports rose to € 520.2 million or 13% (previous year: 11%). The US market increased by 6% to € 513.9 million (export share: 13%) and was therefore as significant as China. They were followed, at some distance, in terms of the size of their export share, by France with 6% (previous year: 6%), Austria also with 6% (previous year: 5%) and Italy with 5% (previous year: 6%).

In the reporting year, following substantial setbacks in the previous years, the **import** of machine tools started to pick up again, increasing by 4% to € 1.93 billion (previous year: € 1.86 billion). This increase, along with the 4% increase in German domestic sales to € 3.7 billion (previous year: € 3.5 billion), meant that **domestic consumption** of machine tools in Germany rose year on year to € 5.6 billion (2003: € 5.4 billion). As in previous years, most imports came from the five major supplier countries: Switzerland, Japan, Italy, the Czech Republic and the USA. In this respect, Switzerland exported about twice as many machines by value to Germany as Japan.

In 2004, **capacity utilisation** of the German machine tool factories was 89% on average, representing an increase of 5 percentage points against the previous year (84%). The rate of capacity utilisation was 85% in the first quarter of 2004, and continued to rise throughout the year. The annual average of capacity utilisation in cutting machine tool production was approximately 91% (previous year: 85%), and in non-cutting machine tool production approximately 85% (previous year: 80%).

The annual average **order backlog** was 6.2 months (previous year: 6.4 months); this figure reflects the real demand trend to a limited extent only. The computed range of coverage represents an average value for the industry and can only be a rough indicator of the order backlog. Along with standard machines with extremely short delivery times, it includes special machines and large non-cutting machine tools with long delivery times. At the beginning of the reporting year, the backlog was 6.1 months which increased to 6.4 months over the year.

Employment in the German machine tool building companies decreased by an annual average of 3% in the reporting year. Compared with almost 67,000 employees in the previous year, the number of people in work is now down to about 65,000.

Reliable statements on the **profitability** of the German machine tool industry are not readily available, since few companies publish their figures. The Association therefore has to rely on estimates. It has to be said, though, that in view of current trends, the industry's profitability is not satisfactory. This is primarily due to the increase in prices of raw materials and important intermediate products.

Sources: VDW; VDMA – Trade Association for Machine Tools and Production Systems
(Figures include parts and supplies, etc.; previous year's figures were partly updated.)

GILDEMEISTER, in the face of difficult market conditions, has achieved the highest order intake in the 134 year history of the company. The order volume rose by 13% to € 1,113.9 million (previous year: € 981.8 million). With sales revenues of € 1,051.5 million, GILDEMEISTER has also once again exceeded the € 1 billion mark, thereby achieving an 8% rise (previous year: € 977.8 million). The GILDEMEISTER group reports an annual profit of € 5.6 million (previous year: € -3.6 million). EBIT amounted to € 41.9 million (previous year: € 34.7 million). EBT totalled € 12.0 million (previous year: € 10.3 million). However, the results are still not satisfactory. In the last financial year, extraordinary gains and additional expenditure had to be taken into account. We will propose to the general meeting of shareholders, to be held on 20 May 2005, that no dividend is distributed for the financial year 2004.

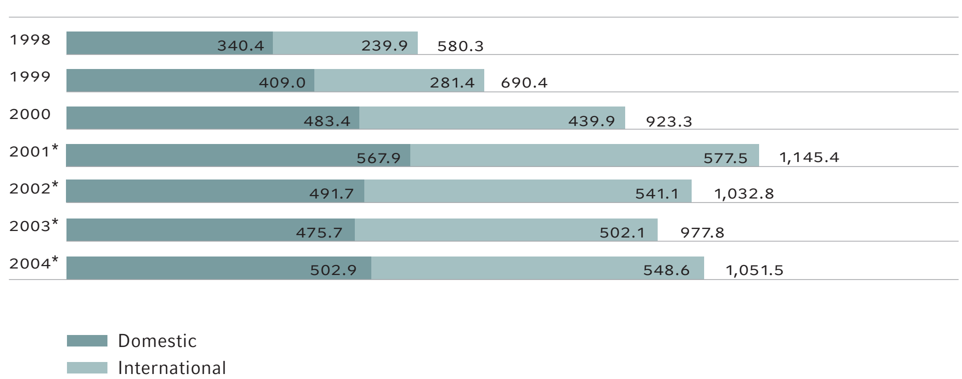
At GILDEMEISTER, 2005 will be dominated by EMO (Hanover), the most important machine tool trade fair in the world. All our innovations are directed towards this industry event that takes place in September.

Sales Revenues

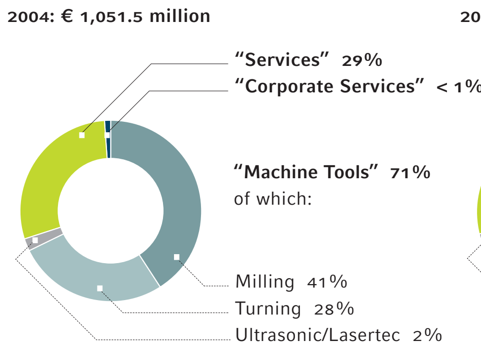
The increased demand for machine tools had a positive impact on our sales development. The greater demand for more complex technology machines with longer production processing times has continued. Sales revenues increased by 8% to € 1,051.5 million (previous year: € 977.8 million). In the fourth quarter, sales revenues increased by 15% to € 316.4 million (corresponding period of the previous year: € 276.3 million). Domestic sales revenues rose by 6% to € 502.9 million in 2004, and international sales revenues by 9% to € 548.6 million. Exports accounted for 52% of our total sales (previous year: 51%). Machine tools contributed 71% (previous year: 72%) to total sales revenues; the service business increased to 29% (previous year: 28%).

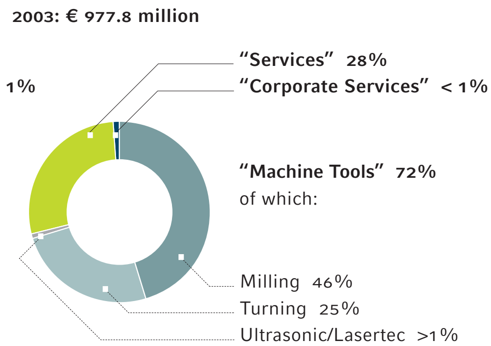
GILDEMEISTER group - sales revenues
in € million

* in acc. with IFRS



GILDEMEISTER group – sales revenues by segments/divisions





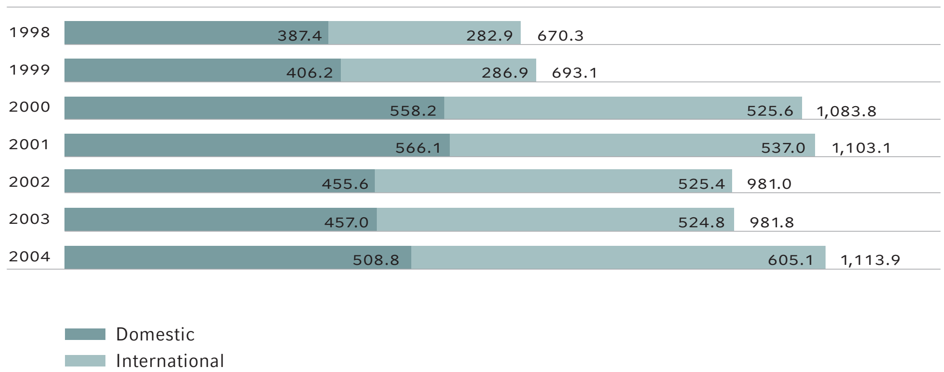
Order Intake

In the financial year 2004, GILDEMEISTER increased its order intake by 13% to € 1,113.9 million (previous year: € 981.8 million). The increase of € 132.1 million exceeded expectations for the entire year and was above the figure for the record year 2001.

In the fourth quarter, the order intake of € 302.1 million (+8%) continued to rise considerably (corresponding quarter of the previous year: € 281.0 million). December was also a good month, since the fresh stimulus emanating from the autumn trade fairs had a partially delayed effect. The continued intake of major orders also contributed to the positive results for the fourth quarter.

Domestic orders increased by € 51.8 million or 11% to € 508.8 million (previous year: € 457.0 million). GILDEMEISTER therefore continued to expand its position in the German market in comparison with the rest of the industry. Year on year, international orders rose by € 80.3 million or 15% to € 605.1 million (previous year: € 524.8 million). The export share increased to 54% (previous year: 53%).

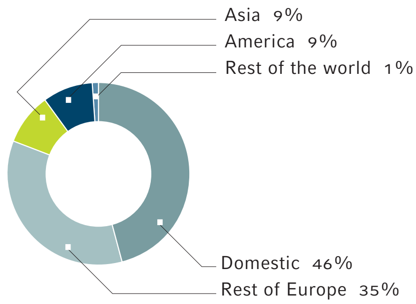
GILDEMEISTER group – order intake
in € million



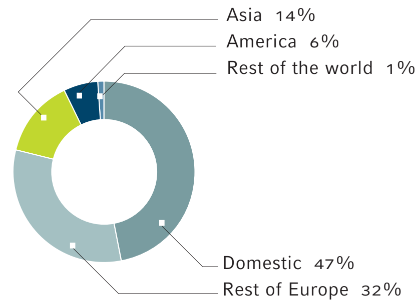
Despite improved economic trends, GILDEMEISTER continued to operate in an environment dominated by tough competition. Due to the continuing weakness of the dollar and the strong increase in commodity prices (particularly steel), the standard machine business in the lower price segment in particular constituted a challenge to us. The order intake of new orders for high technology machines on the other hand increased noticeably, enabling us to continue the expansion of our competitive position in almost all market regions: In **Germany** our order intake increased by more than the market trend. The above-average increase in orders taken in Europe also resulted in an increase in significance of this market in comparison to other regions. The order intake of new orders from **America** developed particularly well, despite unfavourable movements in the US dollar exchange rate; we succeeded in achieving a noticeable increase in our sales revenues figures and more than twice the volume. Particularly in the USA the demand for innovative technology machines has increased. In **Asia** on the other hand, demand for standard machines in the lower price sector remains high, with high competitive and pricing pressures. In the past financial year, our order volume in this market region declined slightly for the first time.

GILDEMEISTER group – order intake by regions

2004: total of € 1,113.9 million



2003: total of € 981.8 million



As in the previous year, the “Machine Tools” segment contributed 72% to the total order intake. The contribution of the “Services” segment of 28% remained at a high level (previous year: 28%), noticeably exceeding the industry average (approx. 20%). Less than 0.1% of new orders were again attributed to “Corporate Services” (previous year: <0.1%).

In the reporting year, GILDEMEISTER sold a total of 4,748 turning, milling, ultrasonic/laser and used machines to 3,278 different customers. Total **sales in pieces** thereby rose by 2% when compared to the previous year. Due to an increase in demand for technological machines, the average value per machine rose by 9%. During the course of the year **selling prices** were raised within the limited market possibilities by up to 3%.

Along with our innovative high-tech products and wide range of customer-specific machine tools, DMG Vertriebs und Service GmbH with its 57 sales and service locations played a leading role in achieving our record intake of new orders. Our customer-oriented direct selling organisation, which is distinguished by consistent market proximity, forms the basis of the area-wide and demand-based marketing of our services.

A major contribution to the order intake also came from **key account management.** The support of internationally operating **major customers** with specific requirements secured orders to the value of € 114.4 million (previous year: € 54.3 million). This is in line with our goal of servicing an increased share of industrial consumers across area and product boundaries.

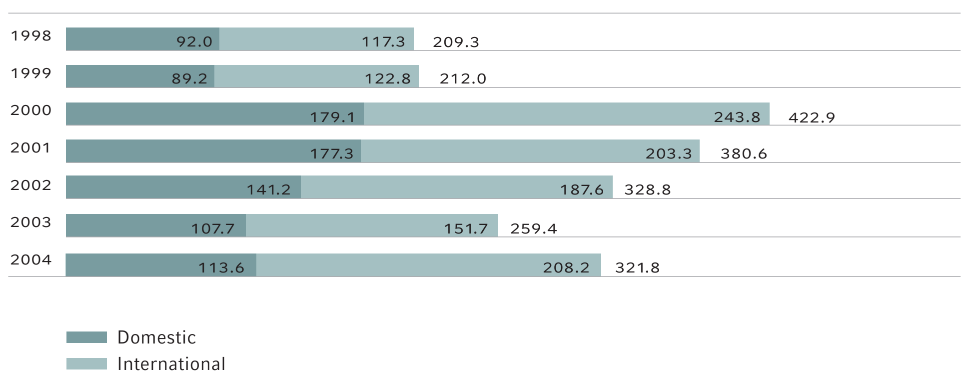
Order Backlog

On 31 December 2004 our order backlog amounted to € 321.8 million, which is € 62.4 million or 24% above the figure for the previous year (€ 259.4 million). The share of international orders in the total order backlog increased to 65% (previous year: 58%) and amounted to € 208.2 million, representing a rise of € 56.5 million or 37%. The backlog of domestic orders rose by € 5.9 million or 5% to € 113.6 million.

Arithmetically, this corresponds to a production capacity utilisation of a good three months, meaning a good basic capacity utilisation level for the new financial year. At GILDEMEISTER, the average rate of capacity utilisation is mainly determined by the technology machines with corresponding longer processing times.

The order backlog for "Machine Tools" amounted to € 284.4 million at the end of the reporting period, representing 88% of the group's total order backlog. Of the total, 68% were international orders (previous year: 60%). Of the group's total order backlog € 37.4 million or 12% was attributable to the "Services" segment. Most orders came from DMG Vertriebs und Service GmbH and its subsidiaries. The corresponding export share was 37% (previous year: 49%).

GILDEMEISTER group - order backlog
in € million



Results of Operations, Net Worth and Financial Position

Results 2004

In the financial year 2004, the GILDEMEISTER group's profitability remained below expectations. **EBITDA** reached € 71.2 million (previous year: € 71.1 million), **EBIT** amounted to € 41.9 million (previous year: € 34.7 million) and **EBT** was at € 12.0 million (previous year: € 10.3 million). In the financial year, extraordinary items and additional expenditure incurred by the group's long-term financial restructuring and re-organisation were largely offset by one-off positive effects arising from valuations and use of the IFRS 3 option. We achieved an **annual profit** of € 5.6 million (previous year: annual loss of € 3.6 million).

GILDEMEISTER group – Income Statement

	2004		2003		Changes against previous year	
	€ K	%	€ K	%	€ K	%
Total work done	**1,053,143**	**100.0**	**995,709**	**100.0**	**57,434**	**5.8**
Cost of materials	-553,716	-52.6	-525,345	-52.8	-28,371	5.4
Gross profit	**499,427**	**47.4**	**470,364**	**47.2**	**29,063**	**6.2**
Personnel costs	-282,524	-26.8	-270,577	-27.2	-11,947	4.4
Other income and expenses	-145,711	-13.8	-128,682	-12.9	-17,029	13.2
EBITDA	**71,192**	**6.8**	**71,105**	**7.1**	**87**	**0.1**
Depreciation of assets	-29,339	-2.8	-36,430	-3.6	7,091	-19.5
EBIT	**41,853**	**4.0**	**34,675**	**3.5**	**7,178**	**20.7**
Financial result	-29,833	-2.9	-24,414	-2.5	-5,419	22.2
EBT	**12,020**	**1.1**	**10,261**	**1.0**	**1,759**	**-17.1**
Taxes on profit	-6,444	-0.6	-13,840	-1.4	7,396	-53.4
Profit/loss for the year	**5,576**	**0.5**	**-3,579**	**-0.4**	**9,155**	**255.8**

Total work done amounted to € 1,053.1 million, thereby exceeding the figure for the preceding year by 5.8% or € 57.4 million (2003: € 995.7 million). The materials quota decreased slightly from 52.8% to 52.6%. At € 499.6 million, gross profit was 6.2% or € 29.0 million above the preceding year's figure (€ 470.4 million). The gross profit margin improved slightly to 47.4% (previous year: 47.2%).

Personnel costs amounted to € 282.5 million (previous year: € 270.6 million), which is an increase of 4.4% or € 11.9 million when compared to the previous year. This increase is primarily due to increased staff levels in the "Services" segment, increases in standard wages, increased extra-work payroll expenses and one-off expenses arising from specific staff adjustment measures. The personnel quota decreased slightly from 27.2% to 26.8%. The balance from other income and expenses rose by € 17.0 million to € 145.7 million. Apart from sales-related rises in costs, additional costs were incurred by an increased presence at the international autumn fairs, as planned. Leasing and rental expenditure amounted € 19.9 million in the reporting year (previous year: € 18.3 million). As of 31 December 2004 leasing and rental obligations for the financial year 2005 stood at € 17.9 million.

Depreciation decreased by 7.1% to € 29.3 million (previous year: € 36.4 million). This is primarily due to use of the IFRS 3 option. (Scheduled amortisation of goodwill is no longer applicable, see page 124 of the Notes to the Consolidated Financial Statements).

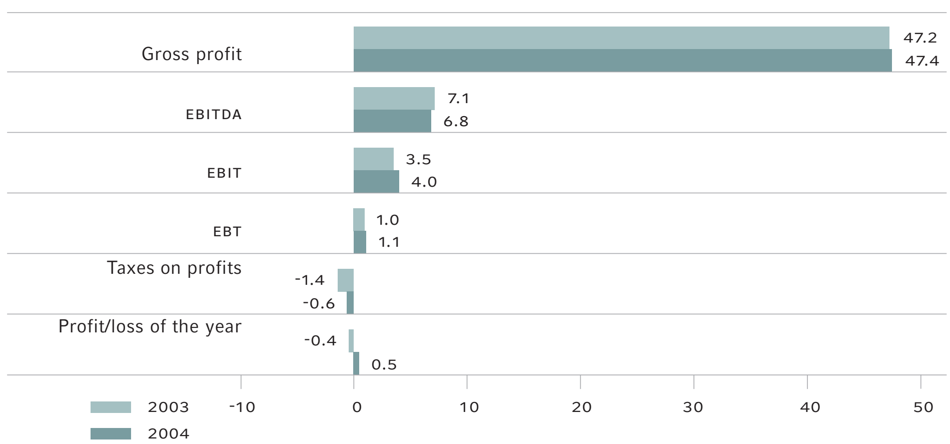
The financial result of € -29.8 million decreased by € 5.4 million in comparison with the previous year (€ -24.4 million). This increase was due to increased interest costs and one-off expenditure in connection with the group's financial restructuring Tax expenses of € 6.4 million were € 7.4 million less than the previous year (€ 13.8 million).

Following the previous year's annual loss of € 3.6 million, the GILDEMEISTER group has recorded an annual profit of € 5.6 million in the financial year 2004. This represents an earnings swing of € 9.2 million.

Further details of revenue and expense items are set out in the Notes starting on page 151 et sqq.

The movement of margins, which are determined on the basis of total work done, varied in comparison with the previous year. Whilst the gross profit margin was up 0.2 percentage points to 47.4%, the EBITDA margin declined by 0.3 percentage points to 6.8% (previous year: 7.1%). This was mainly due to the increase in other expenses. With a reduction in depreciation, the EBIT margin increased by 0.5 percentage points to 4.0% (previous year: 3.5%). The financial result weakened compared to the previous year so the EBT margin of 1.1% increased by just 0.1 percentage points against the previous year (1.0%). Tax expenses were down more than half in comparison to the previous year, resulting in an improvement in the annual profit margin to 0.5% (previous year: -0.4%).

Changes in margins at the GILDEMEISTER group
in %



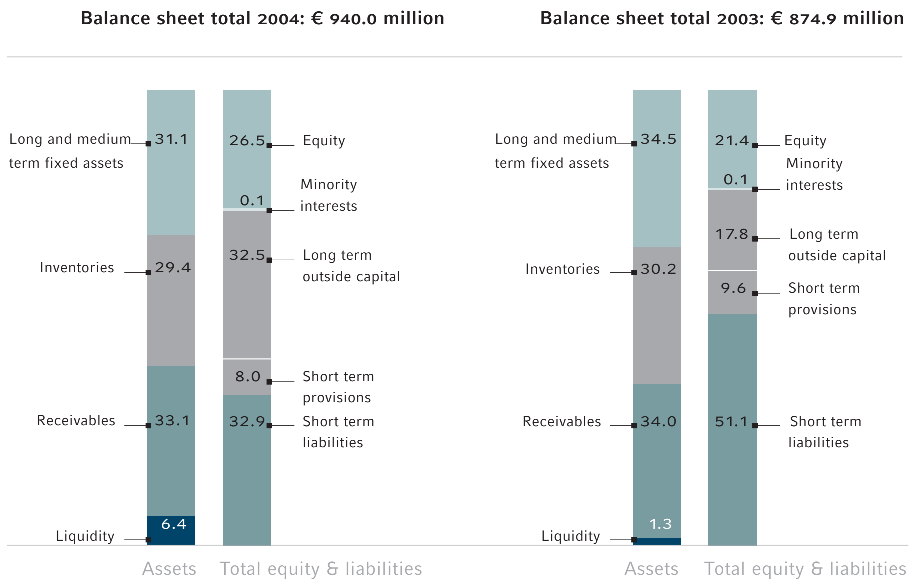
Net Worth and Financial Position

GILDEMEISTER group – balance sheet

	31 Dec. 2004		31 Dec. 2003		Changes against previous year	
	€ K	%	€ K	%	€ K	%
Assets						
Long and medium fixed assets						
Fixed assets	262,499	27.9	270,569	30.9	-8,070	-3.0
Current assets	29,587	3.2	31,652	3.6	-2,065	-6.5
	292,086	31.1	302,221	34.5	-10,135	-3.4
Short term fixed assets						
Inventories inc, prepayments	276,565	29.4	264,365	30.2	12,200	4.6
Receivables and other assets	311,047	33.1	296,901	34.0	14,146	4.8
Liquid funds	60,297	6.4	11,425	1.3	48,872	427.8
	647,909	68.9	572,691	65.5	75,218	13.1
Balance sheet total	939,995	100.0	874,912	100.0	65,083	7.4
Total equity & liabilities						
Long and short term financing resources						
Equity	249,503	26.5	187,593	21.4	61,910	33.0
Minority interests	1,037	0.1	1,198	0.1	-161	-13.4
Outside capital						
Provisions	48,558	5.2	49,765	5.7	-1,207	-2.4
Liabilities	256,350	27.3	105,798	12.1	150,552	142.3
	304,908	32.5	155,563	17.8	149,345	96.0
	555,448	59.1	344,354	39.3	211,094	61.3
Short term financing resources						
Provisions	74,897	8.0	84,194	9.6	-9,297	-11.0
Liabilities	309,650	32.9	446,364	51.1	-136,714	-30.6
	384,547	40.9	530,558	60.7	-146,011	-27.5
Balance sheet total	939,995	100.0	874,912	100.0	65,083	7.4

Compared with the previous year, the balance sheet total of the GILDEMEISTER group increased by 7.4% or € 65.1 million to € 940.0 million (previous year: € 874.9 million).

Assets and capital structure of the GILDEMEISTER group
in %



As planned, **fixed assets** decreased by 3.0% or € 8.1 million to € 262.5 million (previous year: € 270.6 million). In this respect both intangible assets (€ -0.9 million) and tangible fixed assets (€ -7.2 million) decreased. The asset additions are set out in more detail in the “Investments” chapter starting on page 70.

In the reporting year **inventories** showed an increase of 4.6% or € 12.2 million to € 276.6 million (previous year: € 264.4 million). Whilst the work-in-progress inventory dropped by € 1.0 million to € 87.4 million (previous year: € 88.4 million), raw materials and consumables increased by € 17.1 million to € 92.5 million (previous year: € 75.4 million). The inventory of finished goods decreased by € 3.8 million to € 95.1 million (previous year: € 98.9 million). At 29.4%, the inventory share of the balance sheet total decreased by 0.8 percentage points, compared to 30.2% in the preceding year.

The inventory-sales ratio increased from 3.7 to 3.8.

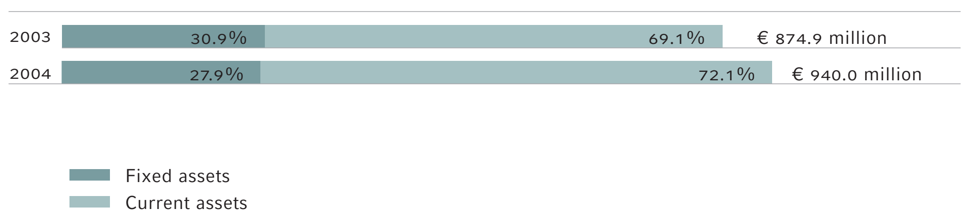
Compared with the previous year, **receivables and other assets** increased by 5.7% or € 16.9 million to € 311.2 million (previous year € 294.3 million €). Whilst trade receivables were up by € 22.1 million to € 281.7 million (previous year: € 259.6 million), other assets were down by € 5.2 million to € 29.5 million (previous year: € 34.7 million). The increase in sales toward the end of the year resulted in an increased backlog of receivables.

Compared with the previous year, the receivables-sales ratio decreased slightly; the turnover rate was down from 3.8 to 3.7.

As of 31 December 2004, **liquid funds** amounted to € 60.3 million for reporting date reasons (previous year: € 11.4 million). The high level of cash in hand is due to sales generated in the last quarter, resulting in a high level of incoming payments toward the end of the year. The relative share in the balance sheet total therefore rose from 1.3% to 6.4%.

In the structure of assets, the relative share of assets appropriated on a long and medium-term basis decreased by 3.4 percentage points to 31.1% (previous year: 34.5%).

Structure of the assets



The structure of **total equity and liabilities** was primarily dominated by the capital increase and restructuring of financial liabilities in the financial year 2004. We have secured the group's long-term financing base through the long-long term corporate bond, extension of a syndicated loan and increased equity capital. At the end of 2004, the share in long and short-term financing resources amounted to 59.1% (previous year: 39.3%).

In total equity and liabilities, the annual profit and the changes in revenue provisions and in subscribed capital resulted in an increase in **equity** by 33.0% or € 61.9 million to € 249.5 million (previous year: € 187.6 million). The **equity ratio** has thereby increased to 26.5% (previous year: 21.4%). Net indebtedness decreased by € 58.7 million to € 283.4 million (previous year: € 342.1 million). This is primarily due to lower bills payable and a noticeable increase in liquid funds. The ratio of average net indebtedness to average equity (gearing) therefore decreased from 182.4% to 113.6% when compared with the preceding year.

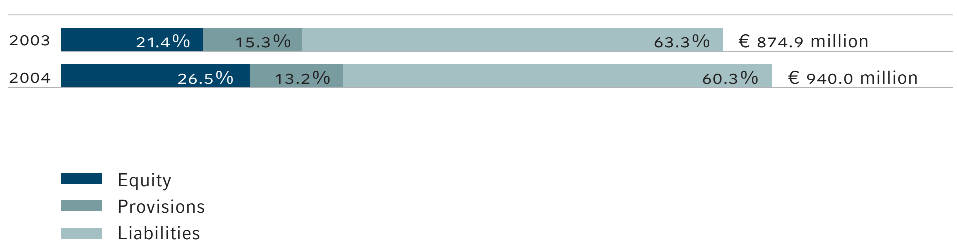
Long-term borrowed funds increased by € 149.3 million to € 304.9 million. Their share in the balance sheet total increased by 14.7 percentage points to 32.5% (previous year 17.8%). The proportion of **long-term provisions** decreased from 5.7% to 5.2%.

Long and short-term financing resources increased by € 211.1 million or 61.3% to € 555.4 million in the reporting year. The assets appropriated on a long and medium-term basis are 190.2% financed (previous year: 113.9%) by funds that are available on a long and medium-term basis.

Short-term financing resources decreased by € 146.0 million or 27.5% to € 384.5 million. The proportion of short-term provisions included in the above funds decreased by € 9.3 million or 11.0% to € 74.9 million (previous year: € 84.2 million). Short-term liabilities decreased by € 136.7 million or 30.6% to € 309.7 million (previous year: € 446.4 million).

When compared with the previous year, **total equity and liabilities** show a clear shift in the funding of total equity employed. The total fixed assets and inventories of € 539.1 million (previous year: € 534.9 million) are 103.0% covered (previous year: 64.4%) by long and medium-term funding. When compared with the previous year, the structure of total equity and liabilities indicates an increase in the equity ratio and a reduction in provisions; the liabilities ratio has decreased accordingly by 3.0 percentage points to 60.3% (previous year: 63.3%).

Structure of total equity and liabilities



We will continue to pursue our efforts to **reduce our liabilities**, particularly our financial liabilities. With consistent financial management and expansion of agency activity in the customer financing area, we expect a reduction in trade debtors. In addition, we are reviewing several options in order to reduce our interest expense. With the increasing standardisation in the materials area and globalisation of our procurement we intend to achieve a lasting release of funds in inventories in the near future.

Cash flow

	2004	2003
	€ M	€ M
Cash flow from current operations	12.8	28.7
Cash flow from investment activity	-20.1	-32.3
Cash flow from financing activity	57.0	-1.8
Changes in cash and cash equivalents	48.9	-6.3
Liquid funds as of 1 January	11.4	17.7
Liquid funds as of 31 December	60.3	11.4

The complete Flow of Funds Analysis is set out on page 167.

The **flow of funds analysis (cash flow statement)** records the payment flows in a financial year to show the inflow and outflow of the company's liquid funds. In this process, the source of the financial resources employed is compared with the use to which they are put.

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 profit for the year those expenses that are not set off against any payments, and subtracting from it income that did not result in the receipt of monies. 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 activity** 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 € 12.8 million, the **cash flow (cash received) from current operations** was positive in the reporting year but € 15.9 million lower than the previous year level of: € 28.7 million. Based on the profit for the year of € 5.6 million (previous year: € -3.6 million), depreciation of € 29.3 million and the increase in trade debtors of € 15.3 million benefited the cash flow. Another positive effect was achieved by the changes in deferred taxes (€ 1.8 million), in other assets (€ 5.7 million) and in other equity and liabilities (€ 0.6 million). In the financial year 2004, the changes in inventories (€ 12.2 million), in trade debtors (€ 22.1 million) and in short and long term provisions (€ 10.5 million) in particular had a negative impact on the cash flow.

Due to an investment volume that has, again, decreased noticeably when compared with the preceding year, the **cash flow (outflow of funds) from investment activity** improved by € 12.2 million against the previous year. Net investments excluding finance leases dropped by 37.7%, amounting to € 20.1 million in the reporting year compared to € 32.3 million in the previous year. Amounts paid out for investments in tangible fixed assets were € 12.7 million, therefore falling 45.0% below the preceding year's figure. Further details are set out in the "Investments" chapter on page 70.

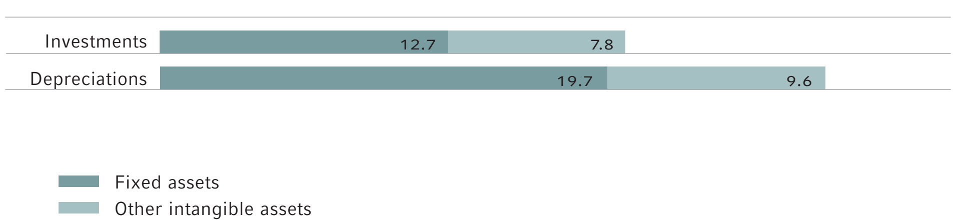
A total of € 0.8 million (previous year: € 0.2 million) was invested in financial assets in the reporting year.

In the reporting year payments for investments in intangible fixed assets mainly relate to development services in the amount of € 6.2 million.

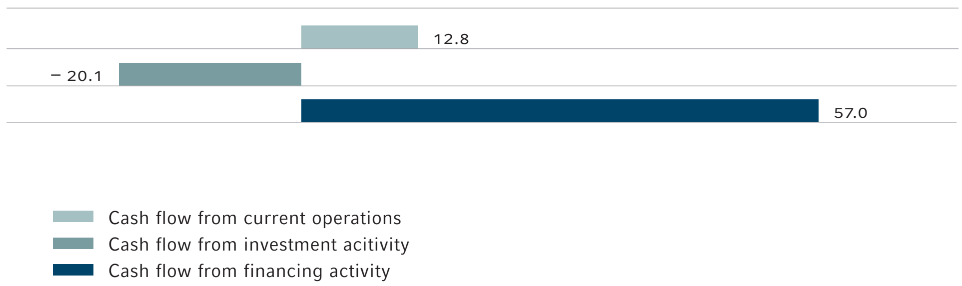
Free cash flow in the financial year was negative at € -6.4 million (previous year: € -3.7 million) since cash flow from investment activity – excluding investment in financial assets – exceeds the cash flow from current operations.

In the financial year, the **cash flow from financing activity** was primarily dominated by the issue of a long-term bond and the capital increase. The net cash received from the corporate bond amounted to € 167.2 million and from the capital increase to € 55.3 million. Amounts received were counterbalanced by amounts paid out for the repayment of financing loans to the value of € 165.5 million. There were no non-cash investment and financing activities in the reporting year. Liquid funds at the balance sheet date increased to € 60.3 million, when compared with the preceding year (€ 11.4 million).

Flow of funds analysis (cash flow statement)
in € million



Composition of the cash flow statement
in € million



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

In the financial year 2004, the value added by the GILDEMEISTER group amounted to € 324.5 million (previous year: € 305.4 million), representing a rise of 6.3% or € 19.1 million. Following the distribution of the contributions to value added, the company is left with a positive share of € 7.8 million (previous year: € -0.7 million). The following table shows the value added statement in detail.

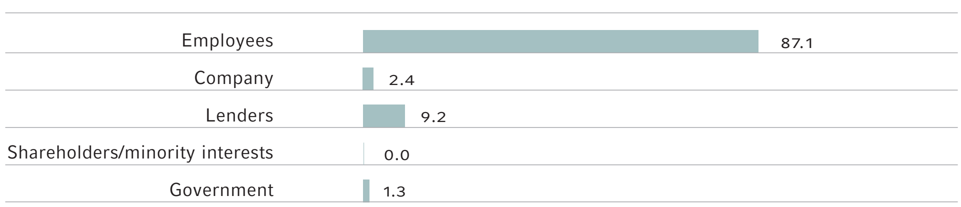
Value added statement of the GILDEMEISTER group

	2004		2003		Changes against previous year	
	€ M	%	€ M	%	€ M	%
SOURCE						
Sales revenues	1,051.5	97.4	977.8	95.6	73.7	7.5
Other sales	27.8	2.6	44.5	4.4	-16.7	-37.6
Operating performance	**1,079.3**	**100.0**	**1,022.3**	**100.0**	**57.0**	**5.6**
Cost of materials	553.7	51.3	525.3	51.4	28.4	5.4
Depreciation	29.3	2.7	36.4	3.5	-7.1	-19.6
Other expenses	171.7	15.9	155.2	15.2	16.5	10.6
Purchased materials and services	**754.8**	**69.9**	**716.9**	**70.1**	**37.9**	**5.3**
Value added	**324.5**	**30.1**	**305.4**	**29.9**	**19.1**	**6.3**

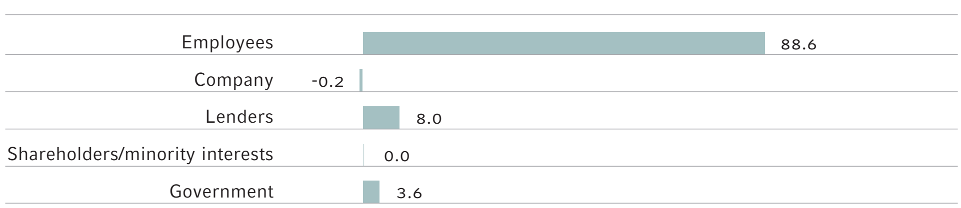
	2004		2003		Changes against previous year	
	€ M	%	€ M	%	€ M	%
DISTRIBUTION						
Employees	282.7	87.1	270.7	88.6	12.0	-4.4
Company	7.8	2.4	-0.7	-0.2	8.5	1,214.3
Lenders	29.8	9.2	24.4	8.0	5.4	-22.1
Shareholders/minority interests	0.0	0.0	0.1	0.0	-0.1	100.0
Government	4.2	1.3	10.9	3.6	-6.7	61.4
Value added	**324.5**	**100.0**	**305.4**	**100.0**	**19.1**	**6.3**

Distribution of value added in the GILDEMEISTER group in %

2004: total of € 324.5 million



2003: total of € 305.4 million



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

Balance sheet of GILDEMEISTER Aktiengesellschaft (HGB)

	2004	2003
	€ K	€ K
Assets		
Fixed assets		
Shares in affiliated companies	297,202	302,975
Other fixed assets	16,561	17,646
	313,763	320,621
Current assets		
Receivables from affiliated companies	231,445	180,120
Other current assets	48,613	6,837
	280,058	186,957
Balance sheet total	**593,821**	**507,578**
Total equity & liabilities		
Equity	**286,498**	**258,123**
Provisions	**19,328**	**23,848**
Liabilities		
Financial liabilities	265,070	137,644
Liabilities to affiliated companies	10,170	83,154
Other liabilities	12,756	4,809
	287,996	225,607
Balance sheet total	**593,821**	**507,578**

Income Statement of GILDEMEISTER Aktiengesellschaft (HGB)

	2004	2003
	€ K	€ K
Sales revenues	16,921	16,207
Other operating income	11,988	7,381
Other income and expenses	-49,335	-33,814
Income from dividend distribution	34,958	41,265
Financial result	-5,629	2,355
Write-down of financial assets	-40,367	-19,368
Expense from the transfer of losses	0	-6,720
Profit/loss on ordinary activities	-31,464	7,306
Taxes on corporate income & business	-225	-2,561
Annual loss/profit	**-31,689**	**4,745**
Profit carried forward	0	4,349
Transfer to revenue provisions	0	-9,094
Withdrawals from revenue provisions	31,689	0
Net profit	**0**	**0**

In the financial year 2004, the result of GILDEMEISTER Aktiengesellschaft was determined by dividend payouts and profit transfers by the affiliated companies to the value of € 35.0 million and by the writedown of the investment book value of GILDEMEISTER Italiana S.p.A. to the amount of € 40.4 million. The delayed start-up of the newly developed multi-spindle lathe generation and the exchange-rate-related and competitive pricing pressure affected the company's profitability. This required an adjustment in the valuation of investments despite the company's positive earnings situation. GILDEMEISTER Aktiengesellschaft has therefore closed at an annual loss of € 31.7 million (previous year: annual profit of € 4.7 million) that will be set off against revenue provisions. As of 31 December 2004, GILDEMEISTER Aktiengesellschaft has achieved breakeven on the "Net profit" line.

The GILDEMEISTER Share and Bond

The Stock market Trading Year 2004

In the first six months of the trading year 2004, no uniform trend in the **international stock markets** was apparent. In mid-August 2004, both the European EUROSTOXX 50 and the US S&P 500 Index hit annual lows, but both rallied over the rest of the year. In 2004 the performance of the major European indices, the German Stock Index DAX (+7.2%) and the British FTSE -100 (+7.5%) was only slightly below the US S&P 500 (+8.9%) and slightly above the Japanese NIKKEI 225 index (+6.5%). Over the year, the SDAX achieved an increase of 19%, and the MDAX, the midcap index, had by the end of the year risen by 20% above its level at the beginning of the year.

Master data of the GILDEMEISTER share

Security code number		**(ISIN Code)**	**DE0005878003**
		(SCN – Security Code Number)	**587800**
Stock symbol			
Stock exchange			GIL
Reuters	Frankfurt stock exchange		GILG.F
	Xetra		GILG.DE
Bloomberg			GIL GR

Movement of the GILDEMEISTER share

		1998	1999	2000	2001	2002	2003	2004
Registered capital	€ M	55.5	56.4	75.1	75.1	75.1	75.1	112.6
Number of shares [1]	M shares	21.7	21.7	28.7	28.9	28.9	28.9	43.3
Year-end price [2]	€	5.78	6.80	8.20	9.32	3.78	8.22	5.20
Annual high [2] [3]	€	9.31	7.30	10.30	9.90	12.07	8.25	8.94
Annual low [2] [3]	€	4.78	5.05	6.65	6.20	3.21	2.83	5.00
Annual average market price [2] [4]	€	6.26	6.20	8.66	8.78	8.24	5.25	6.52
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]	€	0.46	0.76	0.91	0.85	-0.66	-0.13	0.15

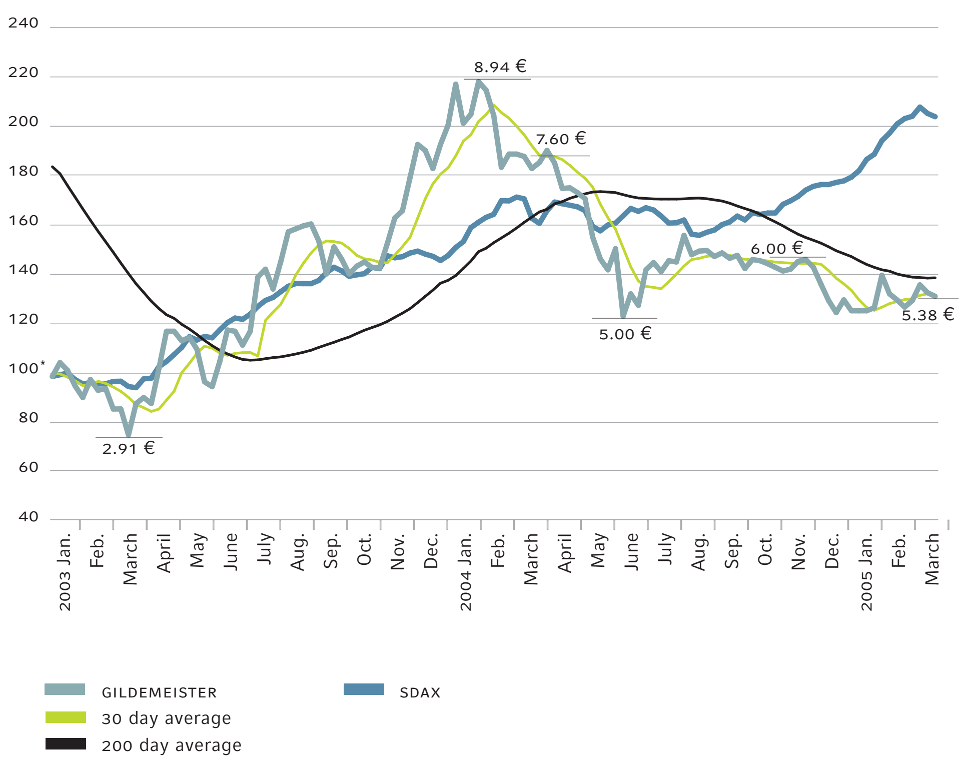
1) In 1999 the registered capital was split 1:10; the previous years' figures were adjusted accordingly.
2) Since 1999 Frankfurt prices, 1998 Düsseldorf
3) Highest/lowest prices based on variable prices
4) Annual average price based on closing prices
5) Since 2001 in acc. w. IAS 33

Development of the GILDEMEISTER Share

At the beginning of 2004, the GILDEMEISTER share traded at an average level of around € 8. Its annual high of € 8.94 was recorded on 29 January 2004. Following the press conference on financial statements held on 29 March 2004, our share fluctuated at a price level of around € 7.60. Following the announcement of the capital measures, our stock was traded at € 5.83 (12 May 2004). On 2 June 2004 the trading of the subscription rights began and the share was quoted ex-rights at € 5.39, reaching its annual low of € 5.00 on 10 June 2004. Following completion of the capital increase our stock recovered and, by the end of the first six months, was traded at € 5.93 (30 June 2004). By the end of November the market price was running at a level of € 6. At the end of the year, the closing price was € 5.20 (30 December 2004). Our share is currently quoted at € 5.38 (21 March 2005). In the year 2004, a number of banks regularly published reports on our share. The latest studies were prepared by the following institutes: Bayerische Landesbank (17 March 2005, Hold), Cazenove (22 February 2005, Neutral), Bankhaus Lampe (16 February 2005, Buy), Berenberg Bank (15 February 2005, Sell), HypoVereinsbank (15 February 2005, Outperform), Landesbank Baden-Württemberg (15 February 2005, Buy), WestLB AG (15 February 2005, Neutral). The GILDEMEISTER share is also regularly commented on by HSBC Trinkaus & Burkhardt and BHF-Bank. In addition, the figures and trends of our group are followed by a number of bond analysts.

The GILDEMEISTER share in comparison with the SDAX January 2003 to March 2005
in %

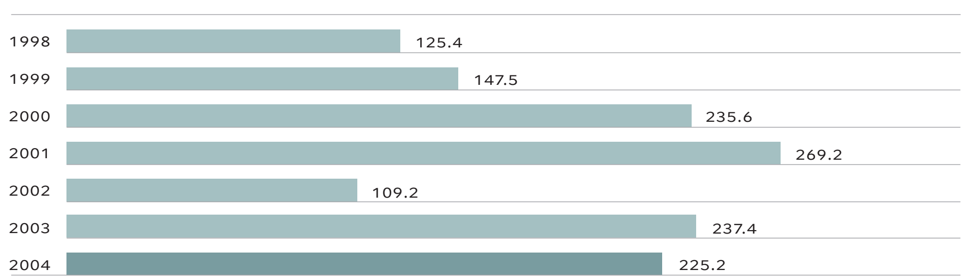
*01 Jan. 2003 = 100
price trends indexed



Stock market listing, trading volume and market capitalisation

Apart from Frankfurt, the GILDEMEISTER share is also listed at the stock exchanges in Düsseldorf and in Berlin-Bremen. The security is registered in the "Prime Standard" segment, which means it meets the international transparency requirements. In the reporting year, **trading volume** was noticeably above the previous year's level. Adjusting for June, which was strongly affected by the capital increase, the daily average trading volume was around 81,000 shares in comparison to 51,000 in the previous year. Including June in the calculation, the daily average trading volume of almost 109,000 shares has more than doubled in the past year. The GILDEMEISTER shares are owned primarily by diverse shareholders (free float). The largest number of shares is held by WestLB AG. Based on the year-end price, the free float has turned 0.82 times in the reporting year (previous year: 0.48 times). At the end of 2004, the market capitalisation of GILDEMEISTER Aktiengesellschaft amounted to € 225.2 million compared to € 237.4 million in the previous year.

Market capitalisation development of GILDEMEISTER Aktiengesellschaft
in € million



Capital increase

In June of the previous year, in a difficult market environment, 14,423,076 new shares were successfully placed at a subscription price of € 4.15, taking the shares outstanding to a total of 43,302,503. The capital increase served the purpose of strengthening our equity base as part of the restructuring of our equity/liabilities side of the balance sheet. The issue of the shares resulted in an increase in the registered capital of GILDEMEISTER Aktiengesellschaft from € 75,086,510 to € 112,586,508. Acting as general coordinators of the transactions were the consortium banks, HypoVereinsbank and WestLB AG. By increasing our **equity capital** base we have reinforced the medium and long-term growth prospects for GILDEMEISTER.

Earnings per share

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

Determination of earnings

Result for the year excluding minority interests	5,534,060 €
Weighted average number of shares	36,721,482
Earnings per share in acc. w. IAS 33	0.15 €

There were no dilution effects in the reporting period shown.

Dividend

The Executive Board and Supervisory Board will propose to the general meeting of shareholders to be held on 20 May 2005 that no dividend is distributed for the reporting year. Due to the positive business and performance prospects, we are planning to distribute a dividend for the financial year 2005.

Bond and Rating

The issue of a corporate bond in July 2004 was another important component in a set of measures to restructure the equity/liabilities side of the balance sheet. Our **financial profile** has improved accordingly. The bond with a coupon of 9.75% p.a. and a volume of € 175.0 million will mature in June 2011. In the course of the issue we submitted to the rating process of analysts at Moody's and Standard & Poor's. The corporate rating of GILDEMEISTER by these agencies was Ba3 and B+ respectively. The bond was rated B2 and B- respectively. The rating took into account the subordinated structure of the bond.

Bond master data

Security code number	Europe	USA
ISIN	XS0196635402	XS0196669724
SCN	A0BVFC	A0BVFD
Common	19663540	19666972

Key data on the GILDEMEISTER bond

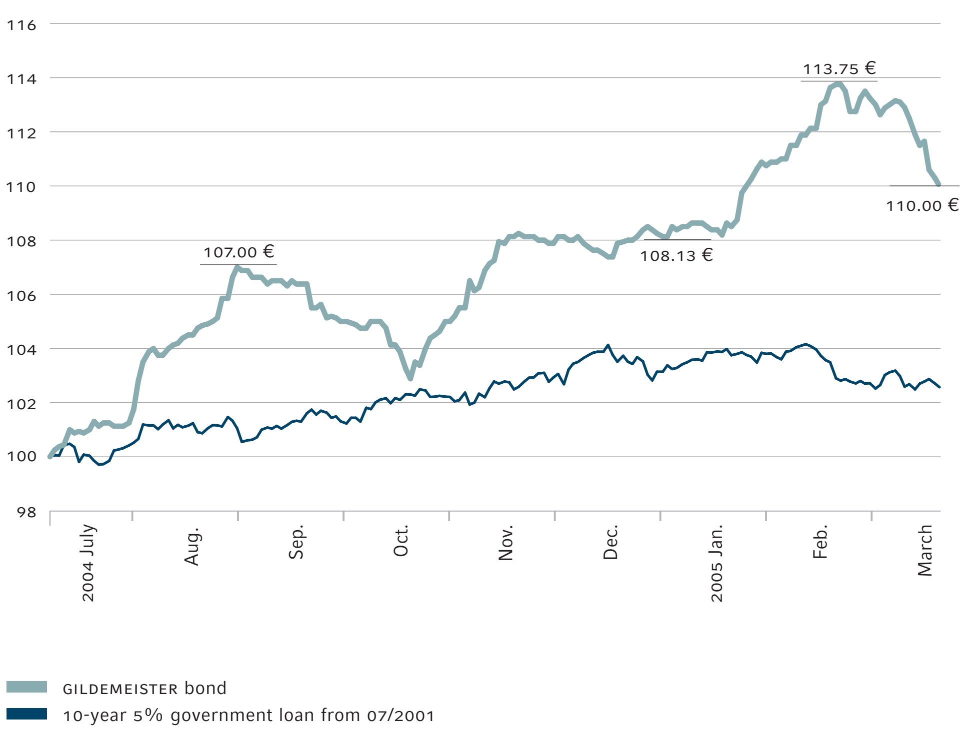
		July 04	Aug. 04	Sept. 04	Oct. 04	Nov. 04	Dec. 04	Jan. 05	Feb. 05	March 05
Month-end price [1]	€	101.13	105.85	105.13	105.00	107.88	108.13	110.75	113.50	109.00
Monthly high [1] [2]	€	101.31	105.85	107.00	105.00	108.25	108.50	110.88	113.75	113.60
Monthly low [1] [2]	€	100.00	101.13	105.13	102.88	105.00	107.38	108.13	110.75	107.00
Monthly average market [1] [3]	€	100.86	103.99	106.23	104.39	107.17	107.95	109.02	112.31	111.23

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

Development of the GILDEMEISTER bond

Following the successful bond issue on 19 July 2004, the bond price performed well, reaching an interim high of around € 107.00 on 2 September 2004. After a consolidation phase the bond price exceeded the € 108.00 mark on 11 November 2004 and then remained stable. The year-end closing price was € 108.13 (31 December 2004). The price continued its upward trend at the start of the current year, and the € 110.00 mark was reached on 25 January 2005. On 21 February our bond reached its highest price of € 113.75 and it is currently traded at € 110.00 (21 March 2005).

The GILDEMEISTER bond in comparison to the index and the government loan July 2004 to March 2005
in %



Investor Relations

Over the previous financial year we have continued our activities to enhance **communication with the capital markets**. In addition to the dialogue with our shareholders and the equity analyst, our target audience, following the initial bond issue, expanded to include bond holders and bond analysts. Whilst capital measures and the other roadshow activities went on, the Executive Board informed the capital markets on the above matters and was available for questions in the major European capitals – Frankfurt, London, Edinburgh, Milan, Paris and Zurich. This further broadened our investor base. Following the publication of our quarterly figures, we also explained the business situation and prospects for the industry and the company at presentations and telephone conferences. Over the year we attended several investors' conferences. Our general meeting of shareholders, held on 14 May 2004, was met with great interest, as usual. This meeting is an important forum to keep in touch with our shareholders. We welcomed around 1,200 shareholders to the Town Hall in Bielefeld. Once more we have posted the speech held by the Chairman of the Executive Board on our website ("Live Stream"). Our internet platform is a major component of our financial communication. In the past financial year, 26,676 annual and quarterly reports – including 10,600 in English – were accessed electronically. Further information on our website **www.gildemeister.com** is included in the "Marketing" chapter on pages 95. Our aim for 2005 is to expand the dialogue with existing shareholders and access new investors. In the reporting year, expenditure on investor relations totalled € 0.7 million.

Your contacts in the GILDEMEISTER Public / Investor Relations Team:

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E-mail: info@gildemeister.com

Corporate Governance

At GILDEMEISTER, corporate governance has for a long time meant responsible and transparent management and control of the company. To the Executive Board and the Supervisory Board, corporate governance is an essential element of management, which is geared towards the lasting enhancement of company value to the benefit of our shareholders. Through openness and transparency we want to win and encourage the trust of our shareholders and investors, customers and suppliers, business partners and employees as well as the public in the management and control of the GILDEMEISTER group. Our Code of Practice includes the standards and rules of responsible corporate management and control. They are complied with, along with the statutory provisions, by the management in the performance of all their business activities. The following principles are embodied in the GILDEMEISTER Code of Practice:

Close cooperation between Executive Board and Supervisory Board

The Executive Board informs the Supervisory Board regularly, promptly and comprehensively on corporate planning, business development and the risk situation. Target and budget variances in the course of business, and the strategic orientation of the group are immediately explained to the Supervisory Board. The Articles of Association stipulate Supervisory Board approval for transactions of fundamental significance.

Avoidance of conflicts of interest

The members of both the Executive Board and the Supervisory Board are committed to the interests of the company and, when making decisions in connection with their functions, may not pursue any personal interests or request or accept any contributions or other benefits for others or grant any unjustified benefits for third parties. Such transactions or secondary occupations of the members of the Executive Board must be immediately reported to, and approved by, the Supervisory Board. The Supervisory Board reports any conflicts of interest and their treatment to the general meeting of shareholders. There were no such conflicts of interest or transactions with the company during the past financial year, either with respect to members of the Executive Board or with respect to members of the Supervisory Board.

Protection of shareholder interests

Shareholders are regularly informed about important dates through a Financial Calendar included in our Annual and Quarterly Reports. This information is also updated regularly on our website www.gildemeister.com. Shareholders may exercise their voting rights themselves in the general meeting of shareholders. Alternatively, the voting right may be exercised through an authorised person of their choice or through a proxy bound by their instructions.

Adequate remuneration of Executive Board and Supervisory Board

Remuneration of the members of the Executive Board consists of a fixed and a variable component. Apart from the duties and performance rendered by members of the Executive Board, further criteria for the reasonableness of their remuneration include the company's economic situation, profit/loss for the year and its future prospects in view of its comparative environment. The remuneration of members of the Supervisory Board is laid down in the Articles of Association. In line with the proposals of the German Code of Corporate Governance, this is based on the long-term performance of the company. The chair and membership of Supervisory Board committees are also compensated. Detailed information on the remuneration received by officers in the financial year 2004 are included in the Notes to the Consolidated Financial Statements on pages 152 et sqq. of this Annual Report.

Responsible risk management

The responsible management of business risks represents to us an important element of good corporate governance. Our risk management enables us to systematically identify, assess and control risks and opportunities. Further details are included in the "Risk Reporting" chapter on pages 66 et sqq.

Reporting and auditing of annual accounts

In accordance with the regulations of the German Code of Corporate Governance, it has been agreed with the auditor that the Chairman of the Supervisory Board be informed promptly about any grounds of exclusion or bias that may arise during the audit. It has been further agreed that the auditor shall report promptly on all findings and events arising during the audit that are of significance for the duties of the Supervisory Board. The auditor will inform the Supervisory Board of, or include in the auditing report, any facts found during the audit process that prove the declaration of compliance with the German Code of Corporate Governance given by the Executive Board and Supervisory Board pursuant to Section 161 AktG (German Stock Companies Act) to be incorrect.

Declaration of compliance with the German Code of Corporate Governance

The following declaration of compliance pursuant to Section 161 of the Stock Corporation Act (AktG) was made by the Executive Board and Supervisory Board on 31 December 2004. Shareholders can access the declaration on our company's website:

"GILDEMEISTER Aktiengesellschaft complies, and has complied throughout the financial year 2004, with the recommendations of the Government Commission on the German Code of Corporate Governance, as amended on 21 May 2003, with the exception of the Executive Board members' remuneration not being disclosed individually (Clause 4.2.4 para. 1 sentence 2 of the Code)."

Recommendations of the German Code of Corporate Governance

GILDEMEISTER also complies with most of the recommendations included in the Code. Deviations from the suggestions of the Code currently exist in the following areas:

General meeting of shareholders: In accordance with the Code, the proxy for the exercise of the shareholders' voting rights in accordance with instructions should be available during the general meeting. For organisational reasons, GILDEMEISTER is currently not able to provide this option to its shareholders. Complete transmission of the meeting as a webcast event is currently not intended. In our opinion, the cost of this would exceed the benefit.

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 side of the Supervisory Board.

Executive Board members' remuneration: The variable components included in the total compensation package of members of the Executive Board should include components with a long-term incentive and risk character. Such variable compensation components include mainly company shares subject to selling restrictions whereby the shares cannot be disposed of during a period of several years, stock options or similar arrangements. We currently do not intend to introduce any of the above regulations.

Cooperation between corporate governance, risk management and capital market communication

We intend to further improve, continuously develop across the group and adjust to the changing business environment the cooperation between corporate governance, risk management and communication with the capital markets.

Risk Reporting

The global activities of the GILDEMEISTER technology group require constant weighing of risks and opportunities. Our international entrepreneurial activities are based on the principle of identifying risks and the opportunities resulting from those risks, and of developing risk limitation strategies. We are thereby able to analyse risks accurately and only take those risks where we can expect the benefit to outweigh the risk and where the ongoing existence of our company will not be jeopardised. With the aid of our risk management system, which is integrated into the existing organisational structure and process organisation, risks and opportunities are identified and classified at an early stage so as to systematically monitor and minimise any potential hazards. The responsible staff in the divisions identify relevant facts by recording risk situations with the aid of questionnaires, assessing them and providing quarterly reports. The analysis and assessment of risks is carried out by using statistical parameters expressing expected losses. Both the Executive Board and the Supervisory Board are regularly informed about the current risk situation of each group company. In addition, we have defined threshold values (e.g. for risks jeopardising the company's ongoing existence) which, when exceeded, immediately alert the Executive Board. The functionality of our risk management is checked by the internal audit department, ensuring continuous development and refinement of the system.

General economic risks: Risks for the ongoing development of the GILDEMEISTER group can primarily arise from cyclical effects in those markets that are important to us. We analyse these effects through forecasts in order to minimise them. The international markets for our products are dominated by strong competition. Asian, particularly Japanese, competitors have a very aggressive pricing policy in all industrial markets. In the reporting year, our profitability has suffered through the ongoing pressure on prices and margins. The purchase prices of steel, casts and energy have continued to rise since spring 2004 and were only partly offset by product standardisation and increased procurement in Eastern Europe. The rise in prices has affected two important areas at GILDEMEISTER: primarily the purchasing of machine beds (cast) and flashings, and secondly the procurement of components (steel). Potential risks apart from economic factors include the danger of terrorist attacks that could have a severe impact on the overall economic situation and therefore the capital goods industry particularly. Overall, from a contemporary perspective there are no risks arising from overall economic developments that could jeopardise GILDEMEISTER's existence.

We do not expect any substantial restrictions on business development due to developments in the capital markets and interest rates. As for the balance sheet, the potential negative and positive effects of changes in the book value due to exchange rate fluctuation, particularly with respect to the euro-US dollar relationship, can be more or less equally weighted. Operationally, most of our sales are completed in the euro-region, where there are no currency risks. Currency related risks may arise from our other international activities. We reduce these risks through hedging transactions as part of our currency strategy. Currency risks are levelled out by purchasing in the respective foreign currency as much as possible. With respect to risks beyond this, the Executive Board has defined the hedging volumes of the subsidiaries in each country on the basis of the planned cash flow. Hedging transactions are completed locally. Hedging tools to be used in this respect are determined by the Executive Board so as to keep the risk within the defined framework.

Quite often, changes in law that can only be predicted at short notice, particularly in tax law, can result in major changes in the prevailing legal, tax and economic fundamentals for GILDEMEISTER. For example, the group currently uses loss carryovers of € 71.3 million (previous year: € 62.8 million) for tax purposes; their continuance or usability is, however, dependent on future tax legislation in the respective countries and the profit situation of the affected group companies.

The difficult overall economic conditions in Germany, aggravated by the Basel II provisions, are still reflected in the granting of outside funds to many of our small to medium-sized customers. In addition to loss of contracts, this has continued to result in a substantial commitment of funds with respect to accounts receivables at GILDEMEISTER.

Sector risks: Careful observation of the market has enabled GILDEMEISTER to act in anticipation of potential sector risks. Technological superiority, an attractive product range and an extensive client base are important foundations to face the challenges arising from cyclical sector trends. We therefore do not expect any major adverse effects on our net worth, financial and earnings position. Since the consolidation phase in the machine tool industry continues, the restructuring of international markets will also continue. Thanks to its global presence, consistent market orientation and innovative product development, GILDEMEISTER is well prepared for this situation. No specific risks from sector-related concentration are foreseeable.

Risks from financing and evaluation: One of the key tasks of GILDEMEISTER Aktiengesellschaft is optimisation of the group's financing and limitation of its financial risks. We monitor and control the group's liquidity with the aid of financial-planning and financial-analysis instruments. In the past financial year we have continued to develop and refine these instruments. The operational financial risks, for example in the receivables area, are continuously managed by monitoring of the term of accounts receivable at both company and group level. This way, potential risks can be identified very early and appropriate counter-measures taken. The restrictive granting of credits, particularly to small to medium-sized enterprises, in preparation for Basel II has negatively affected the term of accounts receivable in the reporting year. Our outside financing has been secured on a long-term basis through the issue of the corporate bond, which will mature in 2011. Covenants were agreed for this; if these are breached, creditors may be entitled to terminate the agreement. In addition, the syndicated loan with a total volume of € 141.0 million was extended to 30 June 2007. One of the measures to rearrange the group's financial structure included a capital increase through a rights issue to the gross value of € 60.1 million. With the funds received we have paid back the bilateral loans of our international subsidiaries, thereby increasing the group's financial flexibility.

About three quarters of our outside financing volume is secured against risk arising from changes in interest rates by agreements on long-term fixed interest rates or interest derivatives. In the reporting year money market rates were low. Lack of uniformity in the economic data for Europe and the continuing upward trend of the euro have led us to assume a stagnant level of money market rates in Europe.

Since 1 January 2004, the goodwill resulting from company acquisitions completed by the GILDEMEISTER group are no longer written off over a period of time (IFRS), but are reviewed in accordance with IAS 36 "Impairment of Assets". In the reporting year, this review did not result in a writedown requirement. Further details are set out in the "Notes to the Consolidated Financial Statements" chapter on page 125. The allocation of deferred tax assets to losses carried forward can be adversely affected by tax rate changes and the future profitability of the companies concerned.

Legal risks may arise from the operational business, in particular from warranty claims following customer complaints. These risks can be limited by liability regulations. However, legal risks, like risks the in other areas, do not significantly affect the economic situation of the GILDEMEISTER group.

IT risks exist due to the required high level of availability of our EDP systems and networks as well as potential external attacks on our IT systems. We deal with these risks through regular maintenance of our hardware and software. The security of our computer systems and databases is ensured through stable infrastructures that guarantee a high level of system availability. Risks arising from these areas are therefore controllable.

Procurement risks may arise through the 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, so hedging against currency impacts in this area is unnecessary.

GILDEMEISTER permanently monitors the major **production risks** via codes pertaining to the assembly and production process, processing time and processing continuity. This reduces the capital tied-up in inventories and diminishes the inventory devaluation risk. In addition, a large number of other quality and production related parameters are employed for monitoring, early recognition and reduction of possible risks in production. These include the gross profit per machine type, various inventory ratios and the recording of quality problems regarding time and costs (warranty costs).

In **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 and service organisation ensure an early response to risks in this area.

Other major risks, such as environmental risks, are currently not evident. For example, due to the nature of our assembly, ecologically harmful materials are only used in isolated cases; these substances are disposed of in accordance with the latest standards. Our investments primarily serve to maintain the group companies' readiness to operate; there are no known risks arising from our investment activities. The same applies to financial investments made in the reporting period, which result from the increase in our investments in affiliated companies. Further details are set out in the "Legal Corporate Structure" chapter on page 74 et sqq.

Overall risk: Risk reduction measures are included in our risk management system as compensating factors. Any individual risks identified are analysed initially at divisional level before being brought together at company level. In conclusion, it can be said that the risk situation in the GILDEMEISTER group depends primarily on market risks. The current strength of the euro and its forecast performance over the next twelve months will result in an increase in currency and price risks that may affect the sales of our products and services. We deal with this risk via the progressing internationalisation of our production and procurement activities. Our numerous individual measures to minimise the tie-up of funds and reduce debts also have a risk reducing impact in the long term. As far as possible, we have taken precautions against business risks that could substantially affect the company's net worth, financial and profit situation. Since the publication of our last report, our risk situation has improved primarily because of the rearrangement of the group's financial structure. All in all, risks are limited and controllable; and the future existence of the GILDEMEISTER group is currently not jeopardised. We do not expect any fundamental changes in our risk situation.

Investments

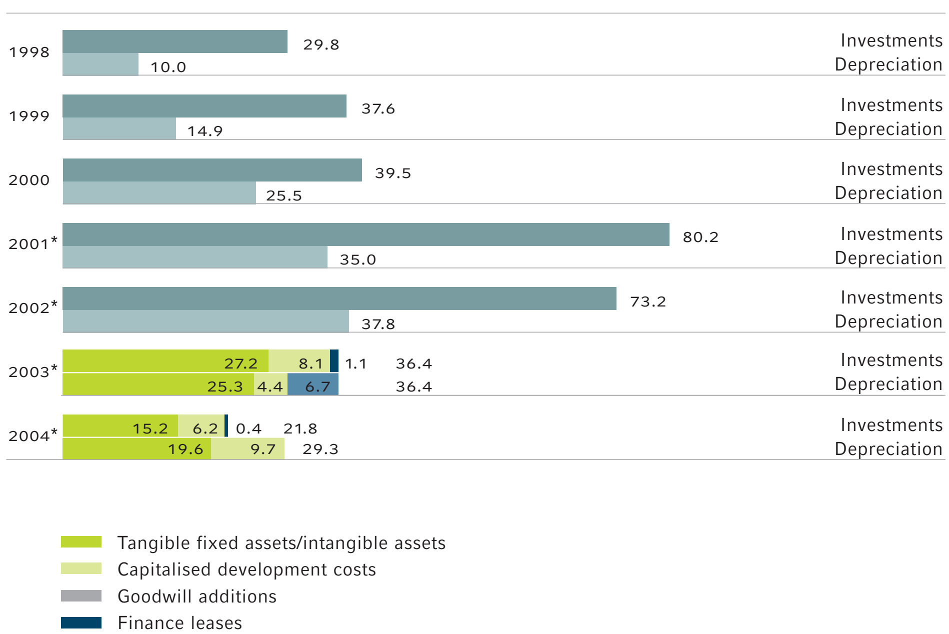
With regard to investments, GILDEMEISTER has continued the consolidation course begun in the previous year and has reduced additions to fixed assets by 40% to € 21.8 million (preceding year's figure: € 36.4 million). Investments in tangible and intangible fixed assets amounted to € 15.2 million. Further intangible fixed assets additions in the group worth € 6.2 million were due to the capitalisation of development costs. In addition, € 0.4 million was invested in leased assets (finance leases). Further funds amounting to € 4.9 million were devoted to operating leases of factory and office equipment. The investment surge of the previous years has reinforced GILDEMEISTER'S technological lead and market presence and built the basis for further increases in production and efficiency.

In the reporting period, depreciation of fixed assets, including capitalised development costs and finance leases, amounted to € 29.3 million, which is below the preceding year's figure of € 36.4 million, as expected.

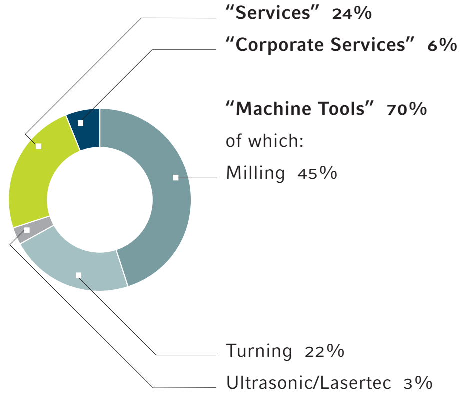
Amounts invested related primarily to investments in tools and fixtures and to capitalised development costs pursuant to IAS 38.

Investments and depreciation in the GILDEMEISTER group
in € million

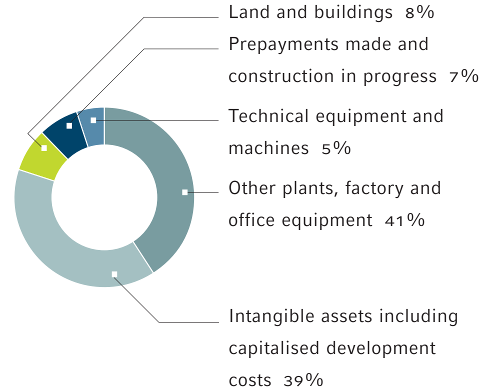
*acc. to IFRS



Contribution of each segment/ division to investments in%
2004: € 21.8 million



Investment volume broken down by investment types in%
2004: € 21.8 million



Investments in the "Machine Tools" segment

In the **Turning division** investments of GILDEMEISTER Drehmaschinen GmbH were € 0.7 million in the financial year 2004. One of the main investments, € 0.3 million was in tools, fixtures and measuring equipment. In the reporting year, GILDEMEISTER Italiana S.p.A. invested € 1.3 million. Of this, € 0.9 million was spent on the extension of the newly designed showroom and on office and workplace equipment that was required due to the move of DMG Italia S.r.l. from Gorgonzola to the factory site. A total of € 0.3 million was spent on tools, fixtures and measuring equipment. The amount invested by GRAZIANO Tortona S.p.A totalled € 0.5 million, with the key focus on increased work efficiency in the research and development areas and in production. In the same period, FAMOT Pleszew S.A. invested € 1.1 million. Of this, € 0.3 million was spent on software and hardware, which supported the development of the new CTX 210 universal lathe and improved the integration of the research and development department of FAMOT in the group's IT environment. In addition, modernisation of the combined heating and power station was completed, allowing independent power supply at the production facility in Poland in accordance with the high environmental and group standards. Investments in this respect amounted to € 0.4 million. In the Turning division development costs of € 1.2 million were capitalised.

In the **Milling division**, DECKEL MAHO Pfronten GmbH invested € 2.6 million. For the production start-up of new machine types, € 1.2 million was spent on tools, fixtures and measuring equipment. A further € 1.4 million was invested primarily to maintain the group companies' operational readiness and data processing. At DECKEL MAHO Geretsried, investments made up to the time of reorganisation amounted to € 0.4 million and focused mainly on maintaining the company's operational readiness. In the reporting period € 1.5 million was spent at DECKEL MAHO Seebach GmbH. The focus was the production start-up of new machine types which included investment in tools, fixtures and measuring equipment. A total of € 0.9 million were required for this at the Seebach location and € 0.2 million for the vertical machining centre area at the Geretsried site. A sum of € 0.3 million was spent on the installation of an air conditioning and filter system in order to improve production conditions at DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd. In the reporting period, the cost of introducing the groupwide ERP system at the Shanghai site amounted to € 0.2 million. This investment will result in even more effective use of our worldwide network of production capacities. A total of € 0.9 million was invested at the Shanghai site. In the Milling division development costs of € 4.4 million were capitalised.

Following the high level of investment in previous years and completion of the restructuring process in the **Ultrasonic/Lasertec division**, investment expenditure by SAUER GmbH focused on individual activities to improve productivity and office equipment and to maintain the company's operational readiness. A total of € 0.4 million was spent in this respect. Capitalised development costs in the Ultrasonic/ Lasertec division amounted to € 0.3 million.

Investments in the "Services" segment

A total of € 4.4 million was invested by DMG Vertriebs and Service Gesellschaft in the reporting year. One of the main investments of € 0.9 million was the purchase of land by the new DMG Europe Holding. Construction work started on the new building for this company which intends to expand its business operations in the current financial year. A total of € 0.8 million was spent on tools and measuring equipment. Planned investments to the value of € 4.7 million for the replacement of vehicles in the sales and service area were funded by operating leases. In the reporting year, investments by SACO S.p.A. amounted to € 0.5 million, of which € 0.4 million was spent on tools, fixtures and measuring equipment. a & f Stahl- und Maschinenbau GmbH invested € 0.1 million in the reporting year. In the "Services" division, development costs of € 0.3 million were capitalised.

Organisation and Administration

The GILDEMEISTER group comprises eleven production sites, a & f Stahl- und Maschinenbau GmbH and DMG Vertriebs und Service GmbH with its subsidiaries. GILDEMEISTER Aktiengesellschaft acts as the parent company for these companies.

The German production sites include GILDEMEISTER Drehmaschinen GmbH, DECKEL MAHO Seebach GmbH, DECKEL MAHO Pfronten GmbH, DECKEL MAHO Geretsried GmbH and SAUER GmbH. In addition, the group's international production facilities comprise FAMOT Pleszew S.A., the three companies of the sub-group GILDEMEISTER Italiana and DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd.

a & f Stahl- und Maschinenbau GmbH is responsible for the procurement of components. DMG Microset GmbH produces setting and measuring equipment for tool management. With its numerous national and international subsidiaries and second-tier subsidiaries, DMG Vertriebs und Service GmbH operates as the production facilities' sales and services interface with the market.

The GILDEMEISTER group consistenetly runs all its companies as profit centres. The **group structure** illustrated on pages 14–15 shows the management and control structure. To achieve optimal performance and results, all companies operate according to clear rules. All operational processes and sequences are standardised through the uniform IT infrastructure throughout the group. The IT system thereby acts as an integral link within the group.

Key functions across all areas of the group are controlled centrally. This includes the controlling and the financial functions, personnel, marketing, the legal department as well as logistics and procurement. The organisational expenses of GILDEMEISTER Aktiengesellschaft amounted to € 13.7 million (previous year: € 12.8 million).

Legal Corporate Structure

In the first half of the reporting year, GILDEMEISTER Aktiengesellschaft increased its share capital to strengthen its financial basis. Following the issue of 14,423,076 new shares the number of shares rose to 43,302,503 and the company's share capital increased from € 75,086,510.20 to € 112,586,507.80. Subscription rights were exercised by 99% of existing and new GILDEMEISTER shareholders.

In order to concentrate the group's participation activities, GILDEMEISTER Aktiengesellschaft contributed 94.9% of its shares in DECKEL MAHO Geretsried GmbH to GILDEMEISTER Beteiligungen AG. A management and profit and loss transfer agreement was entered into between GILDEMEISTER Beteiligungen AG and DECKEL MAHO Geretsried GmbH. DECKEL MAHO Geretsried GmbH sold its activities in the vertical machining centre area to DECKEL MAHO Seebach GmbH and its activities in the horizontal machining centre area to DECKEL MAHO Pfronten GmbH. In addition to the existing management and profit and loss transfer agreements, GILDEMEISTER Aktiengesellschaft entered into a new profit and loss transfer agreement with GILDEMEISTER Beteiligungen AG during the reporting year. A detailed overview of the existing management and profit and loss transfer agreements and shareholding relationships within the GILDEMEISTER group as of 31 December 2004 is included in the Notes to the Consolidated Financial Statements on pages 158 et seq.

In the reporting year GILDEMEISTER Aktiengesellschaft also increased its participation in FAMOT Pleszew S.A., Poland, to 100% (previous year: 99,4%).

Retrospectively, as from 1 January 2004, SAUER GmbH merged with LASERTEC GmbH. The transfer of place of business and the change of corporate name from LASERTEC GmbH to SAUER GmbH took place in October 2004. Merging the two innovative technologies into one company under a single management structure accommodated their strategic alignment.

In addition, GILDEMEISTER Aktiengesellschaft acquired the remaining 10% of shares in a & f Stahl- and Maschinenbau GmbH in the first quarter of the financial year 2004.

In January 2004, GILDEMEISTER Aktiengesellschaft transferred its 100% participation in DMG MICROSET GmbH to DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER in line with the company's position in the "Services" segment.

In the past financial year DMG Vertriebs und Service GmbH contributed 100% of its shares in DMG Nederland B.V. to DMG Europe Holding GmbH. As a result, DMG Europe Holding is now the 100% shareholder of DMG Nederland B.V., which in turn holds numerous DMG participation. In March 2004, DMG Asia Pacific Pte. Ltd. set up DMG (Thailand) Co. Ltd., Bangkok as its wholly owned subsidiary.

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

Branch offices

DMG Vertriebs und Service GmbH, Bielefeld, a fully owned subsidiary of GILDEMEISTER Aktiengesellschaft, maintains, apart from the 43 sales and service companies, further offices and the following international branch offices, which are not legally independent enterprises:

_ DMG Danmark
Filial af DMG Vertriebs and Service GmbH
DECKEL MAHO GILDEMEISTER, Tyskland,
Kvistgård/Denmark
_ DMG China DECKEL MAHO GILDEMEISTER
Shanghai Sales Office,
Shanghai/China
_ DMG China DECKEL MAHO GILDEMEISTER
Beijing Sales Office,
Beijing/China
_ DMG China DECKEL MAHO GILDEMEISTER
Guandong Sales Office,
Guandong/China
_ DMG China DECKEL MAHO GILDEMEISTER
Chongquing Sales Office,
Chongquing/China
_ DMG China DECKEL MAHO GILDEMEISTER
Shenyang Sales Office,
Shenyang/China
_ DMG China DECKEL MAHO GILDEMEISTER
Xian Sales Office,
Xian/China

DMG Danmark operates as a sales and service branch in Denmark.

The sales offices of DMG Vertriebs und Service GmbH in Shanghai, Beijing, Guandong, Chongquing, Shenyang and Xian are authorised to market group products in China. DMG Technology Trading (Shanghai) Co. Ltd., as a fully owned subsidiary of DMG Vertriebs und Service GmbH, Bielefeld, is responsible for customer service and other service activities in this market.

DMG Italia s.r.l., Brembate di Sopra, Italy, operates a branch office that is not legally independent:

- DMG Tortona
  DECKEL MAHO GILDEMEISTER Italia,
  Tortona/Italy

DMG Austria GmbH, Klaus, Austria, operates the following branch office that is not legally independent:

- DMG Austria
  Vertriebsniederlassung Wiener Neudorf
  Wiener Neudorf/Austria

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 Slovakia,
  Trencin/Slovakia

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

- DMG Nippon
  Nagoya/Japan

In addition, DMG Asia Pacific Pte. Ltd., Singapore, has strengthened its presence in the Asian region with the following branch office that is not legally independent:

DMG Asia Pacific Pte. Ltd.

- Vietnam Sales Office,
  Hanoi/Vietnam

Apart from running the operational business, DMG Vertriebs und Service GmbH, Bielefeld, acts mainly as a holding company. During the reporting year, business in the branch offices increased noticeably.

Procurement

In the financial year 2004, GILDEMEISTER has continued and deepened its partnership-based collaboration with its suppliers. We were therefore again able to achieve positive effects in purchasing and procurement. The cost of materials and purchased services amounted to € 553.7 million (previous year: € 525.3 million), € 459.7 million of which (previous year: € 436.6 million) was attributable to raw materials and supplies. The **material cost ratio** was therefore 52.6% (previous year: 52.8%).

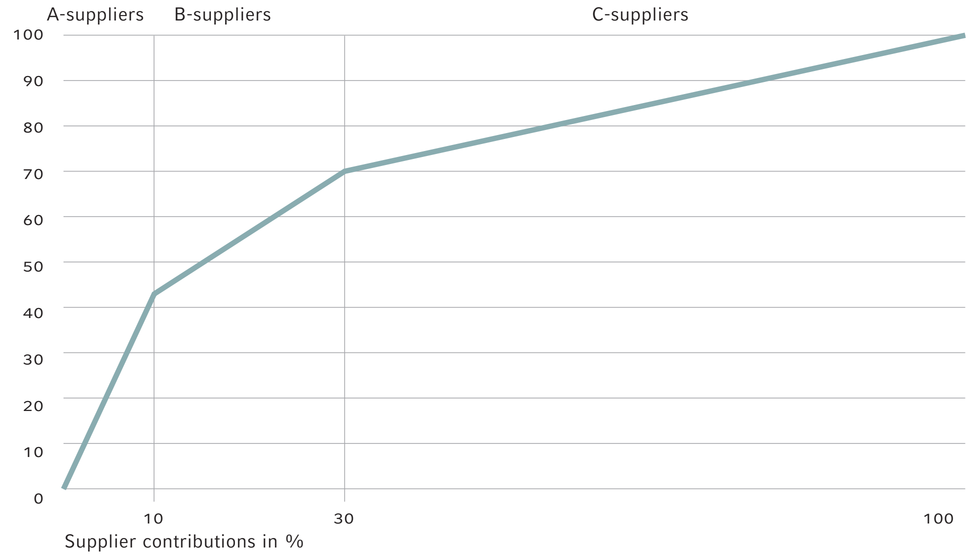
The group's fourth **Suppliers Day** was again the highlight of the group's collaboration with its supply partners. At the Pfronten location around 150 participants from the TOP supply companies watched the categories "Supplier-of-the-Year" awards for innovation, quality, supply performance and overall winner.

Our continuous optimisation of processes in the purchasing and procurement area was also recognised outside the group in the reporting period: The German Association of Materials Management, Purchasing and Logistics (BME) acknowledged our integrated procurement management programme with the **Innovation Award 2004**. This programme serves to increase the efficiency of purchasing and logistics and is based on three pillars:

1. The **coSupply®** suppliers' management system integrates our supply partners in development and logistics.
2. Materials group management coordinates the strategic purchasing activities, placing special emphasis on team-based collaboration between purchasing and technology.
3. Integrated "Global Sourcing" ensures that the production sites benefit from the group's procurement options to the greatest possible extent.

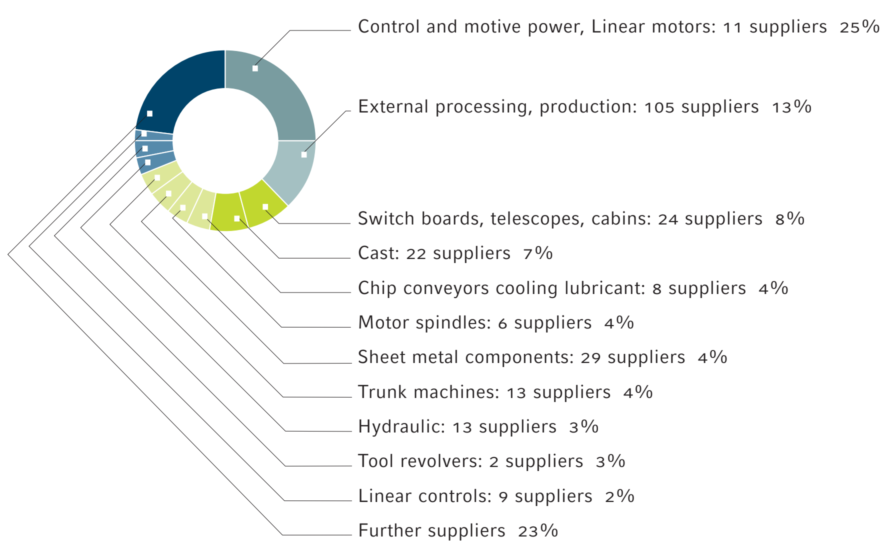
Following further expansion of coSupply® suppliers' management, the system now consists of the TOP 50 supply partners, representing 75% of the purchasing volume. The 100 most important suppliers represent 80% of the total volume. Our communication platform, www.coSupply.de, has been specifically expanded and adjusted to meet users' requirements even better. This improved and faster service resulted in an almost doubled number of suppliers' online-sessions and directly demonstrates the benefits of partnership-based collaboration with our supply partners. In addition, it creates the conditions necessary for rationalising and improving the **supplier** structure and for increasing **supply** reliability. These **strategic supply partnerships** enable GILDEMEISTER to access the technical expertise of the partners, which strengthens the company's innovative power in the long-term.

Structural analysis of the coSupply® suppliers
Supplier's contributions to the purchasing volume in %



Materials groups management, which was introduced in 2002, has also been completed and its organisational structure optimised. The transfer of knowledge and technology within the group, synchronisation of the plants' procurement activities and standardisation measures have thereby been improved. As a result, 80% of the purchasing volume has now been combined in the 12 most important of 28 materials groups. As a result of these measures, the number of suppliers across all materials groups has been reduced by 10%.

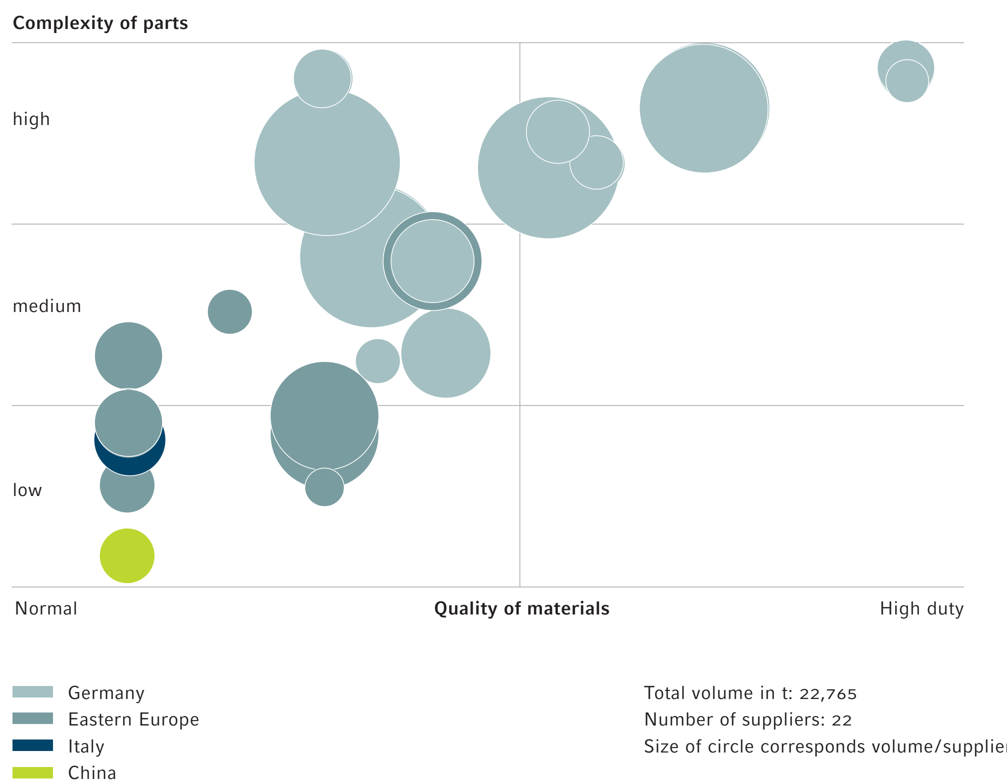
Materials group contributions to the purchasing volume (€)
in %



To reinforce both our innovative power and our income, we have continued to pursue and accelerate our standardisation measures. A successful example in this area are the cooling lubricant systems, where various measures resulted in a reduction in the number of pump types from 20 to 8, which lead to cost reductions of 20%.

In the reporting year GILDEMEISTER procured cast components with a total weight of 22,765 tons (previous year: 21,893 tons) from 22 different suppliers. The average cast price increase of 7% compared to the previous year this was one of the main factors contributing to the 0.6% price increase in total purchasing volume.

Casts suppliers – portfolio

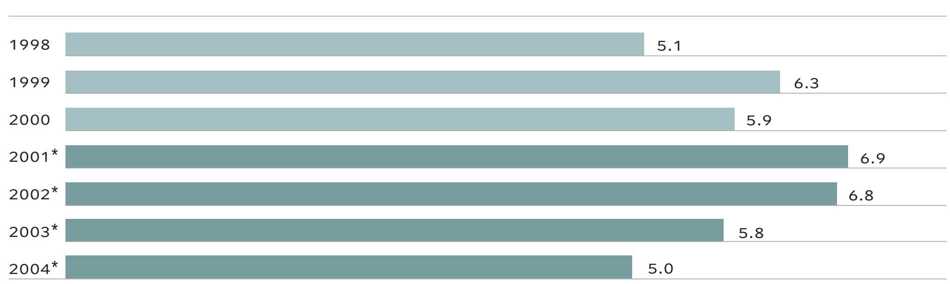


In the reporting year, one of the objectives pursued by our integrated Global Sourcing was to develop a local supplier structure of the Shanghai plant in order to profit from exploit the cost advantages offered by Chinese suppliers and to increase supply reliability. Another measure was the systematic analysis and expansion of procurement options in countries such as Japan, India, South Korea and Thailand. The objective of this measure was to increase global procurement of A-components. At the same time GILDEMEISTER expanded the group's capacity network in order to strengthen the performance of FAMOT as the major supplier of trunk machines. The group purchases roughly every second machine as a cost-and-process-optimised preassembled trunk machine.

As regards the storage of goods, the increased demand for complex technology machines resulted in longer replacement and processing times in materials management and production and thereby in an increase in inventories of the affected range of parts. The **turnover rate of raw materials and consumables** therefore decreased slightly by 14% to 5.0. In comparison to the industry as a whole, and taking into account the entire stocking of spare parts, the average period of storage of raw materials and consumables of 73 days remains at a good level.

Rate of turnover pertaining to raw materials and consumables within the GILDEMEISTER group

*to IFRS

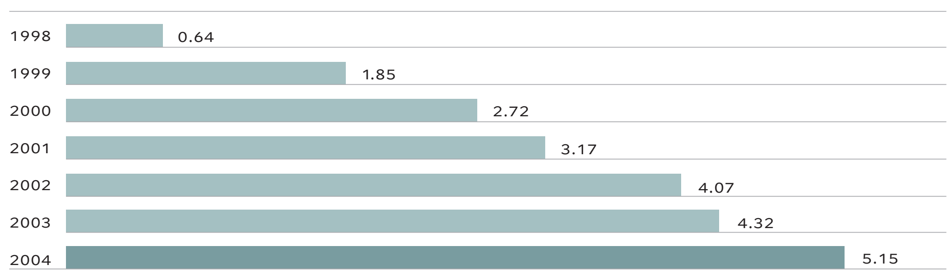


Production and Logistics, Products and Services

In production and logistics GILDEMEISTER has systematically optimised both internal and external processes and continued to expand the PULL production system (**P**roduktions- **u**nd **L**ogistik-**L**eistung = performance of production and logistics). In the financial year 2004, the expansion of the capacity network between the GILDEMEISTER plants constituted an important task within the group's globalisation strategy. By differentiating between **product and production facilities,** we have defined a new plan of actions for this purpose. Within this plan, the sites are now able to coordinate their activities better and focus on their core expertise. The product facilities are responsible for product development and support the marketing of products, while the production facilities focus on production and assembly. This differentiation is supported by organisational measures, which aim at the standardisation of relationships and coordination of processes between the facilities. For example, order control offices were set up across all product facilities to co-ordinate the resources of the eleven production sites. This approach facilitates and accelerates the development of new assembly sites in growth markets such as China. This allows an easier market access, improved customer proximity and increased flexibility. The DECKEL MAHO Pfronten and DECKEL MAHO Seebach companies were restructured for this purpose into two product facilities for the milling area. Their expertise and main areas of technological focus are now developed in close coordination. As a result of this restructuring process, DECKEL MAHO Geretsried GmbH sold its activities in the vertical machining centre area to DECKEL MAHO Seebach GmbH and its activities in the horizontal machining centre area to DECKEL MAHO Pfronten GmbH.

With our PULL production system we continue to base our activities on the CIP (continuous improvement process) principle, which focuses on the employees and their **suggestions for improvements**. The PULL co-ordinators at each production site act as disseminators, who, in the numerous workshops, enhance process optimisation and organise the transfer of technical expertise. As a result we are able to react to the continuously growing market demands for reliable and fast supply of products that have increasingly become more complex, and thus to process orders in the shortest possible time. The constantly high motivation of our employees is the basis for the long-term success of this production system. This is reflected in a further increase in the number of suggestions for improvements. During the reporting period, employees in the plants handed in an average of 5.15 improvement suggestions each; this is a 19% rise compared with the previous year (4.32). The total number of 17,113 suggestions for improvement were handed in (previous year: 14,154). The relating total net benefit (benefit of suggestions minus costs of implementation) of € 2.7 million was again in line with the very good figure for the previous year. Our staff's commitment resulted in GILDEMEISTER, for the fifth successive year, occupying the three leading positions in the German industry ranking run by the dib (German Institute of Business Management).

Suggestions for improvement at the production plants
Number per employee



Central development coordination, which was introduced in the middle of 2003, was expanded in the reporting period. Demonstrable achievements include a 20% reduction in costs with respect to the group's cooling lubricant systems through our standardisation measures. With respect to further main subassemblies and components, such as tool revolvers, hydraulic aggregates and chip conveyors, standardisation and modularisation across all plants and technologies was further developed and refined. The platform principle has been consistently implemented in new developments so that the requirements of production and logistics are taken into account during product development. This has enabled us to achieve a reduction in complexity, which is reflected in a reduced diversity of variants and components, a reduction in the need for training of employees and a fall in the incidence of faults.

The GILDEMEISTER group will continue to pursue its innovation-orientated strategy in order to safeguard its position as technological leader in the global competition. This strategy is consistently implemented through the development and serial start-up of new products.

For this purpose, the **Turning division** has formed a **network**, consisting of four factories (GILDEMEISTER Drehmaschinen, GILDEMEISTER Italiana, GRAZIANO and FAMOT). This network has the most comprehensive production programme for lathes worldwide, ranging from universal turning machines through to CNC multi-spindle automatic lathes.

During the previous year GILDEMEISTER Drehmaschinen GmbH launched serial production of the three linear-motor driven GMX 200/300/400 linear turning and milling centres from the GMX line. Because of the good level of new orders for this product line we had to intensify staff training and change the hall layout and logistics in order to expedite the start of series production and to increase quantities. The GMX 250 linear, which has been assembled in prototype since autumn 2004 completed the product line. With the NEF 400 we are introducing the first model of the completely reworked NEF line. These machines offer high flexibility, precision and dynamics at a very attractive price; and therefore strengthen our market position in the CNC universal lathe area.

Early in 2004, GILDEMEISTER Italiana S.p.A., centre of expertise for the various automatic lathe lines, completed the building of its new technology and presentation centre. The various projects regarding the restructuring of the production areas and processes were completed in the previous year. These projects also served to prepare production start-up for the new generation of SPEED and SPRINT product lines. The SPEED 20-9 linear and SPEED 32-10 linear complete the SPEED range of fast high-precision "Swisstype" automatic lathes. The SPRINT 42 linear and SPRINT 65 linear continue the new SPRINT range generation. In various PULL projects GILDEMEISTER has gradually optimised the production sequences for these new types.

At the Tortona site, in the financial year 2004, we continued with the co-ordination of production and logistics with GILDEMEISTER Drehmaschinen GmbH. In this respect, the CTX 310 and 320 linear were extensively reworked, at the same time as their sister models were produced in Bielefeld (CTX 410). Via value analyses and a reduction in technological complexity, this optimisation process resulted in structural simplifications and standardisations and thereby in noticeable cost reduction. In addition, these measures have had a positive impact on the supply of CKD and SKD sets at the Shanghai site.

In the previous financial year, FAMOT Pleszew S.A. started the serial production of the CTX 210. This new CNC universal lathe provides the site with additional sales prospects and completes the local production programme of final machines from the NEF and DMC V lines. The number of production starts, nine in total, in the FAMOT production programme resulted in a drop in production to 1,473 (previous year: 1,704). FAMOT remained the group's major supplier of trunk machines and produced a total of 21 trunk machine types. Two further, modern GILDEMEISTER machines assure production capacity and availability: the installation of the DMU 340 P was completed at the beginning of the year; followed by the installation of the DMC 60 U. At the same time, the production-logistical processes were optimised by switching additional component groups over to the KANBAN order system and terminating the supply of materials from the German buyers' plants for the assembly of trunk machines. FAMOT now procures directly from the suppliers and has increased the share in goods that are supplied via the transhipment point.

With its product portfolio, the GILDEMEISTER group also covers the total range of applications in the **Milling division.** It ranges from small CNC universal milling machines to highly productive CNC machining centres and milling-turning centres through to the large universal CNC machining centres for 5-axis/5-sided simultaneous machining. In this field DECKEL MAHO is the technological leader.

In the financial year, production at DECKEL MAHO Pfronten GmbH was dominated by numerous production starts. Various PULL projects accompanied and implemented these starts and, at the same time, optimised the related production and logistics processes. Assembly and logistics at the site were dominated by the introduction and the start of production of the horizontal machining centre double range with (initially) four new types. These were added to by four additional types from the DMC U and DMU P product lines. With the production-logistical optimisation measures carried out in the preceeding years, GILDEMEISTER has created the process stability, flexibility and technical expertise required for the smooth start-up of many new machine types. This preliminary work was particularly helpful, when taking on the product stewardship for the horizontal machining centres of the DMC H line.

DECKEL MAHO Seebach GmbH, in its function as product facility, took on the structural and organisational responsibility of the vertical machining centres of the DMC V product lines. This required various projects in order to enable the standardised organisation of the different processes. Two production starts of machines had to be implemented in the sites at Seebach and Geretsried. With the DMC 75 V linear and the DMC 105 V linear, both produced at the Geretsried site, two new vertical precision centres for mould making replaced the former types that had been successful for many years. At the Seebach site, along with the launch of the two new DMF 250 linear and DMF 500 linear types from the DMF product line of highly dynamic traversing column machines, the start of production of the DMU 50, which is based on a new platform, was very successful. Both demand and production exceeded our initial expectations. Within our capacity network, DECKEL MAHO Seebach continues to produce basic machines for SAUER GmbH.

The new Shanghai production plant, opened in the previous year, constitutes an important step in accessing the largest market for machine tools. Due to the further increase in local procurement (local content), the group benefits from the cost advantages present in the Chinese procurement market and from a reduction in costs arising from import duties. DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., developed according to plan in the reporting period. In respect of further production starts of machines, the expansion and optimisation of production and logistics were the company's major tasks. The production programme was extended by a vertical machining centre (DMC 103 V) and a CNC universal lathe (CTX 410). These complete the former production programme by two larger types of the concerned product lines.

The Shanghai site, in its function as production plant, has coordinated its processes with the European product facilities within the group's capacity network. To support this we started to introduce the BaaN ERP software in the fourth quarter of 2004. Through the completion of this project in February 2005, the cooperation within the capacity network and the monitoring and controlling of the production and logistics areas will be much more simple and efficient.

In the **Ultrasonic/Lasertec** division GILDEMEISTER, in two product lines, offers high-tech machines and tools, sometimes with exclusive features, for the machining of complex work pieces made from advanced materials, including hard-brittle materials such as ceramics (zirconium oxide), glass (Zerodur, Macor), silicon, composites (carbon fibre), metal carbide or ruby. Innovation-oriented growth industries, such as the semiconductor or aerospace industry, are typical sales markets for our products in this area. Following the opening of the technology and assembly centre of SAUER GmbH in the year 2003, the process optimisation in production and logistics was further pursued. Advanced staff training and PULL workshops along with an intensified integration into the group's data processing systems were the main elements of this optimisation process. The merger of the companies SAUER and LASERTEC was completed at the same time.

GILDEMEISTER operates in the trendsetting market of microtechnology with machines for laser erosion, fine cutting and drilling produced at the Kempten production plant. These machines are distinguished by their versatile, modular design and high precision and dynamics. The products' productive capacity was increased again through optimisation measures and technological development. For example, the precision achieved by the Lasertec 80 finecutting and the Lasertec 40 was increased again.

In addition to machine tools, customers today expect a comprehensive range of high quality service products. In the **"Services"** segment, GILDEMEISTER offers these services via DMG Vertriebs und Service GmbH. Along with the service and spare parts business, the application technology, installations and training and tuition products, these include electronic updates, software products and updates in the mechanics field. Innovative highlights are the software and online products of the DMG Powertools product range. With DMG Gebrauchtmaschinen GmbH our customers receive a complete service package that is geared to the life cycle of the machine, and includes not only the repurchase of machines, but also the technical reprocessing and resale of used machines. 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 completed the start of series production of the SACO 35-6 bar loader. This bar loader magazine occupies a new market segment, whilst the SACO range of products continues to be dominated by components and main subassemblies produced primarily for lathes. This area has been widened by the development of collet chucks and draw-in collet chucks. Due to a closer coordination and the linking up of the group's production plants, the site's capacity utilisation and production output were increased. The expansion of the PULL system, monitoring and controlling supported these processes.

With the range of DMG MICROSET products we offer our customers the option of achieving up to a 15% increase in productivity through the perfect setting and measurement of tools. The universal tool management products, such as tool setting and measuring equipment for turning and milling tools thereby complete our product selection in the service area and strengthen our position in the market as suppliers of a comprehensive range of production solutions.

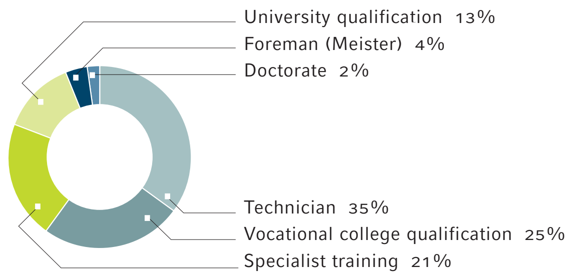
Research and Development

The requirements of the global markets and the expectations of our customers have a major influence on the development of our new products. GILDEMEISTER has therefore been able to maintain its innovative lead. In the financial year 2004 we developed 16 high-tech machines, which were successfully exhibited to the experts at international trade fairs and exhibitions, such as the IMTS in Chicago, the JIMTOF in Tokyo and the AMB in Stuttgart. About two thirds of our current delivery programme consists of products that are less than three years old. An overview of our latest products is included in the folding page on the back of the cover of the Annual Report.

The office of the Central Development Coordinator created in the previous year for coordination across all sites proved successful. Regular monitoring and controlling of development projects, optimised preparation and implementation of the group-wide product development discussions and intensified standardisation measures expedite and enhance the work of Research and Development. In the reporting period, these efficiency increases and additional cost-cutting measures resulted in reduced spending on Research and Development by € 5.2 million to € 37.8 million. This was primarily achieved by reducing external services, such as consulting engineers. The significance of this area continues to be reflected in the high number of qualified constructing employees: With 399 employees, 13% of the workforce at the plants are working towards the further expansion of our technological lead.

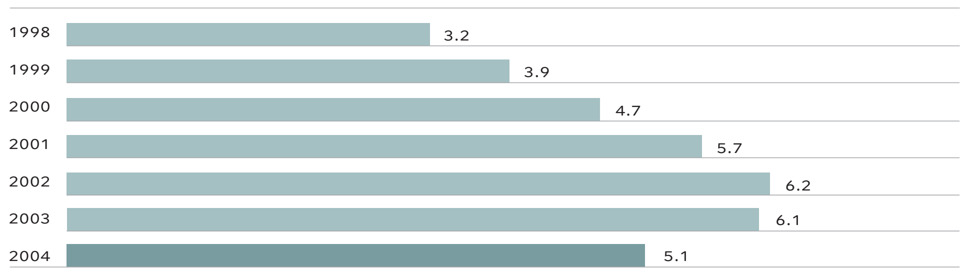
Group-wide qualification structure in the development/ construction area

2004: 399 employees



Spending on research and development within the GILDEMEISTER group
in %*

* of relevant sales achieved at the production plants in the "Machine Tools" segment



Our long-term research and development policy is based on four high-priority focal points: the ultrasonic and laser machining of advanced materials, the integration of technology, the increase in machine dynamics and the increase in customer benefit within the process chain with the aid of our software products or tool management.

We have expanded the cost-effective machining of demanding workpieces made from modern, advanced materials such as metal carbide, ceramics or silicon, using ultrasonic technology. GILDEMEISTER thereby is able to safeguard its unique position in this area. Laser machining allows for the creation of the finest cavities or contours in a large variety of materials. In this respect, the combination of laser and milling processes broadens the range of commercial applications. In addition, the integration of technologies was particularly directed toward the linking of turning and milling machining tasks. The use of fast and, at the same time, precise linear drives and dynamic kinematics enables us to increase machining speeds. We optimise our systems' total utility in the customer's process chain with an integrated tool management and applications from the DMG Powertools product family, such as DMG Netservice, DMG Programmer 3D Turning or DMG Service Agent. The basis for this is the use of open controls, the high-performance of which increases the productivity of the entire machine tool system.

The significance of our innovative power is evident in the economic benefit received from the industrial property rights, such as patents, utility-model and design patents, brands and trademarks, the value of which has been determined through our internal commercial value method and is estimated at approximately € 250 million. In the reporting year, GILDEMEISTER safeguarded its trendsetting technical expertise through a total of 25 new industrial property right applications.

The GILDEMEISTER group's large research interest is reflected in its collaboration with universities and research institutes. For example, DECKEL MAHO Pfronten takes part in the DESINA project of the Association of German Machine Tool Factories (VDW). In this project a particularly reliable concept of sensory mechanism and control of machine tools is being developed. GILDEMEISTER Drehmaschinen GmbH is participating in several research projects that are promoted by the German Federal Ministry of Education and Research. In collaboration with university institutes in Karlsruhe and Hanover, the company participates in research in the recording and improvement of cost and quality aspects of machine tools in relation to their life cycle. SAUER GmbH, in collaboration with the Fraunhofer-Association, is working on enhancing process knowledge in ultrasound-aided machining.

In the **Turning division**, GILDEMEISTER Italiana S.p.A., has, in the reporting period, expanded the SPEED line of highly dynamic and precise CNC Swisstype automatic lathes with linear drives by the SPEED 12-9 linear and SPEED 20-11. The rework of the SPRINT product line was continued with the introduction of a new automatic lathe of the SPRINT 42 linear type.

Following the complex serial start-ups of the GMX 200/300/400 linear, central activities in research and development at GILDEMEISTER Drehmaschinen GmbH included the reworking of the NEF product line of low-cost CNC universal lathes. In the autumn the NEF 400 has been exhibited as the first machine of this fourth generation of NEF machines. We expect this machine, with its particularly attractive cost-performance ratio, to strengthen our market position, particularly in Asia. This line, originally developed in Bielefeld, is intended for production in the East European and Asian growth markets and is a major element in our "objective of globality".

Following the start of series production of the CTX 510, introduced in the previous year, GRAZIANO Tortona S.p.A. continued its development of the CTX 10 range of CNC universal lathes with the complete reworking of the CTX 310. In this respect, the "identical parts" strategy was again expanded by the Bielefelder CTX 410 type. At the same time, extensive improvements in the functionality of the CTX 320 and CTX 620 enhanced the CTX 20 range. In addition, the profit contributions of both these lines were increased through a reduction in technological complexity.

FAMOT Pleszew S.A. completed the main development work on the CTX 210 and presented it in March. This machine completes the CTX 10 line. FAMOT Pleszew S.A., as centre of expertise in the production of trunk machines, is mainly engaged in the related development work of the group's sister plants. Along with the CTX 210 and NEF 400 final machine types, the reporting year 2004 saw the start of production of seven new trunk machine types.

In the financial year 2004 GILDEMEISTER focused its research and development policy on the **Milling division** and presented eleven new machines from five product lines, nine of which were produced by DECKEL MAHO Pfronten GmbH. One of the focal points was the innovative DMC H double range of horizontal machining centres that are supplied in both highly dynamic versions with linear drives and as a heavy cutting design. Along with a variety of identical parts, the use of the patented duoBLOCK® construction provides the common ground with the DMC U and DMU P lines, for which we introduced installation sizes of 80 and 125 respectively. Automatisation components and options such as pallet or tool magazines were also given much attention in the development work.

Over the reporting period the research and development activities of DECKEL MAHO Seebach GmbH focused primarily on the vertical machining centres of the DMC V line. With the DMC 105 V linear we introduced a further machining centre for mould making, which ensures highest dynamics and precision through its linear drives in all the main axes. At the same time, we developed a new generation of low-cost capture models that will be introduced in 2005. In addition the Seebach site introduced two new machines from its most important lines, the DMU 50 and the DMF 250 linear. The success of the DMU 50 exceeded the company's expectations.

Following the merger of the companies operating in the innovation-orientated **Ultrasonic/Lasertec** division, development projects were continued as planned and ten new patents applied for. In the lasertec area, development activities resulted in another improvement in precision in the laser fine cutting of filigree high-precision parts through the use of the Lasertec 80 machine, and in the 3D laser erosion through the reworked Lasertec 40 type. In ultrasonic technology, which is exceptional in the machine tool building industry, we will secure our unique position in the market with the work on the Ultrasonic 20-3 linear that will be presented in spring 2005. This machine, which is used for the machining of small workpieces, completes our selection in the growth market of ultrasound-aided machining of advanced materials. In addition, our application specialists expanded the technological database of workpiece-specific machining parameters. Due to their modular design, the machines in this division use components from the group's sister plants, from CNC controls through to basic machines. DECKEL MAHO Seebach, for example, supplies the basic machines for some of the ultrasonic models.

Innovative and user-oriented developments will continue to safeguard GILDEMEISTER's technological lead, which is the basis for the continuous increase in customer benefit from our products.

Modern service products which we intend to expand in order to reinforce the "Services" segment, also contribute to this effect.

Employees

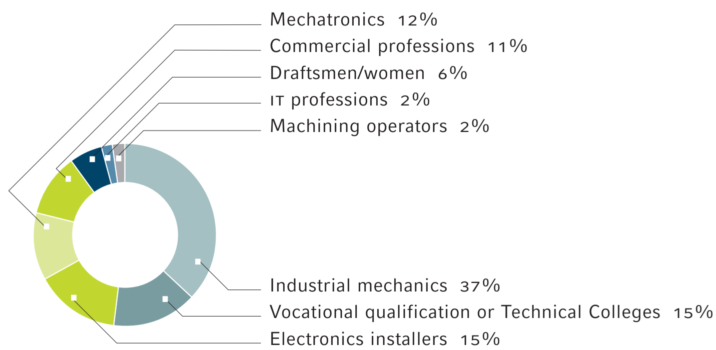
On 31 December 2004, GILDEMEISTER had 5,174 employees (previous year: 5,028), 190 of whom were trainees (previous year: 205). Taking on 161 additional employees, most of whom were in the "Services" segment, is aimed at enabling us to meet our customers requirements worldwide. Staff levels particularly at our international sales and service companies in Asia and America, but also at locations in Germany and Europe, were systematically reinforced. In the course of its ongoing internationalisation measures, GILDEMEISTER has also increased the number of employees at the Shanghai production site and in the promising Ultrasonic/Lasertec division. Staff adjustment measures were directly related to business development in each of the companies. One of the focal points of these measures was the restructuring process at the Geretsried production site in collaboration with the product companies in Pfronten and Seebach.

At the end of year 3,151 employees worked at the domestic companies and 2,023 at our international companies. The percentage of staff working abroad was 39% (previous year: 38%). The number of employees working in the "Services" segment increased by 129 to 1,846. The percentage of staff in this segment was 36% (previous year: 34%).

190 trainees have contributed to our continued high standard of vocational training, enabling us to recruit a large number of skilled and executive personnel from our own ranks. GILDEMEISTER took on a total of 49 trainees during the reporting year (previous year: 47). We offer vocational training in eleven different trades. In addition to the traditional training for trades requiring an apprenticeship, established courses of study are offered in association with regional colleges of advanced vocational education and technical colleges; this collaboration is constantly being developed.

Training in the GILDEMEISTER group
Allocation by fields
in %

2004: 190 trainees

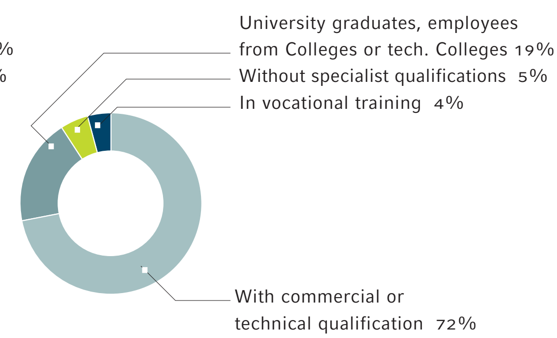


The qualification structure of our employees demonstrates that specialist vocational training enjoys a very high status in the GILDEMEISTER group:

Qualification structure of employees in the im GILDEMEISTER-group

2004: 5.174 employees

2003: 5.028 employees



As illustrated by the figures in the graph showing their qualification structure, the percentage of university-educated employees has increased by two percentage points from 19% to 21%. 95% of our employees have a professional qualification or are currently in training.

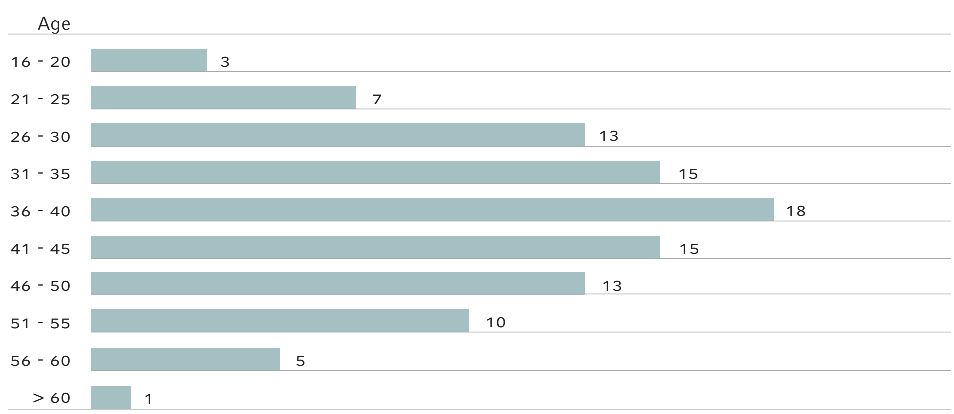
The number of employees taking part in further training has noticeably increased since the previous year (37%) and, with 2,294 employees, represents 44% of total staff. One of the most extensive training activities in the reporting year was the qualifying of our domestic and foreign sales and service employees for the new generation of machines and the familiarisation and qualifying of newly appointed staff. A further focus includes training activities in information technology and languages. A total of € 2.3 million (previous year: € 2.0 million) was spent on further training.

In the reporting year personnel costs amounted to € 282.5 million (2003: € 270.6 million), which is 4.4% above the figure for the previous year. Of this, € 234.9 million were attributed to wages and salaries (previous year: € 224.9 million); € 44.2 million to social insurance contributions (2003: € 43.4 million) and € 3.4 million to pension plan expenses (previous year: € 2.3 million). This increase of € 11.9 million was due primarily to increases in standard wages, in extra-work pay and in the number of staff. There was also a one-off expenditure arising in relation to the restructuring of the Geretsried site.

As regards our part-time retirement plan, GILDEMEISTER has entered into 138 part-time retirement agreements (previous year: 135), where the so-call “block model” applies. In this model the whole period of part-time retirement is divided into active and passive phases of equal length. 85 employees were in the active phase, 53 in the passive phase. The number of part-time retirement agreements thereby increased by 2%, 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.

Our staff’s age structure is balanced and has not changed since the previous year: 56% of our employees are younger than 40, and 84% are younger than 50.

Age structure of employees in the GILDEMEISTER group
in %



In 2004, the number of traffic and operational accidents, 117, was 3% below the previous year's figure (2003: 121). In relation to the total number of staff this is a decrease to 2.3% (previous year: 2.4%). The level of sickness of an average 2.8% was noticeably below the preceding year's level (3.3%) and also below the industry average of 3.5%.

During the reporting period, 17 employees at GILDEMEISTER celebrated their 40th anniversary and 82 employees their 25th anniversary. In addition, 142 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 unceasing commitment. At this point we would also like to extend our thanks to all of our employees for their exemplary motivation. We also thank our employee councils. Their mediation between company management and staff has contributed to the implementation of many decisions.

Marketing / Public Relations

In the reporting year, GILDEMEISTER continued its high-quality internal and external communication. Our communication efforts are in line with our model of market and value oriented corporate governance. Using a variety of media including trade fairs and exhibitions, printed information, advertising, our webpage, investor relations activities and public relations work, we succeeded in implementing and supporting our strong market image. Our innovations and the completion of our product lines remained the focus in this work. Activities in corporate design, sales, pricing and innovation policy were closely linked to our marketing measures. Greater efforts were again required in the reporting year. The further strengthening of our market position required leveraging market potentials and gaining access to new market segments. In the financial year 2004, GILDEMEISTER spent a total of € 23.2 million (previous year: € 16.1 million) on marketing/public relations work. This increase in spending is due primarily to our presence at numerous international trade fairs in the so-called "even years".

Trade fairs and exhibitions are among the most important marketing instruments for capital goods. In the reporting year, DMG was present at 67 domestic events and abroad. In a total exhibition area of 17,000 m^2 , slightly extended since the previous year, 555 turning, milling and ultrasonic/laser machines in production were exhibited. The effort was worthwhile: The trade fair business increased noticeably compared to the previous year. A recorded audience of 43,295, representing 34,066 firms, generated a direct intake of new orders of around € 189.0 million. This is a 47% increase in comparison with the previous year (€ 129.0 million). Events of particular significance were the METAV in Düsseldorf, AMB in Stuttgart and IMTS in Chicago. A total of 301 machines sold at the three trade fairs resulted in a total order intake of € 67.4 million. In the reporting year GILDEMEISTER invested € 12.5 million (previous year: € 8.3 million) in trade fairs and exhibitions, representing 54% of total marketing expenses (previous year: 51%).

At GILDEMEISTER, **advertising** means primarily the marketing of our products. Two issues of our customer journal were published with a total circulation figure of approximately 1.2 million, each in 42 editions and 22 languages. Distribution was carried out via direct mailings and hand-outs in 46 countries worldwide. For the first time, it was also published as an online version in ten web portal languages (German, English, French, Italian, Spanish, Turkish, US-English, Chinese, Japanese, Korean). A further focal point was the publication of illustrated catalogues and brochures. Their total volume was 640,000 copies (395,000 for the milling/Ultrasonic/Lasertec area and 245,000 for the turning area). They were published in a total of 13 languages. The number of downloads also increased in this area. The total volume of product and event mailings was around 1.9 million in the reporting year. There were 22 different language versions. The mailings were distributed to 46 countries. The year-end mailing was circulated 272,500 times in total. It was distributed in 32 versions and 18 languages. 163 advertisements in 56 trade magazines informed readers across the world of DMG products. They were published in 24 countries and 20 languages. GILDEMEISTER invested a total of € 9.6 million (previous year: € 6.9 million) in the marketing of its products; representing 41% of the marketing expenses (previous year: 43%).

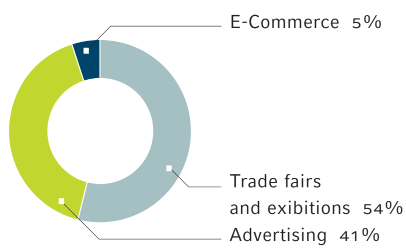
The role of the **Internet** as an important instrument of our marketing work again increased in significance during the reporting year. More and more customers, shareholders and all those whose attention has been drawn to our group, visit our website **www.gildemeister.com**, to obtain information on GILDEMEISTER or to get in touch with us directly. Interest in our Internet site is growing abroad. Turkish has been added as the tenth language version. In 2004, all printed communication tools have also been published as an online version. Downloading annual and quarterly reports, delivery programmes, mailings and other information has become normal. In the reporting year, a total of approximately 1.9 million visitors were registered on our website; this is a 40% rise compared with the previous year .

E-commerce is also part of the day-to-day business at GILDEMEISTER, and perfectly complements the established channels of distribution. In the DMG Online Shop our customers can order service products, spare parts, the offer of the month, used machines or power tools simply, quickly and securely, sometimes at attractive special conditions. Our latest power tool, the DMG Service Agent, met with particular interest in 2004. The intelligent early warning system alerts the user promptly of any necessary maintenance works, thereby eliminating breakdowns and expense repairs. We were able to achieve noticeable growth rates via e-commerce in the reporting year. Our advertising activities in all aspects of e-commerce amounted to € 1.1 million (previous year: € 0.9 million), representing 5% of marketing expenses (previous year: 6%).

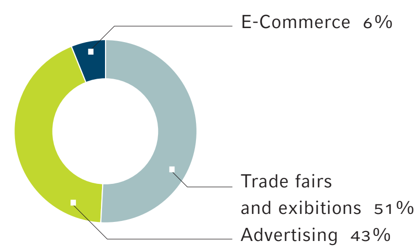
Our **public relations activities** constitute a further important element in corporate communication. They are based on a communication strategy that is aimed at enhancing the long-term positive public image of GILDEMEISTER. Our public relations work informs the media and all other interested target groups speedily and openly on the current situation of the group and its companies. We value the open and ongoing dialogue with the national and international economic and trade press, with shareholders and financial experts, and with those associations, institutions and decision-making units that are of special importance to us. With our efficient use of the budget and carefully prepared and coordinated activities, we achieve optimal results. In the reporting year eight trade press events were held that were attended by 174 journalists. They reported on GILDEMEISTER in more than 1,000 editorial pages worldwide. Our capital measures have been accompanied by financial advertisements in the German major daily newspapers and an increased number of road show activities.

Marketing costs at the GILDEMEISTER group
in %

2004: Total of € 23,2 million



2003: Total of € 16,1 million



Consolidated Segmental Reporting

"Machine Tools" segment

The "Machine Tools" segment consists of the new machines business of the group's production plants. It includes the Turning, Milling and Laser/Ultrasonic divisions.

In the turning area the following plants are allocated to the "Machine Tools" segment: GILDEMEISTER Drehmaschinen GmbH, Bielefeld, GILDEMEISTER Italiana S.p.A., Brembate di Sopra, GRAZIANO Tortona S.p.A., Tortona, and FAMOT Pleszew S.A., Pleszew.

GILDEMEISTER Drehmaschinen GmbH, Bielefeld, offers an extensive production programme, consisting of the CNC universal lathe (NEF and CTX), vertical lathe (CTV) and two-spindle turning centre (TWIN line) product lines as well as the turning and milling centres (GMX). The diverse production programme of GILDEMEISTER Italiana S.p.A. consists of general purpose centre lathes from the following lines: GM/GMC (CNC multi-spindle turning centres/multi-spindle automatic lathes), SPRINT (CNC automatic turning) and SPEED (CNC Swisstype automatic turning). GRAZIANO Tortona S.p.A. is Italy's second-largest producer of CNC universal lathes and produces different types from the CTX line.

FAMOT Pleszew S.A. produces machine tools of the NEF, CTX and DMC V lines. However, it functions primarily as the centre of expertise for the production of trunk machines for the Turning and Milling divisions.

The Milling division includes DECKEL MAHO Pfronten GmbH, DECKEL MAHO Geretsried GmbH, DECKEL MAHO Seebach GmbH as well as DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd. DECKEL MAHO Pfronten GmbH develops and produces CNC universal milling machines, CNC universal machining centres and CNC horizontal machining centres from the DMU, DMU P, DMC U, DMC H and DMP lines. DECKEL MAHO Seebach GmbH produces small and medium-sized CNC universal milling machines, CNC universal machining centres and vertical machining centres of the DMU, DMU eVolution, DMF, DMC V and DMP lines. DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co.,Ltd., produces different types from the CTX and DMC V lines.

Also included in the "Machine Tools" segment is the Ultrasonic/Lasertec division, represented by SAUER GmbH. The worldwide unique ultrasonic technology ensures access to the dynamically growing market for the machining of "advanced materials". In laser technology, SAUER GmbH offers trendsetting technologies with its applications of 3-dimensional lasering, laser fine cutting and drilling and high-speed milling and laser machining.

Key Figures

"MACHINE TOOLS" SEGMENT

	2004	2003	Changes 2004 against 2003	
	€ K	€ K	€ K	%
Sales				
Total	743.3	704.2	39.1	6
Domestic	344.5	331.2	13.3	4
International	398.8	373.0	25.8	7
% International	54	53		
Order intake				
Total	801.8	708.6	93.2	13
Domestic	344.0	310.6	33.4	11
International	457.8	398.0	59.8	15
% International	57	56		
Order backlog*				
Total	284.4	225.9	58.5	26
Domestic	90.0	90.6	-0.6	-1
International	194.4	135.3	59.1	44
% International	68	60		
Investments	15.2	25.8	-10.6	-41
Employees	3,074	3,037	37	1
plus trainees	190	205	-15	-7
Total employees*	3,264	3,242	22	1
EBITDA	50.3	47.5	2.8	
EBIT	28.3	19.8	8.5	
EBT	16.6	6.8	9.8	

*Reporting date 31 Dec.

Helped by positive cyclical trends, the successful product policy in the "Machine Tools" segment has contributed to a positive business development. **Sales** increased by 6% to € 743.3 million in comparison with the previous year (€ 704.2 million). € 398.8 million of these sales were generated abroad (previous year: € 373.0 million), representing a 7% rise. The export share was 54% (previous year: 53%). Domestic sales increased by 4% to € 344.5 million (previous year: € 331.2 million). The **"sales in pieces"** also exceeded the figure for the preceding year.

In the reporting year, **order intake** increased by a total of € 93.2 million or 13% to € 801.8 million (previous year: € 708.6 million). 57% of total orders were completed in markets outside Germany (previous year: 56%), representing a volume of € 457.8

million (+15%) (previous year: € 398.0 million). Domestic order intake recorded an increase of 11% to € 344.0 million (previous year: € 310.6 million).

On 31 December 2004, **order backlog** amounted to € 284.4 million (previous year: € 225,9 million), which is an impressive 26% increase. The majority of the order backlog was made up of international orders. Their percentage increased by 8 percentage points to 68% (previous year: 60%). The absolute increase in the level of orders from abroad was € 59.1 million to € 194.4 million (previous year: € 135.3 million), a noticeable rise of 44%.

Earnings in the "Machine Tools" segment were also up again in the reporting year. This was due to selective capacity adjustments in line with business development and the continuation of our cost-cutting and process optimising programmes. This was added to by a one-off positive effect arising from the option of the application of IFRS 3. The growth observed in the Turning division resulted in an increase in profits due to newly developed products that generate larger gross profits. **EBIT** amounted to € 28.3 million (previous year: € 19.8 million). The relating percentage return on sales thereby increased to 3.8% (previous year: 2.8%). **EBT** increased to € 16.6 million (previous year: € 6.8 million).

Investments in this segment reduced by € 10.6 million to € 15.2 million when compared with the preceding year. Further details are set out in the "Investments" chapter on page 71 and 99.

At the end of the year, 3,264 **employees** (previous year: 3,242) worked in the "Machine Tools" segment. This represents 63% of total staff at the GILDEMEISTER group. Compared with the corresponding period of the preceding year this is an increase of 1% or 22 employees. Whilst staff levels at some sites were reinforced, staff levels at the Geretsried productions sites was reduced in the course of the restructuring measures: To strengthen the milling technology and achieve synergy effects, the engineering, development and product stewardship areas of the horizontal resp. vertical machining centres were, in 2004, made the responsibility of DECKEL MAHO Pfronten and DECKEL MAHO Seebach GmbH. This also resulted in the parallel allocation of the relating production units to the product companies. Thanks to these measures, a total of 297 jobs were preserved at the plants of the DECKEL MAHO companies in Geretsried. 75 jobs were lost in the course of the restructuring measure.

In 2004 the average personnel expense per capita in the "Machine Tools" segment at the domestic production facilities amounted to € 59.3 K (previous year: € 56.0 K). Together with the figures for the international production facilities, this value amounts to € 46.7 K (previous year: € 45.1 K) in the "Machine Tools" segment.

The "Services" Segment

The "Services" segment is operated by DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER and its subsidiaries. With its products and technical services it represents an independent operating area. 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 setting 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 introduction and consulting activities, installations and the used machine business.

Key Figures

THE "SERVICES" SEGMENT

	2004	2003	Changes 2004 against 2003	
	€ K	€ K	€ K	%
Sales				
Total	307.6	273.0	34.6	13
Domestic	157.8	143.9	13.9	10
International	149.8	129.1	20.7	16
% International	49	47		
Order intake				
Total	311.5	272.6	38.9	14
Domestic	164.2	145.8	18.4	13
International	147.3	126.8	20.5	16
% International	47	47		
Order backlog*				
Total	37.4	33.5	3.9	12
Domestic	23.5	17.1	6.4	38
International	13.9	16.4	-2.5	-16
% International	37	49		
Investments	4.5	6.8	-2.3	-34
Employees*	1,846	1,717	129	8
EBITDA	34.7	32.0	2.7	
EBIT	29.6	25.3	4.3	
EBT	18.1	17.5	0.6	

*Reporting date 31 Dec.

The “Services” segment continued to perform well and contributed a major share to the positive business development of the GILDEMEISTER group. **Sales** increased by 13% to € 307.6 million (previous year: € 273.0 €). With a 49% contribution, the reporting year saw an increase in international sales from services (previous year: 47%). These increased by 16% to € 149.8 million (previous year: € 129.1 million). Sales generated in Germany also increased noticeably: following € 143.9 million in 2003, sales in the reporting year amounted to € 157.8 million, representing an increase of 10% or € 13.9 million.

Order intake also performed well, increasing by € 38.9 million or 14% to € 311.5 million (previous year: € 272.6 million). As in the previous year, 47% of these were international orders. In total they amounted to € 147.3 million, representing a 16% increase compared with the previous year (€ 126.8 million). Domestic orders increased by € 18.4 million or 13% to € 164.2 million (previous year: € 145.8 million).

On 31 December 2004 our **order backlog** amounted to € 37.4 million, which is 12% above the figure for the previous year of € 33.5 million.

Earnings in the “Services” segment were also up again, although they were still not satisfactory. Growth in earnings was affected by an increase in personnel costs and additional spending on the marketing of services: The personnel costs represent pre-production costs arising from the cultivation of strongly growing markets and from the customer-oriented expansion of our traditional service area. With the expenses for the marketing of services of more than € 1 million, included in the marketing budget, we were able to allow for the special characteristics of marketing innovative service and software products, which enabled us to expand our market position. At € 29.6 million, **EBIT** increased by € 4.3 million against the previous year (€ 25.3 million). **EBT** amounted to € 18.1 million in contrast to € 17.5 million in the previous year.

In the reporting period, **investments** in this segment amounted to € 4.5 million. Further details are set out in the “Investments” chapter on page 72 et sqq.

At the end of the year, 1,846 **employees** – 36% of the group’s personnel were working in the “Services” segment. This is an increase in the number of employees of 129 or 8% when compared with the previous year, and served to improve our efficiency in services and sales. The average personnel expense in the “Services” segment amounted to € 65.6 K (previous year: € 64.6 K).

The "Corporate Services" segment

The "Corporate Services" segment includes GILDEMEISTER Aktiengesellschaft with its group-wide holding functions, which include group strategy, product development, logistics and production, funding, controlling, personnel management and marketing as well as the group-standardised EDP infrastructure. The Holding Macchine Utensili S.p.A. is also allocated in this business segment as finance company for the Italian production facilities.

Key figures

THE "CORPORATE SERVICES" SEGMENT

	2004	2003	Changes 2004 against 2003	
	€ K	€ K	€ K	%
Sales revenues	0.6	0.6	0.0	0
Order intake	0.6	0.6	0.0	0
Investments	1.2	3.7	-2.5	-68
Employees*	64	69	-5	-7
plus trainees				
Total employees*	64	69	-5	-7
EBITDA	-5.1	-3.4	-1.7	
EBIT	-7.4	-5.5	-1.9	
EBT	-14.1	-9.0	-5.1	

*Reporting date 31 Dec.

Sales and order intake in the "Corporate Services" segment, each amounting to € 0.6 million, consist mainly of income from rents. **EBIT** was down by € 1.9 million due to an increase in expenses arising from the restructuring and reconstruction of the group and from the rearrangement of the group's financial structure, and at € -7.4 million remained negative (previous year: € -5.5 million). **EBT** amounted to € -14.1 million in the reporting year. In the reporting year **investments** totalled € 1.2 million. Of this € 0.2 million were spent on office equipment, whilst approximately € 1.0 million were used for the acquisition of industrial property and similar rights.

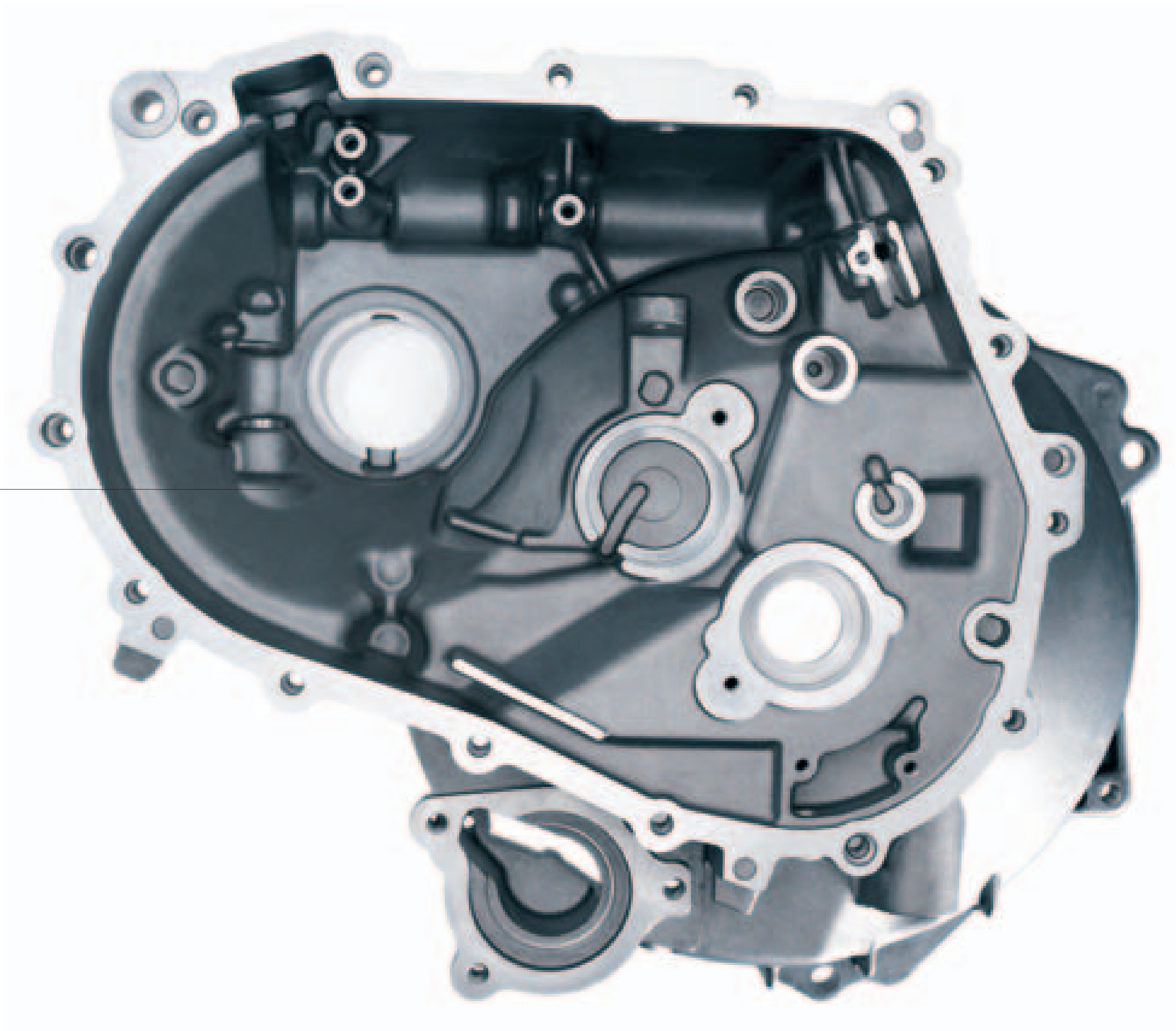
On 31 December 2004, 64 **employees** (previous year: 69) were working in this segment, representing an unchanged 1% of the group's staff.

High performance milling.

Close orientation to market needs and customer uses ensures that GILDEMEISTER is tightly innovation orientated. We offer our customers a programme suited perfectly to the greatest variety of milling applications. From the small, reasonably priced CNC-Universal milling machine to the highly productive CNC-Milling-Turning Centres and universal CNC Processing centres for 5-axis/5-sided simultaneous machining.

20 sec.

20 seconds – 30 operations – by linear drives with 100 m/min fast traverse and motor spindle with 18,000 min^{-1}



Workpiece Gear component from the car industry – manufactured on the DMC 80 H *linear*

Supplementary report

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

GILDEMEISTER has started the year 2005 with confidence. The order intake we achieved for January and February noticeably exceeded the figures for 2004. Sales and order backlog were also above the previous year's level.

Economic Development 2005

Overall economic development continued to be directed towards growth during the first months of the current year. The Organisation for Economic Cooperation and Development (OECD) expects these dynamics to increase over the year. The USA and China remain the driving forces of global development.

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

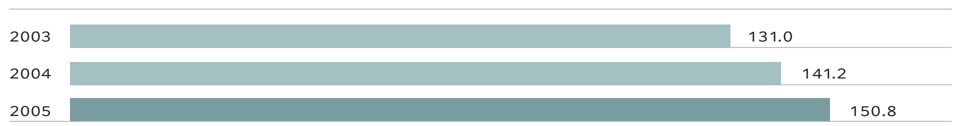
At the beginning of the year, economic activity in the **German machine tool industry** continued its positive development. Currently available figures do not allow for a valid statement on the extent of these positive trends, but indicate a stable growth. Sales dropped by 13% (January 2005). According to estimates of the VDW, order backlog shown in production months is likely to amount to about 6.6 months by the end of February 2005 (comparative figure for the preceding year: 6.4 months).

Source: VDW (Association of German Machine Tool Factories)

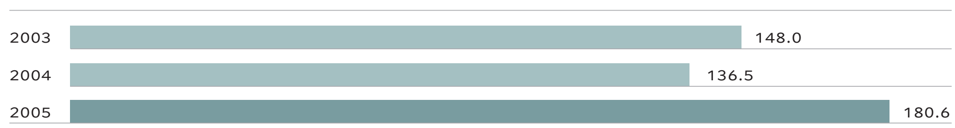
Corporate situation after the end of the reporting year

GILDEMEISTER has started the new year with confidence and has recorded an improvement in its **course of business** over the previous year: group sales revenues, in January and February amounting to € 150.8 million, and exceeded the figure for the corresponding months of the previous year by 7% (2004: € 141.2 million). Compared with the corresponding months of the previous year, order intake increased by 32% to € 180.6 million (2004: € 136.5 million). On 28 February, order backlog amounted to € 351.6 million, which is 38% above the figure for the previous year (2004: € 254.7 million). A statement on the result for the first two months of the financial year is currently not possible.

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



Order intake at the GILDEMEISTER group in January and February in € million



At the beginning of 2005, the highlight of our **marketing measures** was the traditional in-house exhibition at our state-of-the-art production site in Pfronten. The first five of nineteen innovations planned for 2005 were exhibited at this event. With a doubled order intake, this marketing event in Pfronten has so far been the most successful in-house exhibition in the history of the company. A total of 168 machines to the value of € 40.3 million were ordered. The 43 exhibited machine products and the DMG Powertools from the "Services" segment were met with much interest from the 2,939 specialists attending. In the first two months, **selling prices** were raised by between 4 and 6% depending on market conditions and each particular product.

In 2005, GILDEMEISTER will continue to systematically exploit further market potentials. For this purpose, our **organisational structure** was expanded by two subsidiaries of DMG Europe Holding GmbH, Klaus, Austria in early 2005. This included the formation of DMG Russia on the one hand. Operating from Moscow, this company will serve the markets in Russia, Belarus and Ukraine, thereby deepening the historically good relationships with these regions. DMG Istanbul, Turkey, on the other hand, was established to enable us to profit from the growth in this region by our presence. In January 2005, GILDEMEISTER Aktiengesellschaft transferred its 100% participation in a & f Stahl- und Maschinenbau GmbH to DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER in line with the company's positioning in the "Services" segment. Holding Macchine Utensili S.p.A., the former finance company for the Italian production facilities, merged with GILDEMEISTER Italiana S.p.A. There were no further changes in the **legal structure of the company**. No acquisitions or sales of **participations** or operating units were made in the first two months.

The in-house exhibition in Pfronten provided the organisational framework for the GILDEMEISTER Suppliers' Day. On 23 February, the TOP supply partners met for the fifth time at GILDEMEISTER, in order to deepen their dialogue on the occasion of the "Supplier of the Year Award 2004" in the quality, supply performance, innovation and overall winner categories.

To promote the exchange of stimuli and new ideas beyond industry borders and to thereby strengthen production in Germany, GILDEMEISTER became the promoting partner in the Benchmarking Competition for the "Manufacturing Excellence Award" (www.mx-award.de). In 2005, this will be awarded for the first time in Germany. In the products and services area the project for the introduction of our BaaN ERP system at the Shanghai site was completed at the end of February as planned.

Our innovative leadership is evident in the introduction of five new machines in the first two months of the year. At the in-house exhibition in Pfronten, DECKEL MAHO Pfronten GmbH presented the new DMC 80 H linear, DMC 70 H and DMC 80 H models from the product line of horizontal machining centres. The "Milling" division continued to be represented by DECKEL MAHO Seebach with its innovative DMU 50 eVo linear. GILDEMEISTER Drehmaschinen completed the GMX line of turning and milling machines with the introduction of the GMX 250 linear.

Forecast 2005

According to economic experts, global economic development is likely to continue to improve throughout the current financial year. A key position is still held by the USA, where the economic revival is expected to continue. China has turned into the second major driving force.

Latest forecasts for 2005 with regard to mechanical engineering and particularly with regard to the machine tool industry as one of the major trade associations, again expect growth. Following a 5% increase in the preceding year the German Mechanical Engineering Association (VDMA) is expecting a 3% increase in production for 2005. The majority of the VDMA's trade units continue to anticipate a positive development. Regarding machine tools, the growth instituted during the previous year, is expected to continue this year, though with a slightly reduced vigour. According to forecasts by the ifo Institute and the German Association of Machine Tool Factories (VDW) they expect a 10% growth in October 2004. We currently estimate the worldwide machine tools market to grow by approximately 6% in 2005. As for the German Machine Tool Industry, we expect an increase in orders (nationally: 5%, internationally: 6%). The VDW forecasts an increase in production of 4% and an increase in exports of 5%.

For the first quarter of 2005, GILDEMEISTER expects order intake to exceed the previous year's level (€ 241.0 million). With respect to the entire year, we are planning for an order intake of more than € 1,150 million. In view of our good order backlog, we intend to increase our sales to just under € 1.1 billion. We expect that sales for the first quarter will exceed the figure for the previous year (€ 222.7 million). The first quarter will close with slightly negative EBT. Due to the completion of the restructuring process in the previous financial year and the ongoing optimisation of our cost and process management, we expect a noticeable strengthening of our profitability. For the financial year 2005 we expect EBT to exceed € 25 million and an annual profit of more than € 10 million. Due to the positive business and performance prospects, we are planning to distribute a dividend for the current financial year.

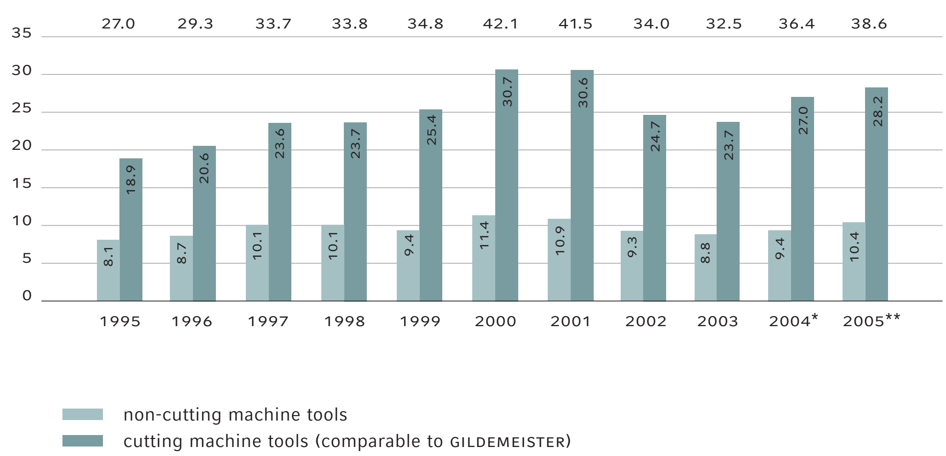
According to economic experts, the cyclical driving forces for **overall economic development** are so secure that the period of economic recovery will continue despite the uncertainty of oil prices and fading impetus from monetary and financial policy. A risk for international economic development is the exchange rate of the US Dollar. According to the Institute for World Economics (IfW) gross domestic product is likely to increase by 4.0%. The Organisation for Economic Cooperation and Development (OECD) were more cautious in their latest forecasts. The **USA** will have to do without tax boosts this year. However, the still comparatively friendly monetary policy, greater trade balance due to the Dollar devaluation and further normalisation of investment behaviour will all have a positive impact. The collapse of the Dollar is also seen as a risk factor by economic experts. The same applies to the still high public deficit. The IfW estimates the growth of the American economy in 2005 at 3.2%. For **Japan** a reduced increase in exports and, at the same time, a strengthening of the domestic economy is forecast. Overall, this means a slackening in growth. The growth forecast by the IfW is around 1.4%. The dynamic trend in **China** on the other hand will continue according to experts, even though administrative measures have now been introduced to prevent the economic situation from overheating. An 8.9% growth in gross domestic product is forecasted. In **Europe**, the moderate growth process is expected to continue. A negative impact could emanate from the high external value of the Euro. The growth forecast by the Kiel-based economic researchers for gross domestic product of the Euro countries is 1.4%. In the case of the 25 member strong European Union 1.7% is expected.

According to experts, **Germany** will also continue a moderate development over the year. However, the 1.6% growth of the previous year is not expected to be reached. At the beginning of the year, leading German economic research institutes corrected their forecasts downwards. The Institute for World Economics, for example, expected just 0.6% in early March. The estimate of the German Council of Economic Experts on the Assessment of Economic Trends was just 1.4% at the end of 2004. In the current year the exchange rate of the Euro against the Dollar continues to be seen as an influencing factor that could adversely affect the German economy. The job market situation continues to be tight. A noticeable decline in the number of unemployed is not expected before the end of the year. The situation in public spending also remains tight. It is most likely that Germany will again exceed the deficit quota of 3%.

Sources: Institute for World Economics (IfW), Kiel ifo-Institut, Munich; German Council of Economic Experts on the Assessment of Economic Trends, Berlin; Organisation for Economic Co-operation and Development (OECD), Paris

The **worldwide market for machine tools** will continue to grow in 2005. According to forecasts by the ifo Institute and the German Association of Machine Tool Factories (VDW), who in October 2004 expected a 10% growth, we currently estimate the worldwide machine tools market to grow by approximately 6% in 2005. 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 continuing economic recovery evident in America. With respect to the **sales volume**, we also expect an increase against the previous year. There are no statements on the **market and sales potential** of machine tools as yet.

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



Source: VDW worldwide machine tools statistics (excl. parts and supplies; revised figures since 1999)
* VDW estimate
** GILDEMEISTER estimate

Based on positive developments in 2004, the **German machine tool industry** in its forecast for **sector trends** expects growth to continue in 2005. Order intake grew steadily over the reporting year. The backlog of orders for cutting machines was 6.2 month at the beginning of the year, and was expanded to 6.4 months by the end of the year. It was therefore below the previous year's level of 6.8 months. In relation to the entire year (8%), the increase in production of 10% in the first six months was greater than in the second half of the year. Against this background and in view of the continuing lively demand at the beginning of the year, the ifo Institute in Munich and the Association of German Machine Tools Factories expect a growth in production to € 10.2 billion (4%). Whilst domestic sales are expected to be up by

3%, growth in exports is expected to reach 5%. On a medium-term basis, the VDW and the Munich-based ifo Institute assume an average nominal growth of 1% per year over the next three years between 2006 and 2008. Risks to this forecast are seen primarily to come from exchange rate development, further increases in the prices of raw materials and energy and in the prevailing political conditions. The Association therefore demands more flexible conditions in the job market and a reduction in bureaucratic obstacles.

Source: "The German Machine Tool Industry in the Year 2004" VDW (Association of German Machine Tool Factories)

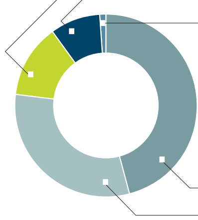
Due to the ongoing concentration process (mergers and acquisitions) of Asian suppliers the **structure of the machine tool industry** will sustain lasting changes. As a result of increasing concentration, the number of producers operating in the world markets will decrease, but those who are left will be more actively involved in global transactions. With its innovative and modern products and services and global market presence, GILDEMEISTER is well prepared to face these future challenges.

In 2004 **GILDEMEISTER** has created a good foundation for the successful development of the group. On the one hand, we have strengthened the group's financial base through our capital measures. In addition, we have developed and implemented strategic measures in order to reinforce the company's long-term earning power.

For the financial year 2005, we expect further improvement in our orders position. For the first quarter of 2005, GILDEMEISTER expects **order intake** to exceed the previous year's level (€ 241.0 million). Further fresh stimuli are expected from the largest trade fair for machine tools worldwide, the EMO in Hanover. 1,600 exhibitors from 35 countries have already registered and they will occupy a net exhibition area of 140,000 square metres. This event will take place in September and provides GILDEMEISTER with a perfect forum to present its innovations and almost the entire production programme. In the financial year 2005, we are planning for our order intake to exceed € 1,150 million. The regional distribution of these orders will not change significantly. Influencing factors on **sales prices** and price stability are the existing exchange rate risks and the tight situation in the markets for raw materials.

With regard to the first quarter of 2005, we expect **sales revenues to be above the previous year's level** (€ 222.7 million). Based on the expected order intake for the current financial year and our current order backlog, we intend to increase group sales revenues in 2005 to just under € 1.1 billion. With a domestic sales contribution of approximately 43-46%, we expect a sales contribution of around 31-34% from the rest of Europe, 9-12% from North America and about 10-13% from Asia. This distribution is based on the assumption that current economic trends, particularly in Asia and America, will continue over the year.

Expected sales distribution 2005 of the GILDEMEISTER-group in regions
in %



In the first quarter of 2005, **order backlog** has exceeded the previous year's level; amounting to € 351.6 million (+38%) as of 28 February.

The first quarter will close with slightly negative EBT. With respect to the entire year 2005, we expect a noticeable improvement in our profitability due to the ongoing optimisation of our cost and process management. The "GILDEMEISTER 2010" efficiency programme is intended to result in a sustained earnings growth. We expect **EBT** to exceed € 25 million and an annual profit of more than € 10 million. Due to the positive business and performance prospects, we are planning to distribute a **dividend** for the current financial year.

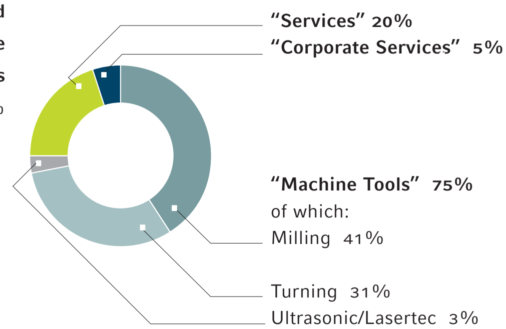
In the financial year 2004, we rearranged our **financial structure** by entering into primarily long-term financing agreements. Following the completion of these measures and the strengthening of the equity capital base, our activities will now focus on reducing working capital.

Reviewing the risk situation at GILDEMEISTER, the ongoing concentration process among machine tool suppliers may result in a more intense competitive situation. We will continually optimise our **risk management** in 2005. It is a living system, which is complete in itself and thereby gains 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 2005 the planned **investment** volume for intangible assets and tangible assets amounts to around € 30 million, thereby corresponding with the level of planned depreciation. The structure of capitalised development costs of an expected € 8 million included in the above amount will probably not change substantially. The investments are intended primarily for the provision of tools, fixtures and measuring equipment for new machine types. Necessary extension, modernisation and renovation work of buildings and equipment are also included in the planned investments. FAMOT Pleszew S.A. and GRAZIANO Tortona S.p.A. will introduce the group-standardised ERP system BaaN. At the factory site in Pleszew, a 3,000 square metre expansion of the production areas is currently being looked into. The **structure of the investments** is well balanced amongst the varying requirements of the production sites and markets. According to current assessments, no risks are involved with the intended investments.

Contribution by each segment to the planned investments in intangible and tangible assets in %

2005: Total € 30 million



In **procurement** GILDEMEISTER will continue to develop and enhance its three-part strategy of integrated procurement management, which received the BME innovation award. Within the context of our integrated Global Sourcing we will for this purpose – in line with our "objective of globality" – expand the procurement of goods from the Dollar region and thereby profit from the current strength of the Euro. In addition, GILDEMEISTER will increase the "local content" of those machines produced at the Shanghai site. The factory will thereby benefit from the cost advantages present in the local procurement market, in particular with respect to cast and sheet metal components and simpler machine components.

Another focal point comprises our activities in materials group management. 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. Since we expect prices of cast iron to continue to rise, we will continue with this expansion. For this purpose we will increasingly purchase medium to high complexity cast parts of high duty quality that used to be purchased mainly in Germany, from suppliers in Central and East Europe. As part of its coSupply® campaign, GILDEMEISTER is engaged in the continued support and development of suppliers, supporting them in the improvement of their technological expertise. This switch will have a positive impact on the group's **liquidity** due to to better purchase prices. According to market development, **purchase prices** might have to be agreed on retrospectively, as required. In all, we expect the increase in prices of raw materials, such as cast iron and sheet metal, to continue to affect our purchase prices in 2005. In relation to the group's entire purchasing volume we anticipate a rate of price increases of 1.5%. We pursue our standardisation activities in collaboration with Central Development Coordination and the chief engineers at the product facilities in order not only to reduce the complexity of our procurement range, but also the diversity of the components. **Reliability in supply** with respect to the "A" component range of aggregates, modules and structural components is safe-guarded through long-term **basic agreements**. Via the group-wide introduction of a catalogue management system, we are also implementing an e-sourcing solution for "C" components, such as office supplies or simple operating assets.

The expansion and strengthening of the capacity network will dominate our activities in **production and logistics**. In line with their strategic orientation, processes at the production locations must be carefully planned and optimised according to product and production specific focal points. We intend to complete these activities in autumn. In addition to logistical improvements, such as shorter, more competitive delivery times, the plants' focus on their core expertise and strategic tasks will also result in further cost advantages through an increase in **production flexibility** and thereby in a better **capacity utilisation**. In the absence of generally accepted formulae that can be intelligently applied to assembly plants, we are not able to comment on the quantitative extent of the expected capacity utilisation.

With regard to **products and services** our orientation toward innovation is once again evident in the development of 19 new products in the "**Machine Tools**" segment. In the **Milling division**, DECKEL MAHO Pfronten GmbH will, for now, complete the remodelling of the DMC H line. The company's production programme will be expanded by three further models from other product lines. DECKEL MAHO Seebach expanded its range of CNC universal milling machines and vertical machining centres. New models of these machines with a particularly attractive cost-performance ratio will strengthen our market position, particularly in Asia.

In the **Turning** division, GILDEMEISTER Drehmaschinen will be an innovative focus with four new machines. In this respect, the company will expand both its range of complex machines and low-cost universal lathes. The Brembate site will introduce two new machines for production turning. Both of the company's new machines are equipped with linear drives for an increased economic efficiency and dynamics and, at the same time, higher precision.

The **Ultrasonic/Lasertec** division continues with the systematic expansion of its trendsetting technologies by introducing two new ultrasonic machines for precision mechanical applications. In addition, a new lasertec machine improves our production programme in the laser-aided 3D erosion area with a noticeable increase in precision and process stability.

In all the above divisions, we can also meet shifts in market requirements by expanding and enhancing our range of options. We also expect an increase in customer-specific solutions in the course of the projects business.

Following the exhibitions of five new machines in the first quarter of 2005, we will introduce more new machines at the in-house exhibitions in Bielefeld, Seebach and Dübendorf (Switzerland) as early as April 2005. The highlight of the year will be the EMO 2005 in Hanover. The most important trade fair worldwide, this takes place in September, when we will exhibit a further six new machines, which will be integrated into our production programme.

GILDEMEISTER will strengthen the **"Services"** segment through the further expansion of the innovative service and software product range and will thereby be able to satisfy current market trends in this area. We will adapt the powerful applications of the DMG Powertools product family to the innovations of the "Machine Tools" segment and will equip them with new functions in order to do this. Our related range of training activities and user-friendly services will be further optimised. Overall, the GILDEMEISTER group with its innovative delivery programme is well prepared for a market recovery in the current financial year.

GILDEMEISTER maintains its strategic objectives and focal points in **research and development.** We will systematically pursue the ultrasonic and laser technologies for the machining of advanced materials through new developments in, and the expansion of, our range of applications. Focal points of our research and development in this area include increasing the efficiency of the ultrasonic and lasertec technologies, the integration of technologies, for example, by combining milling and laser eroding processes, and improvements in the turning and milling area. Supported by the improved efficiency of our software products, this measure aims at increasing machine dynamics in particular. In addition, GILDEMEISTER will expand tool management in order to offer additional increases in efficiency to our customers. To reach these goals, we will, in 2005, continue our close collaboration with the suppliers of systems and with research organisations in the pure research, applied research and experimental development areas. The related expenses and the number of employees working in research and development are based on the strategic goals mentioned above. We will specifically develop the skills of our employees in this area via co-ordinated training activities, thereby safeguarding the basis for the further development of our technological leadership.

We intend to continue the reorganisation of the group's **legal corporate structure** begun in the current financial year. For this purpose the direct investments of GILDEMEISTER Aktiengesellschaft in the productions facilities will be transferred to GILDEMEISTER Beteiligungen AG. In relation to the harmonisation of the corporate structure, further changes affecting company law may be possible. A further possible measure is the formation of DMG Systems. This producing company will concentrate and expand the activities in the systems business, i.e. the business of automating and linking several machines into production systems.

We will continue to compete for good **personnel.** At this point, special emphasis should be given to our continued strong commitment to vocational training and specific training of our employees, which enables us to recruit skilled and executive personnel from our own ranks. In addition, the "exchange of best practices" amongst the trainees and other employees of the group companies will be further promoted. It gives both young and experienced members of staff the possibility to work in other parts of the world.

Future Ulltrasonic/Lasertec.

Yesterday it seemed impossible, today it's routine. Technologies from GILDEMEISTER facilitate the economic processing of advanced materials such as ceramics, glass, silicon, composites and metal carbide using ultrasound. Our customers open up new markets with this forward-looking technology and profit from up to a fivefold increase in productivity in comparison with traditional processes. High precision processing with lasertec machines is another milestone from our Research and Development work. Users of this profit from flexible three-dimensional laser machining of contours, fine cutting and boring.

200% more productive

200% more productive – by ultrasound spindle with 20 kHz und diamond tools for delicate work processes.

Workpiece Functional component, made of quartz glass, for nuclear spin tomographies – manufactured on the Ultrasonic 70-5

Notes to the Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft

1 APPLICATION OF REGULATIONS

The Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft for the year ended 31 December 2004 were prepared in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), London, Great Britain, applicable on the reporting date. All mandatory International Accounting Standards (IAS) and interpretations by the International Financial Reporting Interpretations Committee/Standing Interpretations Committee (IFRIC/SIC) required for the financial year 2004 were applied. IFRS 3, "Business Combinations", was issued on 31 March 2004 and has been applicable to business combinations since 31 March 2004. In these Consolidated Financial Statements it has been applied retrospectively with effect from 1 January 2004. With respect to the application of IFRS 3, the revised standards IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets" were also applied. Further amendments to existing standards adopted by the IASB in the course of the so-called "Improvements Project" will be applied to the Consolidated Financial Statements 2005.

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 Management Report that shall 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 Deutsche Rechnungslegungs Standard Nr. 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 Development of Group Equity and Shares to other Shareholders 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 for the year ended 31 December 2004 prepared in accordance with Section 292 a HGB and the Group Management Report of GILDEMEISTER Aktiengesellschaft will be lodged at the Commercial Register of Bielefeld District Court (HRB 7144).

These Consolidated Financial Statements will be released for publication by the Supervisory Board of GILDEMEISTER Aktiengesellschaft on 29 March 2005.

2 CONSOLIDATED GROUP

Number of fully consolidated companies	31 Dec. 2004	31 Dec. 2003
National	25	26
International	35	34
Total	60	60

At the reporting date the GILDEMEISTER group comprised 61 companies (previous year 61), including GILDEMEISTER Aktiengesellschaft, 60 of which (previous year: 60) were included in the Consolidated Financial Statements as part of the full consolidation process. GILDEMEISTER Aktiengesellschaft has the direct or indirect majority of voting rights in, or has a dominant influence over, the fully consolidated companies. This includes three lease object companies (“Special Purpose Entities”). Due to the inclusion of the following companies for the first time, the consolidated group has changed since the financial year 2003:

_ DMG (Thailand) Co. Ltd., Bangkok, Thailand

DMG (Thailand) Co. Ltd. was newly formed as a fully owned subsidiary of DMG Asia Pacific Pte. Ltd. The company was fully consolidated for the first time in December. DMG (Thailand) took up its operative business in October of the previous financial year.

In the reporting year, GILDEMEISTER Aktiengesellschaft contributed 94.9% of its shares in DECKEL MAHO Geretsried GmbH to GILDEMEISTER Beteiligungen Aktiengesellschaft and increased its investment in FAMOT Pleszew S.A. to 100%.

In addition, GILDEMEISTER Aktiengesellschaft acquired the remaining 10% of shares in a & f Stahl- und Maschinenbau GmbH at a price of € 813 K with effect from 16 March 2004. No undisclosed reserves or encumbrances were identified in the company's assets and liabilities. Neither were any identifiable intangible assets present, the fair value of which can be determined with sufficient reliability.

In January 2004, GILDEMEISTER Aktiengesellschaft transferred its 100% participation in DMG MICROSET GmbH to DMG Vertriebs und Service GmbH.

Retrospectively, as from 1 January 2004, SAUER GmbH merged with LASERTEC GmbH. The transfer of place of business and change of corporate name from LASERTEC GmbH to SAUER GmbH took place in October 2004.

In the previous financial year, DMG Vertriebs- und Service GmbH contributed 100% of its shares in DMG Nederland B.V. to DMG Europe Holding GmbH. As a result, DMG Europe Holding GmbH is now the 100% shareholder of DMG Nederland B.V., which in turn holds numerous DMG participations.

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

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

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

An overview of all affiliated companies is included at the end of the Notes on pages 158 to 159.

3 CONSOLIDATION PRINCIPLES

The consolidation of investments is carried out in accordance with the purchase method acc. to IAS 27 "Consolidated Financial Statements and Accounting for Investments in Subsidiaries" in conjunction with IFRS 3 "Business Combinations". With this method, the investment book value of the parent company is set off against the group share in the fully revalued equity of the subsidiary. In the course of the revaluation process, all undisclosed reserves and encumbrances of the purchased company are disclosed, and all identifiable intangible assets shown separately. Any positive balance remaining after the allocation of the purchase price will be capitalised as goodwill.

On 31 March 2004 the International Accounting Standards Board (IASB) adopted the new IFRS 3 "Business Combinations" as well as revised versions of IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets". The IASB allows for an earlier application of the standards. GILDEMEISTER has decided to apply the above standards retrospectively as from 1 January 2004. The standards provide for non-scheduled amortisation of goodwill instead of scheduled amortisation, if a valuation adjustment requirement was determined. Since 1 January 2004, any goodwill arising from business combinations is therefore no longer amortised over the period of anticipated use, but will be reviewed annually in terms of impairment and will be, if required, amortised using the non-scheduled method.

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

Any reciprocal receivables and payables between the companies included in the Financial Statements were set off with each other. Intercompany profits from intragroup supplies were eliminated; deferred tax debits and deferred tax credits from consolidation transactions recognised in the Income Statement included. Intragroup sales revenues are, as is any intragroup income, set off with 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 financial year 2004.

4 ACCOUNTING AND VALUATION PRINCIPLES

All Annual Financial Statements of those companies that were included in the Consolidated Financial Statements were prepared at the reporting date of the Consolidated Financial Statements and in accordance with uniform accounting and valuation principles.

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

The accounting and valuation principles remained unchanged with respect to the figures for the preceding years in comparison with the figures for the financial year 2004.

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, the valuation of the net selling prices of inventories, the accounting and valuation of provisions and the feasibility of future tax relieves. 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
Office and factory buildings	10 to 50 years
Technical equipment and machines	6 to 20 years
Factory and office 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 their acquisition or production costs, reduced by scheduled straight-line depreciation in accordance with their useful economic life.

Development costs of machine tool projects and service products were capitalised at their production 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 production costs include those costs that can be directly and indirectly ascribed to the development phase. Capitalised development costs are written off by scheduled 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.

With effect from 1 January 2004, IFRS 3 “Business Combinations” have provided for non-scheduled amortisation of goodwill instead of scheduled amortisation, if a valuation adjustment requirement was determined.

Intangible fixed assets and tangible fixed assets were assessed at their acquisition or production costs, reduced by regular depreciation through use. Depreciation was normally carried out by the straight-line method in accordance with the useful life. Low value items were fully written off in the year of their addition. A revaluation of tangible 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 internally generated assets include those that can be directly ascribed to the manufacturing process, and necessary parts of production-related overheads. This includes production-related depreciation, prorated administration costs and prorated costs from the social contribution area.

Pursuant to IAS 23 “Borrowing Costs” are not assessed as part of acquisition or production costs. Costs of repair are immediately charged to expenses.

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

Impairment

In accordance with IAS 36 “Impairments of Assets”, the book values of the assets of the GILDEMEISTER group, with the exception of inventories and deferred tax assets, are tested for signs of impairment at every balance sheet date. If such signs exist, the value of the assets will be estimated and, if required, adjusted accordingly. This adjustment will be recognised in the Income Statement.

Pursuant to IAS 36 “Impairment of Assets”, goodwill will be tested for impairment once a year. In the impairment test, the book value of a cash-generating unit is compared with the recoverable amount.

In the GILDEMEISTER group, the “Machine Tools” and “Services” segments were defined as cash-generating units. The “Machine Tools” segment was allocated goodwill to the value of € 38,258 K and the “Services” was allocated goodwill to the value of € 29,671 K. The recoverable amount equals the value in use and was calculated as the present value of future cash flows. The future cash flows were derived from the planning of the GILDEMEISTER group. Planning is based on a detailed planning period extending up to the financial year 2007. A growth rate of 1% was assumed for the period following the detailed planning period, which is in line with general expectations of future business development.

The cash flows defined were discounted at a pre-tax weighted cost of capital rate of approx. 12.0%.

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

Financial assets

Financial assets were shown in the balance sheet at their acquisition costs. No depreciation was carried out in the reporting year (previous year: € 3 K).

Current assets

Valuation of inventories was carried out at the acquisition or production costs or the lower net selling price. Pursuant to IAS 2 "Inventories" elements of the production costs include, along with production material and manufacturing labour, prorated materials and production overheads and prorated administrative expenses and expenses arising in the social contribution area. Pursuant to IAS 23 "Borrowing Costs" are not assessed as part of acquisition or production 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 substantially assessed by the average cost method.

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

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

Current asset securities are recognised at the lower of their acquisition 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 balance-sheet oriented liability method. For this purpose, deferred tax assets and liabilities were basically recognised for all temporary accounting and valuation differences between the IFRS balance sheet valuations for group purposes and the tax valuations (temporary differences), and with respect to consolidation processes recognised in the Income Statement. Deferred tax assets for future financial benefits arising from tax-loss credits were also reported in the balance sheet. However, deferred tax assets for all deductible temporary differences and for tax-loss credits were only recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or unused tax losses can be utilised. The deferred taxes were calculated on the basis of income tax rates that, pursuant to IAS 12 "Income Taxes", 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 is legally permissible. Deferred tax assets and liabilities were not discounted in accordance with the provisions contained in IAS 12 “Income Taxes”.

Provisions and liabilities

Company pension provisions are calculated on the basis of the “Projected Unit Credit Method” pursuant to IAS 19 “Employee Benefits”. Under this method, not only those pensions and pension rights known or accrued at the balance sheet date are recognised, but also expected future increases in pension payments and salaries by estimating the relevant factors impacting such payments. Calculation is based on actuarial reports taking into account biometric calculation principles. The amounts not yet shown in the balance sheet emanate from actuarial gains and losses from inventory changes and deviations between assumptions made and actual development. Actuarial gains and losses are only recognised as income or expense if they exceed a 10% margin of the defined benefit obligation. Distribution is carried out over the participating employees' expected average 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 on the customary conditions.

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

Derivative financial instruments

The hedging of risk items from currency and interest rate fluctuations is often carried out through the use of derivative financial instruments such as forward exchange dealings and interest rate swaps. The hedging covers risks arising from changes in interest rates from underlying transactions and, in the case of currency risks, also risks from pending and planned supply and service transactions. For the hedging of currency risks arising from transactions within the GILDEMEISTER group forward exchange dealings are used primarily. Interest hedging tools in form of swaps are used to reduce the effect from changes in the interest rate on the cost of financing credits that are subject to a floating interest rate. 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 exchange dealings are valued 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 underlying transactions, the unrealised profits and losses corresponding to the amount of the hedged underlying 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.

As soon as the underlying transactions are discontinued, the amounts previously shown in equity, will be retransferred to the Income Statement.

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 relevant risks and rewards, if a price has been agreed or can be determined and it can be assumed that such price will be paid. Sales revenues from services are recognised after the services were rendered.

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

5 FOREIGN CURRENCY TRANSLATION

The currency translation of all Annual Financial Statements of the international group companies that were prepared in foreign currencies was carried out in accordance with the “functional currency” principle pursuant to IAS 21 “The Effects of 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 income statement, were recognised directly in equity. The exchange differences arising from the currency translation of the equity capital were also transferred to equity.

In the individual financial statements monetary items (cash, receivables and liabilities) in a foreign currency were valued at the exchange rate at the reporting date. Non-monetary items in foreign currencies were assessed at the historical values. The differences arising from the currency translation of monetary items were shown in the Income Statement.

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

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

The exchange rates of the major currencies developed as follows:

		Current price on reporting date = 1 €		Average price = 1 €	
Currencies	**ISO-code**	31 Dec. 2004	31 Dec. 2003	31 Dec. 2004	31 Dec. 2003
British Pound	GBP	0.70710	0.70700	0.68192	0.68991
Swiss Franc	CHF	1.54370	1.55900	1.54531	1.51762
Polish Zloty	PLN	4.08770	4.72550	4.54375	4.42218
Czech Koruna	CZK	30.39000	32.55000	31.94538	31.92462
US-Dollar	USD	1.36400	1.26100	1.24740	1.13420
Canadian Dollar	CAD	1.64300	1.62900	1.61652	1.59053
Mexican Pesos	MXN	15.24000	14.15000	14.11769	12.23538
Brazilian Real	BRL	3.62060	3.64390	3.62915	3.49605
Japanese Yen	JPY	139.83000	134.85000	133.92077	131.15846
Singapore Dollar	SGD	2.22740	2.14350	2.10500	1.97509
Malaysian Ringgit	MYR	5.01930	4.77410	4.70275	4.30331
Indian Rupee	INR	59.27000	57.50000	56.40000	52.87385
Chinese Renminbi	CNY	11.28910	10.43610	10.32521	9.40129
Taiwan Dollar	TWD	43.17000	42.62680	41.48614	38.92038
Korean Won	KRW	1412.29000	1499.13000	1421.86385	1350.97538
Australian Dollar	AUD	1.74890	1.67880	1.69164	1.74734

6 SIGNIFICANT ACCOUNTING AND VALUATION METHODS DEVIATING FROM THE GERMAN COMMERCIAL CODE (HGB)

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

_ Deviating valuation of inventories (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 tax-loss credits (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 “Leases”),
_ Valuation of the company 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”),
_ No scheduled amortisation of goodwill arising from acquisition (IFRS 3 “Business Combinations” in conjunction with IAS 36 “Impairment of Assets” and IAS 38 “Intangible Assets”),
_ 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 the recognition 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 recognition of derivate financial instruments (IAS 39 “Financial Instruments: Recognition and Measurement”).

Notes to individual balance sheet items

7 INTANGIBLE ASSETS

€ 66,857 K (previous year: € 66,084 K) of the goodwill shown relate to the asset-side difference from the consolidation of investments and € 1,072 K (previous year: € 1,072 K) to the goodwill from the individual financial statements.

In comparison to the previous year, the goodwill increased by € 773 K due to the acquisition of the remaining shares in a & f Stahl- und Maschinenbau GmbH.

In the previous year, scheduled amortisation of € 6,695 K was attributed to goodwill. If amortisation of goodwill had continued by the scheduled method over 10 and 15 years respectively, scheduled amortisation would have amounted to € 6,656 K in the financial year 2004.

Capitalised development costs relate to new machine tool projects in the national 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 financial year amount to € 24,245 K (previous year: € 23,847 K). Research and development costs directly charged to expenses amount to € 31.6 million in the financial year 2004 (previous year: € 33.4 million).

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

Decrease in value of intangible assets was accounted for by non-scheduled depreciation and amounted to € 8 K (previous year: € 749 K) in the reporting year. No reversals of depreciation were carried out.

Changes in the group's intangible assets are illustrated in the consolidated fixed-asset movement schedule. Investments are explained in further detail in the Group Management Report on page 70 et sqq.

8 TANGIBLE ASSETS

Changes in the group's tangible assets are illustrated in the consolidated fixed-asset movement schedule. Investments are explained in further detail in the Group Management Report on page 70 et sqq.

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

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

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

Tangible assets included leased assets to the value of € 6,702 K (previous year: € 8,900 K) that must be charged to the respective group company as beneficial owner due to the structuring of the underlying leases (“finance lease”).

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

	31 Dec. 2004	31 Dec. 2003
	€ K	€ K
Land and buildings	3,344	3,935
Technical equipment and machinery	1,548	3,422
Other fixed assets, factory and office equipment	1,810	1,543
	6,702	8,900

9 FINANCIAL ASSETS

Changes in the group's financial assets are illustrated in the consolidated fixed-asset movement schedule. Fair market values correspond with the book values shown in the balance sheet.

No depreciation was carried out in the reporting year (previous year: € 3 K).

An overview of the affiliated companies and information on principal places of business, equity capital, capital shares and results for the financial year 2004 are set out in a separate summary at the end of the Notes on page 158 et sqq.

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

- GILDEMEISTER Drehmaschinen GmbH,
- DECKEL MAHO Seebach GmbH,
- DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- GILDEMEISTER Beteiligungen Aktiengesellschaft (since 1 January 2004).

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

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

In the previous financial year, DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER has entered into mangagement and profit and loss transfer agreement with the following subsidiaries:

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

Besides there are existing management and profit and loss transfer agreements between DECKEL MAHO Geretsried and DECKEL MAHO Pfronten as well as between DECKEL MAHO Pfronten and SAUER GmbH.

Another management and profit and loss tranfer agreement was entered into in the previous financial year between GILDEMEISTER Beteiligungen Aktiengesellschaft and DECKEL MAHO Geretsried GmbH.

10 INVENTORIES

Inventories increased by € 12,200 K when compared with the previous year. This is primarily due to the increase in the inventory of raw materials and consumables. Intercompany profits of € 14,724 K arose in inventories from intercompany supplies and deliveries (previous year: € 14,759 K). Any differences against the previous year were consolidated and recognised in the Income Statement.

€ 63.833 K (previous year: € 50,433 K) of inventories recorded on 31 December 2004 were recognised at their net realisable values.

Due to changed valuations with respect to the usability of production and spare parts in raw materials and consumables and a changed valuation with respect to realisable values of finished goods, the valuation allowance has decreased by approximately € 10.8 million in comparison with the method used in the previous year (previous year: about € 7.3 million).

11 TRADE DEBTORS AND OTHER ASSETS

	Balance sheet as at 31 Dec. 2004	of which due in more than 1 year	Balance sheet as at 31 Dec. 2003
	€ K	€ K	€ K
1. Trade debtors	281,715	2,248	259,618
2. Other assets	29,513	2,542	34,676
	311,228	4,790	294,294
Balance sheet as at 31 December 2003		2,155	294,294

Existing individual risks were 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. 2004	As at 31 Dec. 2003
	€ K	€ K
Tax refund claims	7,871	16,790
Creditors with debit balance and advance payments	7,820	7,406
Factoring settlement account	4,024	2,460
Receivables from employees and former employees	1,499	1,251
Security deposits and other security payments	2,774	1,152
Market values of derivative financial instruments	786	308
Short-term loans to third parties	458	642
Receivables from compensation claims	360	240
Other	3,921	4,427
	29,513	34,676

12 SECURITIES

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

13 CASH IN HAND, BUNDESBANK BALANCES AND BANK BALANCES

The statement pertains to bank balances. The amount shown as of 31 December 2004 includes funds arising from the corporate bond issue. These loans are earmarked and may only be used for the payment of credit lines based on bilateral loan agreements.

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

14 DEFERRED TAXES

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

	31 Dec. 2004		31 Dec. 2003	
	Assets	**Liabilities**	Assets	Liabilities
	€ K	€ K	€ K	€ K
Fixed assets	2,058	14,262	2,652	15,186
Current assets	2,671	1,545	527	1,621
Provisions	3,232	882	3,670	378
Liabilities	5,577	3,685	6,306	704
Taxable deferred losses	24,041	-	21,661	-
Consolidation	5,882	2,329	6,041	2,392
	43,461	22,703	40,857	20,281
Balancing out	-18,664	-18,664	-11,359	-11,359
Total	24,797	4,039	29,498	8,922

The total deferred tax assets shown in the balance sheet of € 24,797 K (previous year: € 29,498 K) include capitalised tax reduction claims of € 24,041 K (previous year: € 21,661 K) arising from the expected future utilisation of existing losses carried forward. The realisation of these loss carryovers is guaranteed with sufficient security.

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

Tax loss carryovers amounted to € 84,819 K (previous year: € 78,083 K), of which € 13,562 K (previous year: € 15,332 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 38% (previous year: 39%) for national companies. The change was due to the changed weighting of the municipal factors underlying the calculation of the trade tax on income in contrast to the previous year. Tax rates abroad are between 19% and 41%.

15 PREPAID EXPENSES

Prepaid expenses primarily include interest, tenancy and insurance contributions. The capitalised total of € 4,556 K (previous year: € 4,740 K) is due within one year.

16 EQUITY

The movement of individual components in group equity for the financial years 2004 and 2003 is illustrated in the Development of Equity and in Shares Held to other Shareholders

Subscribed capital

In the first six months of the reporting year, GILDEMEISTER Aktiengesellschaft accomplished a capital increase from approved capital. Following the issue of 14,423,076 new shares the number of shares increased to 43,302,503 (previous year: 28,879,427). The owner shares have an accounting par value of € 2.60. This resulted in an increase in the subscribed capital of GILDEMEISTER Aktiengesellschaft from € 75,086,510.20 to € 112,586,507.80.

The Executive Board was authorised, with the approval of the Supervisory Board, to increase the registered capital by up to € 37,500,000.00 in nominal terms during the period until 31 March 2006 by issuing new shares for cash or non-cash consideration. Following the capital increase the remaining approved capital, including a statutory subscription right of the shareholders, amounts to € 2.40.

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

Capital provisions

Capital provision includes the extra charges arising from the issue of shares and has, in comparison to the previous year, increased by the proceeds of € 22,563,593 from the newly issued shares to € 71,297,862.

Transaction costs of € 4,788,596 that can be allocated directly to the capital procurement, reduced by related benefits arising from tax on income of € 1,810,089, have been deducted from the capital provision in accordance with SIC 17. In deviation from the HGB individual accounts of GILDEMEISTER Aktiengesellschaft, the Consolidated Financial Statements therefore show a capital reserve of € 68,319,355.

Revenue provisions

Statutory provisions
The statutory provisions of € 680,530.00 has not changed since the previous year.

Other revenue provisions
Revenue reserves 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 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.

A detailed overview on the composition of, or changes in, other revenue reserves in the financial year 2004 and in the previous year is included in the Development of Group Equity and in Shares to 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 financial year. The dividend to be distributed to shareholders is therefore subject to the retained profits shown in the Annual Financial Statements of GILDEMEISTER Aktiengesellschaft.

The financial year 2004 of GILDEMEISTER Aktiengesellschaft closes with an annual loss of € 31,689,024. The Executive Board has decided to set off the annual loss against revenue provisions. As of 31 December 2004, GILDEMEISTER Aktiengesellschaft thereby records a balanced net result for the year.

17 SHARES HELD TO OTHER SHAREHOLDERS

Shares held to other shareholders include minority interests in the consolidated equity of the companies included and, in the financial year 2004, amount to € 1,037 K (previous year: € 1,198 K).

18 PENSION PROVISIONS

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

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

In the case of contribution-oriented pension plans (“defined contribution plans”) the respective company does not assume any further obligations which go beyond the payment of contributions into an earmarked reserve fund. In the financial year 2004, the related expenses amounted to € 2,882 K (previous year: € 2,208 K).

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

In the GILDEMEISTER group, pension commitments are financed through transfer to reserves. 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 the pension commitment. Along with the assumptions on life expectancy, the following premises for the parameters to be applied to the actuarial calculations in the reports were defined:

	Germany		Remaining Countries	
	2004	2003	2004	2003
	%	%	%	%
Interest rate	4.85	5.50	3.00-4.00	4.00-6.00
Salary trend	0.00	0.00	3.00	3.00-6.00
Pension trend	1.50	1.00	0.00	0.00

The salary trend includes expected future increases in salary that are assessed annually and are subject to, amongst other things, inflation and the duration of employment at the company. Since the pension commitments that were entered into at the national subsidiaries are not subject to future increases in salary trend 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. 2004	31 Dec. 2003
		€ K	€ K
	Cash value of the provisions-financed pension commitments	33,726	32,987
+	Cash value of the funds-financed pension commitments	1,176	714
=	Cash value of the pension commitments	34,902	33,701
-	Market value of planned assets	-1,176	-1,239
=	Cash value of pension commitments (after deducting of the planned assets)	33,726	32,462
-	Balance of actuarial profits/loss not yet included in the balance sheet	-6,003	-4,389
=	Net value of the balanced amounts on the reporting date	27,723	28,073
	of which are pension provisions	27,723	28,930
	of which are assets (-)	0	-857

Of the company pension provisions amounting to € 27,723 K (previous year: € 28,930 K), € 27,452 K (previous year: € 27,982 K) are attributed to national group companies; representing about 99% of the total.

In the financial year 2004, total expenditure amounted to € 2.283 K (previous year: € 1.905 K), comprising of the following components:

		2004	2003
		€ K	€ K
	Current expenditure of service	403	136
+	Interest expenditure	1,744	1,790
-	Expected asset income of the fund	-62	-53
+	Actuarial profits (-) and losses (+)	108	32
+	Past service expenditure	90	0
=	Total expenditure of payment-oriented pension plans	2,283	1,905

		2004	2003
		€ K	€ K
	Balance sheet value as at 1 January	28,073	28,726
+	Personnel costs	2,283	1,905
-	Pension payments made or allocation to funds	-2,633	-2,558
=	Balance sheet value as at 31 December	27,723	28,073
	of which pension provisions	27,723	28,930
	of which assets (-)	0	-857

In Germany, pension-like obligations include provisions for future contributions to the Pension Security Association (Pensionssicherungsverein) 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. 2004		As at 31 Dec. 2003	
	Total	of which due within 1 year	Total	of which due within 1 year
	€ K	€ K	€ K	€ K
Tax provisions	8,802	8,802	13,004	13,004
Personnel costs	44,715	23,880	40,986	20,151
Risks arising from warranties and retrofitting	25,293	25,293	25,933	25,933
Obligations arising from sales	8,729	8,729	9,949	9,949
Invoices not yet received	0	0	5,259	5,259
Legal and consultancy fees and costs of preparation of accounts	2,948	2,948	3,283	3,283
Anticipated losses related to incomplete contracts	350	350	1,209	1,209
Other	4,896	4,896	5,405	5,405
	86,931	66,096	92,024	71,189
Total	95,733	74,898	105,028	84,193

The tax provisions include taxes on corporate income and business profits and other company taxes that were set up for prior financial years and for the financial year 2004.

The provisions for personnel costs in the group include € 8,359 K for part-time retirement (previous year: € 10,117 K) and € 3,994 K for anniversary bonuses (previous year: € 3,622 K). The provisions for anniversary bonuses and part-time retirement will be discounted and carried as liability at their present value. Obligations arising from part-time retirement are secured against potential insolvency through a mutual trust relationship. To secure the pension plan, assets are transferred into a trust property. The members of this trust property are national group companies.

The assets are defined as "plan assets" in accordance with IAS 19.7 and balanced against the related provision. Any proceeds arising from the pension plan assets are balanced against the related expenses.

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

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

	As at 01 Jan. 2004	Transfers	Used	Retransfers	Other Changes	**As at 31 Dec. 2004**
	€ K	€ K	€ K	€ K	€ K	€ K
Tax provisions	13,004	6,152	8,904	1,468	18	8,802
Personnel costs	40,986	23,744	19,819	1,325	1,129	44,715
Risks arising from warranties and retrofittings	25,933	10,086	7,937	1,363	-1,426	25,293
Obligations arising from sales	9,949	9,354	9,223	757	-594	8,729
Invoices not yet received	5,259	0	5,283	68	92	0
Legal and consultancy fees and costs of preparation of accounts	3,283	2,727	2,583	475	-4	2,948
Anticipated losses related to incomplete contracts	1,209	690	833	778	62	350
Other	5,405	4,642	2,301	2,053	-797	4,896
	92,024	51,243	47,979	6,819	-1,538	86,931
Total	105,028	57,395	56,883	8,287	-1,520	95,733

The other changes ıclude the change in the consolidated group, foreign curreny adjustments and book transfers.

Compared to the previous year, provisions for invoices not yet received to the value of € 5,259 K were shown. As at 31 December 2004, obligations arising from invoices not yet received were shown under trade creditors.

20 LIABILITIES

	Balance sheet as at 31 Dec. 2004	of which due within 1 year	of which due within 1 to 5 years	of which due within 5 years	Balance sheet as at 31 Dec. 2003
	€ K	€ K	€ K	€ K	€ K
1. Bond	167,585	0	0	167,585	0
2. Bank loans and overdrafts [1]	156,734	24,164	116,854	15,716	322,216
3. Payments received on account	27,678	27,678	0	0	21,243
4. Trade creditors	140,446	139,121	429	896	125,099
5. Bills of exchange payable	19,427	19,427	0	0	31,360
6. Other liabilities	42,905	38,774	3,315	816	35,379
	554,775	249,164	120,598	185,013	535,297
Outstanding in each maturity period at 31 December 2003		433,450	81,773	20,074	535,297

1) of which secured by mortgage: € 39,328 K (previous year: € 53,767 K)

In July of the financial year 2004, GILDEMEISTER Aktiengesellschaft issued a long-term, subordinated corporate bond. The bond with a nominal volume of € 175.0 million and a coupon of 9.75% p.a. will mature in June 2011. Pursuant to IAS 39 "Financial Instruments: Recognition and Measurement" all allocable transaction costs of originally € 7,819 K were deducted from the initial costs of the bond and spread over its remaining term through profit and loss. An amount of € 404 K was allocated to the financial year 2004.

The group companies DECKEL MAHO Geretsried GmbH, DECKEL MAHO Pfronten GmbH, DECKEL MAHO Seebach GmbH, GILDEMEISTER Drehmaschinen GmbH, GILDEMEISTER Beteiligungen Aktiengesellschaft, DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, FAMOT Pleszew S.A. and GILDEMEISTER Italiana S.p.A. are guarantors in relation to the bond agreement. In addition, the shares of the above companies to the nominal value of € 96,177 are secondarily pledged in favour of the bond holders.

Set out below are the major liabilities to financial institutions:

	31 Dec. 2004				31 Dec. 2003			
	Currency	Carrying amount	Remaining term in years	Effective interest rate	Currency	Carrying amount	Remaining term in years	Effective interest rate
		€ K		%		€ K		%
Loans	EUR	63,425	up to 13	3.05-10.90	EUR	129,955	up to 13	2.69-10.90
Loans	JPY	1,944	up to 8	0.95-2.50	JPY	2,197	up to 8	0.95-2.50
Overdraft facilities	various	91,365	up to 2,5	1.90-6.50	various	190,064	up to 1	3.00-21.00
		156,734				322,216		

The reduction in liabilities to financial institutions of € 165,482 K in comparison to the previous year is due to the rearranging of the group's financial liabilities. The funds received from the corporate bond were used to pay back part of the previous basic syndicate loan agreement, the remaining liabilities arising from funding the acquisition of GILDEMEISTER Italiana S.p.A. and bilateral loans of foreign group companies.

As of 31 December 2004, the international share in liabilities to financial institutions therefore amounts to approximately 18.6% (previous year: approx. 42.4%).

The short and medium term resource requirements of GILDEMEISTER Aktiengesellschaft and, as part of the intragroup cash management system, of the majority of national subsidiaries are covered through a syndicated loan agreement. The previous syndicate loan agreement with a volume of € 180.0 million and a term until 31 December 2005 was rearranged in July 2004. The new syndicated loan has a term until 30 June 2007 and a volume of € 141.0 million. The lending volume contains three tranches, which differ in terms of amounts, usability, maturity/drawing terms and the agreed interest rates. In favour of the lending banks, the shares of DECKEL MAHO Pfronten GmbH, DECKEL MAHO Seebach GmbH, DECKEL MAHO Geretsried GmbH, GILDEMEISTER Drehmaschinen GmbH, DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, GILDEMEISTER Beteiligungen Aktiengesellschaft, FAMOT Pleszew S.A. and GILDEMEISTER Italiana S.p.A., to the nominal value of € 96,177 K (previous year: € 69,181 K) were pledged in first place to the national banking consortium.

The above group companies are also guarantors to the loan agreement.

DECKEL MAHO Seebach GmbH, SAUER GmbH and various DMG sales companies assigned fixed and current assets to the lending banks as further securities for loans.

All liabilities to financial institutions of € 156,734 K (previous year: € 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.

Other liabilities include the following items:

	Balance sheet as at 31 Dec. 2004	Balance sheet as at 31 Dec. 2003
	€ K	€ K
1. Tax exchange dealings	11,558	10,392
2. Liabilities relating to social insurance	7,678	6,754
3. Payroll account payables	2,474	2,732
4. Liabilities arising from finance lease	4,012	5,451
5. Debtors with credit balances	2,990	2,580
6. Fair market values of derivative financial instruments	942	1,406
7. Liabilities from accrued interest pertaining to the corporate bond	7,631	0
8. Other liabilities	5,620	6,064
	42,905	35,379

Payables arising from finance leases amount to € 4,012 K (previous year: € 5,451 K). They are recognised, without future interest payable, under other liabilities. All future payments arising from finance leases total € 4,490 K (previous year: € 6,178 K).

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

	31 Dec. 2004	31 Dec. 2003
	€ K	€ K
Total future minimum lease payments		
Due within one year	1,846	2,046
Due within one and five years	2,639	3,902
Due in more than five years	5	230
	4,490	6,178
Interest component included in future minimum lease payment		
Due within one year	215	307
Due within one and five years	262	407
Due in more than five years	1	13
	478	727
Net present value of future minimum lease payments		
Due within one year	1,631	1,738
Due within one and five years	2,377	3,495
Due in more than five years	4	218
	4,012	5,451

21 DEFERRED INCOME

Deferred income results primarily from the subgroup GILDEMEISTER Italiana at an amount of € 1,440 K (previous year: € 1,857 K). It pertains to deferred future interest earnings from a specific financing programme of the Italian state (Sabatini financing).

Pursuant to IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance”, this account also includes investment allowances and investment subsidies according to Investitionszulagengesetz totalling € 3,747 K (previous year: € 3,951 K) granted by the joint aid programme “Improvement of the Regional Economic Structure”. In the financial year 2004 investment subsidies of € 114 K (previous year: € 249 K) were received that were allocated to 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. 2004	As at 31 Dec. 2003
	€ K	€ K
Contingencies		
Bill commitments	30,652	19,724
Guarantees	4,143	4,841
Warranties	8,170	6,680
Other contingencies	16,147	13,035
	59,112	44,280

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

In operate lease agreements, the beneficial owner of the leased items is the lessee, which means risks and rewards are borne by the lessee, who thereby also carries the investment risk.

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 21 years; some of them include options to extend or purchase options.

	31 Dec. 2004	31 Dec. 2003
	€ K	€ K
Total face value of future minimum lease payments		
Due within one year	19,702	15,614
Due between one and five years	23,674	12,913
Due after more than five years	4,055	678
	47,431	29,205

Of which are attributed to operating leases:

	31 Dec. 2004	31 Dec. 2003
	€ K	€ K
Total face value of future minimum lease payments		
Due within one year	17,856	13,568
Due between one and five years	21,035	9,011
Due after more than five years	4,050	448
	42,941	23,027

In the reporting year, a basic agreement on the operating lease of machines used for shows and exhibitions was entered into between the German production facilities and the DMG companies with a total volume of € 17.0 million. This agreement has a basic term of 4 years and may be terminated after 3 months. Following the expiry of the agreement, the lease may be extended or the lease items may be either returned or purchased.

Another operating lease agreement to the value of € 5.3 million was entered into in conjunction with the construction of a new building of DMG Europe Holding GmbH in Klaus, Austria. This agreement has a minimum term of 14.5 years and includes a purchase option at the end of the basic lease term.

There are no permanent subtenancies that have to be included in the total of future minimum lease payments. There are no contingent rents that are recognised in the Income Statements.

Tangible assets commitments amount to € 1,863 K (previous year: € 2,354 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. 2004	31 Dec. 2003	**31 Dec. 2004**	31 Dec. 2003
	€ K	€ K	€ K	€ K
Forward exchange dealings	40,632	29,271	598	306
Interest rate swaps	70,487	36,364	-753	-1,406
	111,119	65,635	-155	-1,100

The face values correspond with the non-balanced total of the currency and interest portfolio. The fair market values shown correspond with that 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 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 1.5 years. They provide for payment of fixed interests within a 2.48% - 5.42% p.a. margin and a 3-month Euribor as reference rate. In the financial year 2004, the conditions for recognition as cash flow hedges no longer applied so that the amounts previously recognised in equity were retransferred to profit or loss. The expense of € 571 K arising from the retransfer of this item has been recognised in the Income Statement.

In addition, GILDEMEISTER Aktiengesellschaft entered into two interest swaps with a term of 1 and 1.5 years, which include payment of fixed interest within a 2.61% - 2.83% p.a. margin and a 3-month Euribor as reference interest rate. As of 31 December 2004, after deduction of deferred tax liabilities, an amount of € 62 K arising from one of the interest swaps, with respect to which the conditions of a cash flow hedge are met, was charged to equity, without affecting profit or loss.

In the financial year 2004, after deduction of deferred tax liabilities, positive effects of € 224 K (previous year: 541 K) arising from the market valuation of financial instruments allotted to cash flow hedges were recognised directly in equity, without affecting profit or loss.

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

the lathes and turning centres of
- GILDEMEISTER Drehmaschinen GmbH, Bielefeld,
- GILDEMEISTER Italiana S.p.A., Brembate di Sopra, Italy,
- GRAZIANO Tortona S.p.A., Tortona, Italy,
- FAMOT Pleszew S.A., Pleszew, Poland,
- DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co.,Ltd., Shanghai, China

the milling machines and machining centres of
- DECKEL MAHO Pfronten GmbH, Pfronten,
- DECKEL MAHO Seebach GmbH, Seebach,
- DECKEL MAHO Geretsried GmbH, Geretsried,
- DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co.,Ltd., Shanghai, China

The ultrasonic and laser machines of
_ SAUER GmbH, Idar-Oberstein/ Kempten.

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

The **"Services"** segment, which covers all areas, is directly related to the machine tools and, with its products and technical services offered, represents an independent segment. It substantially 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, installations 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. Another area is key accounting, the management of our major customers, which has been centralised to include all areas and products in order to meet the increasing globalisation of international companies.

The **"Corporate Services"** segment includes the 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. Holding Macchine Utensili S.p.A., Milan, Italy, is also allocated in this business segment as finance company for the Italian production facilities.

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.

As part of the exercise of the voting option to IFRS 3 "Business Combinations", existing goodwill was reallocated to the segments. Goodwill of € 38,258 K (previous year: € 63,377 K) is alloted to the "Machine Tools" segment, € 29,671 K (previous year: € 3,653 K) to the "Services" segment and € 0 K (previous year: € 126 K) to the "Corporate Services" segment.

In the financial year 2003, scheduled amortisation of € 5,939 K was attributed to the "Machine Tools" segment, of € 738 K to the "Services" segment and of € 18 K to the "Corporate Services" segment.

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

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

Depreciation pertains to segmental fixed assets.

The "Transition" column represents the elimination of intercompany receivables and liabilities, income and expenses and results between the segments.

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

In this year's presentation of secondary segmentation, data was determined on the basis of regional subgroups.

Notes to the Cash Flow Statement

26 CASH FLOW STATEMENT

The Cash Flow Statement (Flow of Funds Analysis) pursuant to IAS 7 "Cash Flow Statements" records the payment flow in a financial year and represents the inflow and outflow of the company's liquid funds. The payment flow is distinguished between cash flow from 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, ie. cash in hand, Bundesbank balance and bank balances to the extent that these are available within three months. As of 31 December 2004 this amount included funds of € 2,797 K arising from the corporate bond issue. These funds are earmarked and may only be used for the payment of credit lines based on bilateral agreements.

The cash flow from current operations was calculated by the indirect method through adjusting the group's annual profit/loss by changes in inventories, trade debtors and creditors, non-cash items and all other items showing cash flows in the investment or financing areas. The cash flows from investment and financing activities were each calculated in terms of actual sums paid. Effects from foreign currency translation and changes in the consolidated group are adjusted accordingly.

The financial investments of the financial year 2004 include the acquisition of the remaining 10% shares in a & f Stahl- und Maschinenbau GmbH, Würzburg, at a purchase price of € 813 K. The purchase price was fully settled in cash. No cash was taken over with the acquisition.

Cash flows arising from interest received amount to € 1,488 K and from interest paid to € 20,228 K. These amounts are included in the cash flows from current operations. In the previous year, the outflow of interest of € 24,736 K and the inflow of interest of € 1,882 K substantially correspond with interest paid and interest earnings, with the exception of interest components in the transfer to pension provisions.

Income tax paid in the financial year 2004 amounted to € 4,051 K (previous year: € 21,891 K). These amounts are included in the cash flows from current operations.

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:

	2004	2003
	€ K	€ K
Germany	502,892	475,688
EU (excl. Germany)	308,719	253,362
USA	74,590	52,263
Asia	93,860	96,277
Rest of the world	71,439	100,173
	1,051,500	977,763

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

28 OHTER CAPITALISED PAYMENTS

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

29 OTHER OPERATING INCOME

	2004	2003
	€ K	€ K
Income unrelated to accounting period		
Retransfer of provisions	6,957	4,779
Retransfer of value adjustments	1,940	1,817
Profit on asset disposals	374	1,389
Receipt of payment for written off delinguent account	41	17
Other income unrelated to accounting period	964	1,089
	10,276	9,091
Other operating income		
Use of provisions	2,122	5,946
Changes in exchange rates	8,076	4,051
Cost allocation and refunds of expenses	1,911	2,026
Compensation for damages	492	820
Letting and leasing	755	599
Release of asset-based bonuses	177	447
Bonuses and allowances	400	318
Other	1,970	3,277
	15,903	17,484
Total	26,179	26,575

30 COST OF MATERIALS

Payments received primarily pertain to expenses for external production.

31 PERSONNEL COSTS

In the financial year 2004, the group's pension plan expenses amounted to € 3,421 K (previous year: € 2,323 K).

Remuneration of the active Executive Board members totalled € 2,122 K (previous year: € 2,226 K), including € 950 K for variable profit-sharing bonuses (previous year: € 750 K). Previous year's figures have been adjusted by the management bonuses granted in 2004 for the financial year 2003 in the amount of € 300 K. € 598 K (previous year: € 625 K) were paid to former Executive Board members and their surviving dependants.

Company pension provisions of € 7,483 K (previous year: € 7,240 K) were set up for former Executive Board members and their surviving dependants.

Advances and loans to Board members were not granted. No contingencies in favour of officers was entered.

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	
	2004	2003	2004	2003
Wage earners	1,717	1,788	1,727	1,725
Salary earners	3,215	3,061	3,257	3,098
Trainees	185	199	190	205
	5,117	5,048	5,174	5,028

32 OTHER OPERATING EXPENSES

	2004	2003
	€ K	€ K
Expenses unrelated to accounting period		
Losses from fixed asset disposal	511	444
Other taxes	404	353
Other expenses unrelated to accounting period	868	766
	1,783	1,563
Other operating expenses		
Marketing, trade fairs and public relations	23,246	16,098
Rental and leases	19,920	18,272
Travelling and entertainment expenses	19,670	17,629
Freight out, packaging	17,942	16,880
Other external services	16,241	16,397
Sales commissions	12,788	11,263
Cost of preparation of acounts, legal and consultancy fees	9,766	9,923
Stationery, post and telephone expenses	8,044	7,803
Exchange rate and currency losses	7,683	8,117
Transfer to provisions	6,077	7,049
Other personnel costs	5,529	4,819
Monetary transactions and capital procurement	3,979	1,725
Losses from the decline in value of current assets	3,711	3,365
Insurance	3,258	3,284
Other taxes	1,200	1,165
Investor Relations	713	1.034
Licences and trade marks	518	503
Other	9,822	8,368
	170,107	153,694
Total	171,890	155,257

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

In the accounting period 2004 € 173 K (previous year: € 158 K) were transferred to provisions for Supervisory Board members' remuneration. Provisions for the variable components were also set up. In accordance with the Articles of Assocation, the variable component is based on the future performance of the company and cannot be paid out before the underlying objectives have been accomplished.

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

	Fixed Remuneration	Remuneration for committee work	Total
	€	€	€
Hans Henning Offen, Chairman (since 15 May 2004)	16,300	6,850	23,150
Dr.-Ing. Manfred Lennings, Chairman (until 14 May 2004)	13,700	8,150	21,850
Gerhard Dirr, Deputy Chairman	15,000	5,000	20,000
Wulf Bantelmann	10,000	-	10,000
Günther Berger	10,000	-	10,000
Harry Domnik	10,000	7,500	17,500
Alfred Geißler	10,000	5,000	15,000
Dr.-Ing. Jürgen Harnisch	10,000	-	10,000
Ulrich Hocker	10,000	-	10,000
Prof. Dr.-Ing. Walter Kunerth	10,000	5,000	15,000
Peter Oxfart	10,000	-	10,000
Günther-Johann Schachner	10,000	-	10,000
Total	**135,000**	**37,500**	**172,500**

33 OTHER INTEREST RECEIVABLES AND SIMILAR INCOME

Interest receivable and similar income of the entire group amounted to € 2,302 K (previous year: € 2,113 K).

34 NET INTEREST PAYABLE AND OTHER SIMILAR CHARGES

Net interest payable, amounting to € 30,392 K (previous year: € 24,736 K), primarily relates to the group's financial liabilities.

Net interest payable and other similar charges also include the interest component of € 1,743 K (previous year: € 1,791 K) from the transfer to company pension provisions.

35 Extraordinary charges and income

There were no extraordinary charges and income in the accounting period 2004.

36 Taxes on profits

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

	2004	2003
	€ K	€ K
Current taxes	4,154	10,886
Deferred taxes	2,290	2,953
	6,444	13,839

At the domestic companies current taxes 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 2004, an amount of € 1,710 K (previous year: € 1,320 K) resulted from tax income for prior years. An amount of € 501 K (previous year: € 4,445 K) is included for tax expenses for prior years.

Deferred tax income unrelated to the accounting period of € 3,462 K (previous year: € 3,816 K) is set off by deferred tax expenditure unrelated to the accounting period of € 2,352 K (previous year: € 4,150 K).

Current income tax expenditure was reduced by € 71 K (previous year: € 1,552 K) due to the use of tax loss credits not yet recognised from previous accounting periods. Another reduction of € 3,215 K (previous year: € 876 K) was carried out with respect to deferred tax expenditure due to tax losses not yet recognised from prior periods.

Writedowns of prior years' deferred tax assets from tax loss credits were carried out in the reporting year at an amount of € 1,874 K (previous year: € 3,645 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 38% (previous year: 39%) for domestic companies. International tax rates are between 19% and 41%.

Deferred tax assets and liabilities were recognised directly in equity and at the balance sheet date amounted to € 1,848 K (previous year: € 548 K). In the financial year 2004, the recognised income tax expenditure of € 6,444 K (previous year: € 13,839 K) has increased by € 1,900 K (previous year: increase of € 9,725 K) when compared with the expected income tax expenditure of € 4,544 K (previous year: income tax expenditure of € 4,104 K), which would in theory arise if the national tax rate of 38% (previous year: 40%) applicable for the financial year 2004 had been applied at group level. The rise in the corporate income tax rate to 26.5% was due to the Flood Victim Solidarity Law ("Flutopfersolidaritätsgesetz") passed in the financial year 2003. With respect to the assessment period beginning in 2004, it was reduced back to 25.0%.

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

	2004	2003
	€ K	€ K
Results of ordinary business before taxes	12,020	10,260
GILDEMEISTER revenue tax in percent	38	40
Theoretical tax income/expenditure	4,544	4,104
Tax consequences on the following influences		
Adjustment due to differing tax rate	346	220
Effects from changes in tax rate	63	247
Tax reduction due to revenues exempt from taxation	-694	-898
Depreciation of goodwill from capital consolidation	0	2,478
Deferred taxable losses	535	2,477
Tax increase due to non-deductibe expenses	3,206	4,809
Tax yield or losses for prior years	-1,210	-807
Current tax expenses arising from a tax investigation	0	4,228
Deferred tax assets arising from a tax investigation	0	-2,709
Other adjustments	-346	-310
Taxes on corporate income and revenue	6,444	13,839

37 PROFIT SHARE TO OTHER SHAREHOLDERS

Other shareholders are entitled to a profit of € 42 K (previous year: € 153 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:

		2004	2003
Group result excluding profit share to other shareholders	€ K	5,534	-3,732
Average weighted number of shares		36,721,482	28,879,427
Earnings per share	€	0.15	-0.13

There are no diluted earnings per share for either the accounting period 2004 or the preceding year.

Other explanatory notes

39 EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No material events have occurred after the balance sheet date except for those set out in the “Supplementary Report” and “Forecast 2005” chapters 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 31 December 2004 and has been made accessible to the shareholders on our website **www.gildemeister.com**.

Affiliated Companies

	Equity [1]			Participation quota	Profit/loss for the accounting period 2004[1]
	National currency		€ K	in %	€ K
Production plants and procurement/components					
GILDEMEISTER Drehmaschinen GmbH, Bielefeld [2/19]			16,650	100.0	0
Holding Macchine Utensili S.p.A., Milan, Italy			20,366	100.0	77
GILDEMEISTER Italiana S.p.A., Brembate di Sopra, Italy			32,993	100.0	1,151
GRAZIANO Tortona S.p.A., Tortona, Italy [8]			4,266	100.0	77
SACO S.p.A., Castelleone, Italy [8]			9,910	100.0	608
GILDEMEISTER Beteiligungen Aktiengesellschaft, Bielefeld [2/19]			62,897	100.0	0
DECKEL MAHO Geretsried GmbH, Geretsried [3/4/19]			57,423	100.0	0
DECKEL MAHO Pfronten GmbH, Pfronten [5/7/19]			28,222	100.0	0
SAUER GmbH, Stipshausen/Idar-Oberstein [6/18/19]			6,942	98.8	0
DECKEL MAHO Seebach GmbH, Seebach [2/19]			8,363	100.0	0
a & f Stahl- und Maschinenbau GmbH, Würzburg [19]			1,112	100.0	930
FAMOT Pleszew S.A., Pleszew, Poland	PLN K	16,702	4,086	100.0	840
DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China	CNY K	53,102	4,704	100.0	-1,240
Sales and service companies					
DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [2/19] (Group financial statements)			44,539	100.0	
DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg [9/10/19]			45,001	100.0	
DMG München Vertriebs und Service GmbH für Werkzeugmaschinen DECKEL MAHO GILDEMEISTER, Munich [11/19]			929	100.0	
DMG Hilden Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Hilden [11/19]			935	100.0	
DMG Bielefeld Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [11/19]			957	100.0	
DMG Berlin Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Berlin [10/11/19]			301	100.0	
DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bad Homburg [11/19]			310	100.0	
DMG Europe Holding GmbH, Klaus, Austria [9]			25,747	100.0	
DMG Austria GmbH, Klaus, Austria [12]			1,260	51.0	
DMG Nederland B.V., Veenendaal, Netherlands [12]			25,428	100.0	
DMG Italia S.r.l., Brembate di Sopra, Italy[13]			3,447	100.0	
DMG Paris S.a.r.l., Les Ulis, France[13]			4,299	100.0	
DMG Lyon S.A.S., Lyon, France [15]			429	100.0	
DMG (Schweiz) AG DECKEL MAHO GILDEMEISTER, Dübendorf, Switzerland [13]	CHF K	8,968	5,810	100.0	
DMG (U.K.) Ltd., Luton, Great Britain [13]	GBP K	2,383	3,369	100.0	
DMG Belgium B.V.B.A., Zaventem, Belgium [13]			1,077	100.0	
DECKEL MAHO GILDEMEISTER Iberica S.L., Berriz, Spain [13]			1,244	100.0	
DMG Czech s.r.o., Brno, Czech Republic [13]	CZK K	76,597	2,520	100.0	
DMG Polska Sp.z o.o., Pleszew, Poland [13]	PLN K	4,357	1,066	100.0	
DMG America Inc., Charlotte, USA [13]	USD K	15,235	11,170	100.0	
DMG Chicago Inc., Schaumburg, USA [14]	USD K	2,129	1,561	100.0	
DMG Houston Inc., Houston, USA [14]	USD K	771	566	100.0	
DMG Los Angeles Inc., Los Angeles, USA [14]	USD K	2,495	1,829	100.0	

Affiliated Companies

		Equity [1]		Participation quota	Profit/loss for the accounting period 2004[1]
		National currency	€ K	in %	€ K
Sales and service companies (continued)					
DECKEL MAHO GILDEMEISTER Brasil Ltda., São Paulo, Brasil [13]	BRL K	1,530	422	100.0	
DMG Asia Pacific Pte. Ltd., Singapore [13]	SGD K	10,627	4,771	100.0	
DMG Australia Pty. Ltd., Clayton Victoria, Australia [16]	AUD K	4,344	2,484	100.0	
DMG (Thailand) Co. Ltd., Bangkok, Thailand [16]	THB K	-2,305	-43	100.0	
DMG Malaysia SDN BHD, Puchong/Kuala Lumpur, Malaysia [13]	MYR K	4,052	807	100.0	
DMG Nippon K.K., Yokohama, Japan [13]	JPY K	308,297	2,205	100.0	
DMG Canada Inc., Toronto, Canada [9]	CAD K	629	383	100.0	
DECKEL MAHO GILDEMEISTER México, S.A. de C.V., Monterrey, Mexico [9]	MXN K	125	8	100.0	
DMG Technology Trading (Shanghai) Co. Ltd., Shanghai, China [9]	CNY K	1,840	163	100.0	
DMG DECKEL MAHO GILDEMEISTER (India) Pvt. Ltd., Bangalore, India [9]	INR K	34,125	576	100.0	
DMG Machinery Taiwan Ltd., Taichung, Taiwan [9]	TWD K	99,062	2,295	100.0	
DMG Korea Ltd., Seoul, Korea [9]	KRW K	2,889,806	2,046	100.0	
DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [9/10/19]			1,500	100.0	
DMG Service BAZ GmbH DECKEL MAHO GILDEMEISTER, Geretsried [9/10/19]			1,000	100.0	
DMG Service UFB GmbH DECKEL MAHO GILDEMEISTER, Pfronten [9/10/19]			1,500	100.0	
DMG Service UFB Seebach GmbH DECKEL MAHO GILDEMEISTER, Seebach [9/10/19]			230	100.0	
DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER, Geretsried [9/10/19]			7,517	100.0	
DMG Gebrauchtmaschinen s.r.o., Zlin, Czech Republic [17]	CZK K	4,289	141	100.0	
DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [9/10/19]			271	100.0	
DMG MICROSET GmbH, Bielefeld [9/10/19]			668	100.0	
Other					
MITIS Grundstücks-Vermietungs Gesellschaft mbH & Co. Objekt Bielefeld KG, Düsseldorf [20]			-	98.0	
DMG Marketing & Services SDN BHD, Selangor, Malaysia [9]	MYR K		-	40.0	
BIL Leasing GmbH & Co 736 KG, Munich [21]			-		
BIL Leasing GmbH & Co 748 KG, Munich [22]			-		
Zarzad Blokow Mieszkalnych Spolka z o.o., Pleszew, Poland [23]	PLN K	184	45	100.0	

1) The figures correspond with the financial statements prepared in accordance with local regulations; they do not show the respective companies contribution to the Consolidated Financial Statements. Foreign currencies with respect to equity were translated at the market price on reporting date.
2) Management and profit and loss transfer agreement with GILDEMEISTER Aktiengesellschaft
3) Participating interest of GILDEMEISTER Beteiligungen Aktiengesellschaft
4) Management and profit and loss transfer agreement with GILDEMEISTER Beteiligungen Aktiengesellschaft
5) Participating interest of DECKEL MAHO Geretsried GmbH
6) Participating interest of DECKEL MAHO Pfronten GmbH
7) Management and profit and loss transfer agreement with DECKEL MAHO Geretsried GmbH
8) Participating interest of GILDEMEISTER Italiana S.p.A.
9) Participating interest of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
10) Management and profit and loss agreement with DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
11) Participating interest of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
12) Participating interest of DMG Europe Holding GmbH
13) Participating interest of DMG Nederland B.V.
14) Participating interest of DMG America Inc.
15) Participating interest of DMG Paris S.A.R.L.
16) Participating interest of DMG Asia Pacific Pte. Ltd.
17) Participating interest of DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER
18) Management and profit and loss agreement with DECKEL MAHO Pfronten GmbH
19) The domestic subsidiary has complied with the conditions required by Section 264 para. 3 German Commercial Code (HGB) regarding the application of the exemption regulations and therefore waives the disclosure of its annual financial statements and relating documents.
20) Percentage in voting shares 49.0%, special purpose entity of GILDEMEISTER Aktiengesellschaft
21) Special purpose entity of DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bad Homburg, excluding capital share
22) Special purpose entity of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg, excluding capital share
23) Participating interest of FAMOT Pleszew S.A., Pleszew, Poland

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

Corporate Directory

Supervisory Board

Hans Henning Offen,
Großhansdorf, born 1940,
Chairman since 15 May 2004,
Independent Industry Consultant,
* Schwarz Beteiligungs GmbH, Neckarsulm, member of the Advisory Board
* Familienstiftung Schwarz, Neckarsulm member of the Supervisory Board
* Kaufland Stiftung & Co. KG, Neckarsulm, member of the Supervisory Board
* Lidl Stiftung & Co. KG, Neckarsulm, member of the Endowment Board
* Heckler & Koch GmbH, Neckarsulm, member of the Advisory Board since 16 July 2004, Chairman of the Advisory Council since 10 December 2004

Dr.-Ing. Manfred Lennings,
Essen, born 1934,
Chairman of the Supervisory Board until 14 May 2004,
independent Industry Consultant
• Deutsche Post AG, Bonn, member of the Supervisory Board,
• ENRO AG, Essen, member of the Supervisory Board,
• IVG Immobilien AG, Bonn, member of the Supervisory Board
* Bauunternehmung E. Heitkamp GmbH, Herne, member of the Supervisory Board
* Deilmann-Haniel GmbH, Dortmund member of the Supervisory Board
* Heitkamp-Deilmann-Haniel GmbH, Herne, Chairman of the Supervisory Board until 31 December 2004, member of the Supervisory Board since 1 January 2005

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

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

Günther Berger,
Munich, born 1948,
Divisional Executive Board member at the Bayerische Hypo- and Vereinsbank AG, Munich

Harry Domnik,
Bielefeld, born 1953,
1st Secretary of the IG Metall-headquarters, Bielefeld
* ThyssenKrupp Umformtechnik GmbH, Ludwigsfelde

Alfred Geißler,
Pfronten, born 1958,
Head of construction/development, Senior executives' representative

Dr.-Ing. Jürgen Harnisch,
Essen, born 1942,
independent Industry Consultant
• ThyssenKrupp Automotive AG, Bochum member of the Supervisory Board
• ThyssenKrupp Technologies AG, Essen, member of the Supervisory Board
• ThyssenKrupp Budd Company, Troy/Michigan, USA, member of the Board of Directors
* ThyssenKrupp Presta AG, Eschen, Liechtenstein, member of the Supervisory Board
* Huf Hülsbeck & Fürst GmbH & Co. KG, Velbert, Chairman of the Supervisory Board
* Presswerk Krefeld GmbH & Co. KG, Krefeld, member of the Supervisory Board

Ulrich Hocker,
Düsseldorf, born 1950,
Legal counsel, Chief manager
Deutsche Schutzvereinigung für Wertpapierbesitz e.V. (German association of securities owners) (DSW), Düsseldorf
• E.ON AG, Düsseldorf, member of the Supervisory Board
• Feri Finance AG, Bad Homburg, member of the Supervisory Board
• KarstadtQuelle AG, Essen, member of the Supervisory Board
• ThyssenKrupp Steel AG, Duisburg, member of the Supervisory Board
* Phoenix Mecano AG, Kloten, Switzerland, CEO
* Gartmore Capital Strategy Fonds, St. Helier, Jersey Member of the Board

Prof. Dr.-Ing. Walter Kunerth,
Zeitlarn, born 1940,
independent Industry Consultant
- Basler AG, Ahrensburg, Chairman of the Supervisory Board until 03 June 2004
- Götz AG, Regensburg, Chairman of the Supervisory Board
- Paragon AG, Delbrück, Chairman of the Supervisory Board

* Autoliv Inc., Stockholm, Sweden, Member of the Board of Directors
* Suspa Holding GmbH, Altdorf, Chairman of the Supervisory Board until 06 August, 2004

Peter Oxfart,
Creuzburg, born 1943,
Chairman of the Works Council at DECKEL MAHO Seebach GmbH, Seebach until 31 January 2005, member of the Supervisory Board until 31 January 2005

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

Rainer Stritzke,
Seebach, born 1957, design engineer,
member of the Works council at DECKEL MAHO Seebach GmbH, Seebach (since 1 February 2005)

Executive Board

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

Prof. Dr.-Ing. Raimund Klinkner,
Bielefeld,
Deputy Chairman

Dipl.-Kfm. Michael Welt,
Pfronten
- Staufen Akademie Beratung und Beteiligung AG, Bad Boll, Deputy Chairman of the Supervisory Board

Bielefeld, 29 March 2005
GILDEMEISTER Aktiengesellschaft

The Executive Board

Dr. Rüdiger Kapitza | Prof. Dr.-Ing. Raimund Klinkner | Dipl.-Kfm. Michael Welt

Consolidated Income Statement
for the period 1 January to 31 December 2004
of GILDEMEISTER Aktiengesellschaft

	Notes	2004 €	2004 €	2004 €	2003 €
1. Sales revenues	27		1,051,500,299		977,762,604
2. Increase in finished goods and work in progress			-4,687,339	1,046,812,960	9,567,188
3. Other payments capitalised	28			6,329,564	8,379,319
4. Other operating revenues	29			26,179,529	26,574,946
				1,079,322,053	1,022,284,057
5. Cost of materials	30				
a) Cost of raw materials, consumables and goods for resale		459,692,702			436,648,416
b) Cost of purchased services		94,022,711	553,715,413		88,696,599
6. Personnel costs	31				
a) Wages and salaries		234,930,931			224,912,914
b) Social security contributions, pensions and other benefits		47,593,056	282,523,987		45,663,764
7. Depreciation of assets			29,339,109		36.430,415
8. Other operating expenses	32		171,890,273	1,037,468,782	155,257,325
9. Operating result				41,853,271	34,674,624
10. Other interest receivable and similar income	33		2,302,107		2,112,710
11. Interest payable and similar expenses	34		32,135,197	29,833,090	26,526,852
12. Profit/loss on ordinary activities				12,020,181	10,260,482
13. Taxes on profit	36			6,443,713	13,839,399
14. Annual profit/loss (loss in previous year)				5,576,468	-3,578,917
15. Profit share of other shareholders	37			-42,408	-153,282
16. Annual profit/loss (Loss in previous year) of GILDEMEISTER				5,534,060	-3,732,199
Earnings per share in accordance with IAS 33	38			0.15	-0.13

Consolidated Balance sheet as at 31 December 2004 of GILDEMEISTER Aktiengesellschaft

Assets	Notes	As at 31 Dec. 2004 €	€	As at 31 Dec. 2003 €
A. Fixed Assets				
I. Intangible Assets	7			
1. Goodwill		67,929,388		67,156,425
2. Development costs		24,245,193		23,846,698
3. Industrial property rights and similar rights		6,504,744		8,765,826
4. Payments on account		232,597		26,010
			98,911,922	99,794,959
II. Tangible Assets	8			
1. Land and buildings		125,216,005		127,888,995
2. Technical equipment and machinery		15,619,046		17,416,380
3. Other equipment, factory and office equipment		21,735,853		22,587,039
4. Payments on account construction in progress		776,826		2,657,695
			163,347,730	170,550,109
III. Financial Assets	9			
1. Shares in affiliated companies		207,796		206,970
2. Securities		31,957	239,753	16,774
			262,499,405	270,568,812
B. Current Assets				
I. Inventories	10			
1. Raw materials and consumables		92,509,699		75,421,184
2. Work in progress		87,374,276		88,417,178
3. Finished goods and goods for resale		95,142,850		98,876,857
4. Payments on account		1,537,814		1,649,398
			276,564,639	264,364,617
II. Receivables and other Assets	11			
1. Trade debtors		281,714,367		259,617,967
2. Other assets		29,513,219		34,675,819
			311,227,586	294,293,786
III. Securities	12		53,443	21,276
IV. Cash in Hand, Bundesbank Balance and bank balances	13		60,296,617	11,424,971
C. Deferred Taxes	14		24,797,165	29,497,986
D. Prepaid Expenses	15		4,555,832	4,740,174
			939,994,687	874,911,622

Equity an Liabilities

	Notes	As at 31 Dec. 2004		As at 31 Dec. 2003
		€	€	€
A. Equity	16			
I. Subscribed Capital			112,586,508	75,086,510
II. Capital provisions			68,319,355	48,734,269
III. Revenue provisions				
1. Statutory provisions			680,530	680,530
2. Other revenue provisions			67,916,766	63,091,651
			249,503,159	187,592,960
B. Shares to other Shareholders	17		1,037,038	1,198,004
C. Provisions				
1. Pension provisions	18	27,723,242		28,929,573
2. Tax provisions	19	8,801,671		13,003,959
3. Other provisions	19	86,931,149		92,024,593
			123,456,062	133,958,125
D. Gross Liabilities	20			
1. Bond		167,584,643		0
2. Bank loans and overdrafts		156,734,115		322,215,606
3. Payments received on account		27,678,359		21,243,021
4. Trade creditors		140,445,689		125,099,138
5. Bills of exchange payable		19,427,324		31,360,323
6. Other liabilites		42,904,351		35,379,268
			554,774,481	535,297,356
E. Deferred Taxes	14		4,038,562	8,921,452
F. Deferred Income	21		7,185,385	7,943,725
			939,994,687	874,911,622

Consolidated Balance sheet as at 31 December 2004 of GILDEMEISTER Aktiengesellschaft

Development of Group Equity and Shares to other Shareholders of GILDEMEISTER Aktiengesellschaft, for the period 1 January 2003 to 31 December 2004

			Revenue provisions					
	Subscribed Capital	Capital provisions	Revenue provisions	Difference from currency translation	Market valuation of derivate financial	**Group equity**	Shares to other share-holders	**Total**
	€ 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
Profit / loss for the year			-3,732			**-3,732**	153	-3,579
Changes in currency				-3,040		**-3,040**	13	-3,027
Change in market valuation of derivative financial instrument				541	**541**		541	
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**

			Revenue provisions					
	Subscribed Capital	Capital provisions	Revenue provisions	Difference from currency translation	Market valuation of derivate financial	**Group equity**	Shares to other share-holders	**Total**
	€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K
As at 01 Jan. 2004	75,087	48,734	68,134	-3,505	-857	**187,593**	1,198	**188,791**
Increase in share capital from approved capital	37,500	19,585				**57,085**		57,085
Dividend							-107	-107
Profit / loss for the year			5,534			**5,534**	42	5,576
Changes in currency				-1,504		**-1,504**		-1,504
Change in market valuation of derivative financial instrument					795	**795**		795
Consolidation transactions/ other changes							-96	-96
As at 31 Dec. 2004	**112,587**	**68,319**	**73,668**	**-5,009**	**-62**	**249,503**	**1,037**	**250,540**

See explanatory notes in the Consolidated Financial Statements page 136 et sqq.

Consolidated Cash Flow of
GILDEMEISTER Aktiengesellschaft

	2004	2003	Change against previous year
	€ K	€ K	€ K
Cash flow from current operations			
1. Annual profit/loss	5,576	- 3,579	9,155
2. Depreciation of assets	29,339	36,430	-7,091
3. Change in deferred taxes	1,773	4,310	-2,537
4. Change in long-term provisions	-1,207	3,120	-4,327
5. Other income not affecting payments	-889	-445	-444
6. Change in short-term provisions	-9,297	-17,547	8,250
7. Profit/loss from disposal of fixed assets	138	-945	1,083
8. Changes in current assets and in liabilites			
_Inventories	-12,199	-13,597	1,398
_Trade debtors	-22,097	35,647	-57,744
_Other assets from investment or financing activity	5,718	-13,965	19,683
_Trade creditors	15,347	-6,197	21,544
_Other equity liabilities not from investment or financing activiy	644	5,503	-4,859
	12,846	**28,735**	**-15,889**
Cash flow from investment activity			
1. Amounts received from the disposal of property, plant, equipment and intangible assets	1,216	3,880	-2,664
2. Amounts paid out for investments in tangible assets	-12,730	-23,162	10,432
3. Amounts paid out for investments in intangible assets	-7,773	-13,115	5,342
4. Amounts paid out for investments in financial assets	-833	-243	-590
5. Amounts received from the disposal of financial assets	0	335	-335
	-20,120	**-32,305**	**12,185**
Cash flow from financing activity			
1. Amounts received from the issue of a loan	175,000	0	175,000
2. Amounts paid out for costs of a loan	-7,819	0	-7,819
3. Amounts received for increase in share capital	60,064	0	60,064
4. Amounts paid out for increase in share capital	-4,789	0	-4,789
5. Amounts paid out for repayments of (financing) credits	-165,481	-2,008	-163,473
6. Amount received from investment allowance /grant	114	249	-135
7. Distribution of dividends to other shareholders	-107	-63	-44
	56,982	**-1,822**	**58,804**
Changes affecting payments	49,708	-5,392	55,100
Consolidation and exchange rate related changes not affecting payments	-836	-872	36
Liquid funds as at 1 January	11,425	17,689	-6,264
Liquid funds as at 31 December	60,297	11,425	48,872

See explanatory notes included to the Consolidated Financial Statements

Consolidated Fixed Asset Movement
as at 31 December 2004 of GILDEMEISTER Aktiengesellschaft

Aquisition and production costs

I. Intangible assets	
1. Goodwill[1)]	
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. 2004	Other changes
	€	€
I. Intangible assets		
1. Goodwill [1)]	0	0
2. Development costs	6,722,409	1,914
3. Industrial property and similar rights	34,836,226	75,226
4. Payments on account	607,695	0
	42,166,330	**77,140**
II. Tangible assets		
1. Land and buildings	43,823,869	112,538
2. Technical equipment and machinery	40,919,415	772,492
3. Other equipment, factory and office equipment	63,818,433	-19,876
4. Payments on account and construction in progress	0	0
	148,561,717	**865,154**
III. Financial assets		
1. Shares in affiliated companies	0	0
2. Securities	0	0
	0	**0**
Total fixed assets	**190,728,047**	**942,294**

1) Adjustment per 1.01.2004 arising from first application of IFRS 3

As at 01 Jan. 2004	Other changes	Additions	Disposals	Book transfairs	**As at 31 Dec. 2004**
€	€	€	€	€	€
67,156,425	0	772,963	0	0	67,929,388
30,569,107	17,465	6,246,235	0	19,117	36,851,924
43,602,052	99,327	1,527,118	182,946	-83,146	44,962,405
633,705	131	0	0	206,456	840,292
141,961,289	**116,923**	**8,546,316**	**182,946**	**142,427**	**150,584,009**
171,712,864	165,676	1,711,638	264,665	1,289,853	174,615,366
58,335,795	1,253,223	1,128,864	1,263,807	1,416,709	60,870,784
86,405,472	262,572	8,839,401	8,322,171	151,223	87,336,497
2,657,695	10,969	1,509,792	340,663	-3,000,212	837,581
319,111,826	**1,692,440**	**13,189,695**	**10,191,306**	**-142,427**	**323,660,228**
206,970	826	0	0	0	207,796
16,774	0	19,852	4,669	0	31,957
223,744	**826**	**19,852**	**4,669**	**0**	**239,753**
461,296,859	**1,810,189**	**21,755,863**	**10,378,921**	**0**	**474,483,990**

Additions	Disposals	Book transfers	**As at 31 Dec. 2004**	**Net book value** **As at 31 Dec. 2004**	As at 31 Dec. 2003
€	€	€	€	€	€
0	0	0	0	67,929,388	67,156,425
5,882,408	0	0	12,606,731	24,245,193	23,846,698
3,716,895	170,686	0	38,457,661	6,504,744	8,765,826
0	0	0	607,695	232,597	26,010
9,599,303	**170,686**	**0**	**51,672,087**	**98,911,922**	**99,794,959**
5,696,122	233,168	0	49,399,361	125,216,005	127,888,995
4,577,815	1,017,984	0	45,251,738	15,619,046	17,416,380
9,405,114	7,603,027	0	65,600,644	21,735,853	22,587,039
60,755	0	0	60,755	776,826	2,657,695
19,739,806	**8,854,179**	**0**	**160,312,498**	**163,347,730**	**170,550,109**
0	0	0	0	207,796	206,970
0	0	0	0	31,957	16,774
0	**0**	**0**	**0**	**239,753**	**223,744**
29,339,109	**9,024,865**	**0**	**211,984,585**	**262,499,405**	**270,568,812**

Consolidated Fixed Asset Movement Schedule as at 31 December 2004 of GILDEMEISTER Aktiengesellschaft

Segmental Reporting in the Consolidated Financial Statements 2004 for GILDEMEISTER Aktiengesellschaft

Segmentation by business segments

	"Machine tools"		Change against previous year		"Services"	
	2004	2003			2004	2003
	€ K	€ K	€ K	%	€ K	€ K
Sales revenues with third parties	743,321	704,185	39,136	5.6	307,629	272,989
EBITDA	50,284	47,493	2,791	5.9	34,655	32,043
EBIT	28,236	19,798	8,438	42.6	29,610	25,346
Net interest income	-11,590	-12,992	1,402	10.8	-11,494	-7,872
Profit/loss on ordinary business	16,646	6,806	9,840	144.6	18,116	17,474
Segment assets	653,973	664,679	-10,706	-1.6	424,391	371,126
Segment liabilities	479,677	463,615	16,062	3.5	378,656	371,619
Investments	15,248	25,819	-10,571	-40.9	4,534	7,643
Depreciation	22,048	27,695	-5,647	-20.4	5,045	6,697
Employees	3,264	3,242	22	0.7	1,846	1,717

Segmentation by geographical regions

	Germany		Changes against previous year		Rest of Europe		Changes against previous year		North America		Changes against previous year		Asia
	2004	2003			2004	2003			2004	2003			2004
	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K
Sales revenues with affiliated companies	231,705	213,882	17,823	8.3	83,916	70,096	13,820	19.7	2,689	2,857	-168	-5.9	8,097
Sales revenues with third parties	621,438	586,877	34,561	5.9	313,974	289,622	24,352	8.4	70,698	49,074	21,624	44.1	42,380
Segment assets	834,727	773,256	61,471	7.9	370,032	415,191	-45,159	-10.9	39,450	25,384	14,066	55.4	70,892
Investments	13,689	28,780	-15,091	-52.4	5,884	5,884	0	0.0	154	222	-68	-30.6	1,073

Change against previous year		"Corporate Services" 2004	2003	Change against previous year		Transition 2004	2003	Group 2004	2003	Change against previous year	
€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	€ K	€ K	%
34,640	12.7	550	589	-39	-6.6	0	0	1,051,500	977,763	73,737	7.5
2,612	8.2	-5,132	-3,377	-1,755	-52.0	-8,614	-5,054	71,193	71,105	88	0.1
4,264	16.8	-7,378	-5,496	-1,882	-34.2	-8,614	-4,974	41,854	34,674	7,180	20.7
-3,622	-46.0	-6,750	-3,550	-3,200	-90.1	0	0	-29,834	-24,414	-5,420	-22.2
642	3.7	-14,128	-9,046	-5,082	-56.2	-8,614	-4,974	12,020	10,260	1,760	17.2
53,265	14.4	591,684	484,513	107,171	22.1	-730,053	-645,406	939,995	874,912	65,083	7.4
7,037	1.9	297,236	226,402	70,834	31.3	-466,114	-375,515	689,455	686,121	3,334	0.5
-3,109	-40.7	1,201	3,739	-2,538	-67.9	773	-804	21,756	36,397	-14,641	-40.2
-1,652	-24.7	2,246	2,119	127	6.0	0	-80	29,339	36,431	-7,092	-19.5
129	7.5	64	69	-5	-7.2	0	0	5,174	5,028	146	2.9

2003	Changes against previous year		Other 2004	2003	Changes against previous year		Transition 2004	2003	Group 2004	2003	Changes against previous year	
€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	€ K	€ K	%
6,752	1,345	19.9	1,065	281	784	279.0	-327,472	-293,868	0	0	0	0.0
50,815	-8,435	-16.6	3,010	1,375	1,635	118.9	0	0	1,051,500	977,763	73,737	7.5
64,936	5,956	9.2	3,355	1,347	2,008	149.1	-378,461	-405,202	939,995	874,912	65,083	7.4
2,222	-1,149	-51.7	183	93	90	96.8	773	-804	21,756	36,397	-14,641	-40.2

Segmental reporting to the Consolidated Financial Statements 2004 for GILDEMEISTER Aktiengesellschaft

Auditor's Report

We have audited the consolidated financial statements, compromising 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 January 1, 2004 to December 31, 2004. It should be understood that auditing the content of the "Entsprechenserklärung", in particular § 161 German Stock Corporation Law (AktG) in the group management report, is not object of our audit. 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.

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 January 1, 2004 to December 31, 2004, 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 risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from January 1, 2004 to December 31, 2004 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, 29 March 2005

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rehnen	Droste
Auditor	Auditor

		HGB			IFRS				Change agains prev.
GILDEMEISTER group		1998	1999	2000	2001	2002	2003	2004	year in %
Sales revenues	€ K	**580,328**	**690,363**	**923,298**	**1,145.390**	**1,032.814**	**977,763**	**1,051,500**	**8**
Domestic	€ K	340,361	408,987	483,363	567,900	491,719	475,688	502,892	6
International	€ K	239,967	281,376	439,935	577,490	541,095	502,075	548,608	9
% International		41%	41%	48%	50%	52%	51%	52%	
Total work done	€ K	**583,558**	**700,012**	**912,884**	**1,198,623**	**1,046,599**	**995,709**	**1,053,143**	**6**
Personnel costs	€ K	145,786	171,405	212,544	274,152	270,156	270,577	282,524	4
Depreciation	€ K	9,960	14,946	25,492	34,952	37,757	36,430	29,339	-19
Financial result	€ K	-10,562	-11,903	-18,681	-23,387	-24,672	-24,414	-29,833	-22
Profit/loss on ordinary activities	€ K	**29,615**	**34,452**	**44,192**	**54,737**	**-7,496**	**10,261**	**12,020**	**17**
Annual profit/loss	€ K	**16,142**	**32,663**	**38,079**	**25,785**	**-18,710**	**-3,579**	**5,576**	**256**
Adjusted results									
EBITDA	€ K	**50,137**	**61,302**	**88,365**	**113,076**	**54,933**	**71,105**	**71,192**	**0**
EBIT	€ K	**40,177**	**46,356**	**62,873**	**78,124**	**17,176**	**34,675**	**41,853**	**21**
EBT	€ K	**17,015**	**34,452**	**44,192**	**54,737**	**-7,496**	**10,261**	**12,020**	**17**
Result before shares to other shareholders	€ K	**17,991**	**33,586**	**39,667**	**24,672**	**-19,057**	**-3,732**	**5,534**	**248**
Fixed assets	€ K	**73,939**	**98,234**	**210,486**	**247,634**	**276,281**	**270,569**	**262,499**	**-3**
Intangible assets	€ K	16,327	18,676	80,179	85,099	101,356	99,795	98,912	
Tangible assets	€ K	57,497	79,452	130,300	162,225	174,482	170,550	163,348	
Financial assets	€ K	115	106	7	310	443	224	239	
Current assets	€ K	**279,835**	**320,830**	**490,050**	**629,792**	**622,082**	**604,343**	**677,496**	**12**
Inventories	€ K	123,908	124,973	160,420	249,771	250,768	264,365	276,565	
Receivables incl. deferred tax assets + prepaid expenses	€ K	147,366	182,270	305,534	364,743	353,625	328,553	340,634	
Liquid funds	€ K	8,561	13,587	24,096	15,278	17,689	11,425	60,297	
Equity [1]	€ K	**81,582**	**107,174**	**195,687**	**231,177**	**193,824**	**187,593**	**249,503**	**33**
Subscribed capital	€ K	55,453	56,398	75,087	75,087	75,087	75,087	112,587	
Capital provisions	€ K	13,513	12,568	48,734	48,734	48,734	48,734	68,319	
Revenue provisions	€ K	681	19,793	39,068	83,055	70,003	63,772	68,597	
Accumulated profit/loss	€ K	6,713	13,202	18,455	24,301	0	0	0	
Shares to other shareholders	€ K	**5,222**	**5,213**	**14,343**	**10,773**	**1,193**	**1,198**	**1,037**	**-13**
Outside capital	€ K	**272,192**	**311,890**	**504,849**	**635,476**	**703,346**	**686,121**	**689,455**	**0**
Participating certificate capital	€ K	0	0	0	0	0	0	0	
Special account for investment allowances	€ K	50	1,632	1,219	0	0	0	0	
Provisions	€ K	62,141	81,472	113,928	139,302	148,386	133,958	123,456	
Payabels incl. deferred tax liabilities + deferred income	€ K	210,001	228,786	389,702	496,174	554,960	552,163	565,999	
Balance sheet total	€ K	**353,774**	**419,064**	**700,536**	**877,426**	**898,363**	**874,912**	**939,995**	**7**
Employees (annual average)		2,442	3,142	3,936	4,918	4,912	4,849	4,932	2
Employees (31 Dec.)		2,496	3,175	4,447	5,030	4,821	4,823	4,984	3
Trainees		121	165	190	204	224	205	190	-7
Total employees		**2,617**	**3,340**	**4,637**	**5,234**	**5,045**	**5,028**	**5,174**	**3**

GILDEMEISTER group		HGB 1998	HGB 1999	HGB 2000	IFRS 2001	IFRS 2002	IFRS 2003	IFRS 2004	Change agains prev. year in %
Efficiency ratios									
Profit on sales (EBIT) = EBIT / Sales revenues	%	6.9	6.7	6.8	6.8	1.7	3.5	4.0	12
Profit on sales (EBT) = EBT / Sales revenues	%	2.9	5.0	4.8	4.8	-0.7	1.0	1.1	9
Equity return[1] = Annual Profit/loss / equity (as of 01 Jan)[3]	%	35.0	40.0	35.5	11.4	-8.1	-1.8	3.0	261
Return on total assets = EBT + Interest on outside capital / average total capital	%	8.7	12.1	11.5	9.7	2.2	4.1	4.9	17
ROI - Return on Investment = EBT / average total capital	%	5.3	8.9	7.9	6.6	-0.8	1.2	1.3	14
Sales per employee = Sales revenue / average number of employees (exc. trainees)	€ K	237.6	219.7	234.6	232.9	210.3	201.4	213.2	6
EBIT per employee = EBIT / average number of employees (exc. trainees)	€ K	16.5	14.8	16.0	15.9	3.5	7.2	8.5	19
ROCE - Return on capital employed[1] = EBIT / Capital Employed	%	16.2	14.8	12.0	12.0	2.6	5.2	6.4	22
Value added	€ M	173.5	218.1	275.7	352.6	287.5	305.4	324.5	6
Value added per employee	€ K	71.0	69.4	70.0	71.7	58.5	63.0	65.8	4
Balance sheet ratios									
Capitalisation ratio of fixed assets = Fixed assets / total assets	%	20.9	23.4	30.1	28.2	30.8	30.9	27.9	-10
Working intensity of current assets = Current assets / total assets	%	78.4	75.9	69.3	68.6	65.1	65.2	69.0	6
Equity ratio = Equity / total capital	%	23.1	25.6	27.9	26.3	21.6	21.4	26.5	24
Ratio of outside capital to total capital = Outside capital / total capital	%	76.9	74.4	72.1	73.7	78.4	78.6	73.5	-6
Assets and liabilities structure = Fixed assets / current assets	%	26.6	30.9	43.4	41.2	47.2	47.5	40.5	-15
Capital structure = Equity / outside capital	%	30.0	34.4	38.8	35.8	27.5	27.3	36.1	32

to be continued >>

GILDEMEISTER group		HGB 1998	HGB 1999	HGB 2000	IFRS 2001	IFRS 2002	IFRS 2003	IFRS 2004	Change against prev. year in %
Ratios pertaining fo financial position									
Cash ratio = Liquid funds (from balance sheet) / short term liabilities (up to 1 year)	%	4.2	5.8	7.0	3.5	3.6	2.2	19.0	761
Ratio of financial current assets to short-term liabilities = (liquid funds + short-term receivables) / short-term liabilities (up to 1 year)	%	75.0	81.2	91.5	80.7	67.1	59.1	117.1	98
Current ratio = (liquid funds + short-term receivables + inventories) / short-term liabilities (up to 1 year)	%	135.5	134.3	137.9	130.2	111.4	106.1	195.6	84
Net indebtedness = amounts owed to banks + bills payable – liquid funds – current investments	€ M	104.1	124.4	214.9	278.0	319.5	342.1	283.4	-17
Gearing[1] = net indebtedness – equity before shares held by other shareholders	%	127.6	116.1	109.8	120.3	164.8	182.4	113.6	-38
Working Capital = current assets – short-term borrowed capital	€ M	109.7	136.5	226.4	283.2	176.0	136.7	399.0	192
Net Working Capital = inventories + payments on account – customer prepayments + trade debtors – trade creditors	€ M	179.1	217.9	318.9	402.1	386.5	377.7	390.2	3
Capital Employed = equity + provisions + net indebtedness	€ M	247.8	313.0	524.5	648.5	661.7	663.7	656.4	-1
Structural analysis ratios									
Turnover rate of raw materials and consumables = Cost for raw materials and consumables / inventories of raw materials and consumables		5.1	6.3	5.9	6.9	6.8	5.8	5.0	-14
Turnover rate of stocks = sales revenues / inventories		4.7	5.5	5.8	4.6	4.1	3.7	3.8	3
Turnover rate of receivables = sales revenues (incl. 16% VAT on domestic revenues) / average trade debtors		5.5	5.2	4.7	4.4	3.7	3.8	4.2	10
Total capital-sales ratio = Sales revenues / total capital		1.6	1.6	1.3	1.3	1.1	1.1	1.1	0
DSO (Days sales outstanding) = average trade debtors / (sales revenues (inc. 16% VAT on domestic revenues)) x 365		66.0	70.0	77.7	83.6	97.6	96.1	87.3	-9

GILDEMEISTER group		HGB 1998	1999	2000	IFRS 2001	2002	2003	2004	Change against prev. year in %
Produktivity ratios									
Intensity of materials = cost of materials / gross performance	%	54.9	55.0	53.1	54.0	54.5	52.8	52.6	0
Intensity of staff = Staff costs / gross performance	%	25.0	24.5	23.3	22.9	25.8	27.2	26.8	-1
Cash flow & investments									
Cash flow from current operations	€ M	18.6	23.9	-5.0	31.5	47.7	28.7	12.8	-55
Cash flow from investment activity	€ M		-38.7	-144.7	-70.7	-71.9	-32.3	-20.1	38
Cash flow from financing activity	€ M		20.1	161.0	31.3	27.6	-1.8	57.0	
Free cash flow = cash flow from current operations + cash flow from investment activity (exc. cash flow from financial investments)	€ M		-8.2	-39.4	-29.7	-0.8	-3.7	-6.4	-76
CapEx (Capital Expenditure)	€ M	29.8	37.6	39.5	80.2	73.2	36.4	21.8	-40
Share & valuation									
Market capitalisation	€ M	125.4	147.6	235.3	269.2	109.2	237.4	225.2	-5
Company value = market capitalisation + amounts owed to banks + bills of exchange + other liabilities + pension provisions – liquid funds	€ M	272.9	319.3	506.8	619.9	496.1	643.8	579.2	-10
Earnings per share[2)] = result after minority interests / number of shares	€	0.46	0.76	0.91	0.85	-0.66	-0.13	0.15	217
Price-earnings ratio (PER) = market capitalisation / EBT		7.4	4.3	5.3	4.9	-14.6	23.1	18.7	-19
Company value-EBITDA ratio = company value / EBITDA		5.4	5.2	5.7	5.5	9.0	9.1	8.1	-10
Company value-EBIT ratio = company value / EBIT		6.8	6.9	8.1	7.9	28.9	18.6	13.8	-25
Company value-Sales ratio = company value / Sales		0.5	0.5	0.5	0.5	0.5	0.7	0.6	-16

1) Under HGB inc. minority interests; under IFRS exc. minority interests
2) Under HGB in acc. w. DVFA/SG; the share capital was split 1:10 in 1999; the figures for the previous years were adjusted accordingly.
3) Without consideration of the capital increased accomplished at 16 June 2004

Commercial glossary

Accruals and deferrals
Payments in the reporting period that affect the profit or loss of a period after the balance sheet date.

Acquisition
The acquisition of companies or operations either through the transfer of shares or the transfer of all or certain assets and liabilities of a company or through a combination of both. The legal independence of the partners may be preserved.

Basel II
Revised capital framework of the Basel Committee for Banking Supervision, consisting of representatives of the central banks and bank supervisory authorities. The objectives of Basel II are a) to improve assessment of credit risks, and b) to arrange the banks' capital requirements in line with the credit risks of the borrower. This means, the higher the loan loss risk of the borrower, the higher must be the bank's equity capital. This change directly affects the lending policy of the banks.

Capital increase by way of a bonus issue
Capital increase, where shareholders are entitled to buy new shares in accordance with their share in the previous share capital.

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

Corporate bond
Bond issued by a company with a fixed term and usually fixed interest payments at regular intervals, with the aim of raising long-term large-volume capital (debt finance) in the national and international capital markets.

Corporate Governance
The responsible management and control of companies geared towards the creation of long-term value.

Current assets
Assets for the short-term operation of the business.

DAX
Stock index calculated at the Frankfurt stock exchange. The DAX is calculated from the prices of the 30 leading German shares.

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

EBITDA
Earnings before interest, taxes, depreciation and amortisation.

EBIT
Earnings before interest and taxes.

EBT
Earnings before taxes.

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 worldwide. It takes place in two successive years in Hanover, and in the third year in 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 shares (the so-called Blue Chips) from the EU countries.

Fixed assets
Assets intended for use on a continuing basis in an undertaking's activities.

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 Cash flow
Free funds that are available to the company, arising from the cash flow balance from current operations and investment activity. Investments in the financial assets are not taken into account in this respect.

Free Float
Part of the share capital in portfolio investments.

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.

Hedging transaction
Hedging against interest rate and/or currency risks from one or more underlying transactions; the hedging can be performed through the use of derivative financial instruments.

IFRS/IAS
International Financial Reporting Standards. Internationally applicable accounting standards to ensure international comparability of group accounts and to meet the information requirements of investors and other readers of annual accounts by providing a high degree of transparency. The individual sections of the IFRS are called IAS (International Accounting Standards).

Interest derivatives
Derivatives are contractual agreements that contain claims on cash and cash equivalents and are derived from another (underlying) instrument. Prices of financial derivates are based on the price of the underlying instrument. They include options, swaps and futures. Interest derivatives include interest swaps, floors, collars or caps.

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

Market capitalisation
This is the current price of a listed company. It is determined by the share's market value multiplied by the total number of shares.

Merger
Joining of two or more companies that, up to then, used to be legally and economically independent organisations, where at least one of the companies will lose its independent legal status.

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.

NIKKEI Index
Major Japanese stock market index.

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, provisions and net indebtedness ratio.

ROI
Return on investment: earnings before taxes to average total capital ratio.

SDAX
Index for 50 smaller companies, so-called small caps following the securities included in the MDAX stock market index in terms of order book business and market capitalisation.

S&P 500 Index
A major US-American stock market index, comprising of 400 industrial shares, 40 utilities, 20 securities of transport corporations and 40 securities of financial institutions.

Syndicated loan (facility)
A loan granted by several banks (syndicate), where the total risk (e.g. from credit standing, capital tie-up) is distributed among the banks and the credit limit applicable to each bank is not exceeded.

Working Capital
The working capital is calculated from the current assets minus short-term liabilities.

Xetra
Electronic stock exchange trading system.

Technical glossary

Advanced materials
Materials with special characteristics, such as abrasion resistance, resistance to heat or chemicals, etc., which makes them suitable for use in a wide variety of applications. However, the economic machining of these materials usually requires the use of special technologies, e.g. ultrasonic or laser technology. Advanced materials include technical ceramics (zirconium oxide, silicon carbide, aluminium oxide), glass (quartz glass, Zerodur, Macor), composites (carbon or mineral fibre), metal carbide, hardened steel (hardness > 53/54 HRC) or precious stones such as ruby or sapphire.

Benchmark
External or in-house comparison of companies or departments with the help of 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 multi-stage products . CKD sets include all component parts and subassemblies of a product and only require assembly processes for the construction of the end product.

coSupply®
coSupply® represents the comprehensive partnership approach for strong supply partnerships at GILDEMEISTER, characterised by the three functions: “communication”, “cooperation” and “competence” and striving for enhanced competitiveness.

CTV
The CTV product line includes universally arranged lathes with a vertically placed head spindle and highly dynamic linear drive technology, providing integrated handling of components and the option of automated integrated machining in serial production.

CTX
The two CTX product lines provide a differentiated programme of CNC universal lathes with a variety of innovative options for numerous machining tasks.

DMC H
The DMC H product line provides horizontal machining centres with high dynamics and precision for a wide range of uses, from fast serial production to heavy cutting with highest precision.

DMC U
The DMC U product line provides universal CNC machining centres equipped with a pallet switching system for 5-sided / 5-axis machining in fully automated serial production of complex parts.

DMC V
The DMC V product line has vertical machining centres with high dynamics and precision for demanding tasks in tool manufacture and mould making and for small and medium lot 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 customer and user support in programming and fault analysing.

DMP
The DMP product line 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.

DMU
This product line with its well developed programme of CNC universal milling machines for 5-sided machining offers a good starting point into modern milling.

DMU eVolution/DMU P
This product line includes CNC universal milling machines for integrated 5-sided / 5-axis machining in one setting. The machines combine precision with high productivity and offer a wide range of installation sizes and innovative options including combined milling and turning machining.

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

ERP system BaaN
Standard application software for **E**nterprise **R**esource **P**lanning (for example SAP/R3, BaaN); It is intended to be used in, and adapted to, a variety of organisational conditions and business processes in various industries and companies. It continuously supports processes, for example in materials and merchandise management or finances.

E-Sourcing
Through the use of a catalogue management system, the electronic merchandise catalogues of our suppliers are linked with the terms and conditions of the GILDEMEISTER group and made accessible to the group's buyers. We are thereby able to combine purchasing volumes with optimally negotiated terms and conditions, and, at the same time, to expedite and reduce the handling of order processes. The use of the system is therefore limited primarily to catalogued goods from the "c" component range, such as office supplies or operating assets.

GMC/GM

The GMC/GM product line includes CNC multi-spindle turning centres and multi-spindle automatic lathes. GMC machines offer state-of-the-art control technology with 3D programming and integrated spindle engines than can, on request, be equipped with linear drives on the X-axes to achieve the highest dynamics and precision.

GMX

The turning and milling centres of the GMX product line integrate state-of-the-art milling and turning technology into high-precision 6-sided integrated machining of complex workpieces.

KANBAN process

The KANBAN-process is a self-regulating control process that was originally developed in the Japanese car industry. It operates with fixed order and production lot sizes and uses a predetermined number of (virtual) KANBAN cards for the release and transmission of transport or production processes. KANBAN controls are particularly suited for serial production with a limited number of variants.

Lasertec

The machines from the LASERTEC product line offer high-quality, fast and economic options for high-precision machining of filigree workpieces and finest cavities, including those made from materials that are difficult to machine. The modular design of this line allows for a wide variety of applications for 3D laser erosion, laser fine cutting and laser drilling and for a combined production with high-speed milling machining.

Laser technology

Laser technology or laser beam machining is an eroding process for machining metallic materials and materials that are not easily machineable, such as high-tech ceramics, silicon or metal carbide. It uses a spot-beam with a high energy level. With this process it is possible to create filigree contours and the finest cavities, and to perform laser fine cutting or drilling tasks in the 2-D and 3-D areas.

Linear drive technology

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

monoBLOCK®

Unlike a traditional construction, where the machine frame consists of several components (bed, stand, etc.). The core of a machine in monoblock construction is formed by a rigid and compact basic body.

NEF

The NEF product line offers an operator-friendly entry-level CNC universal lathe to be used in using modern turning technology at an affordable price. Thanks to their universal design, the machines are suitable for piece part manufacture and small-lot production.

PDA System

production **d**ata **a**cquisition system for the capture of company-specific information (such as technical and logistical production parameters). The PDA forms the database for technical and logistical monitoring and controlling, thereby representing the key basis of the corporate control system (for example as part of an ERP system).

PQA

The GILDEMEISTER system of **P**reventative **Q**uality-**A**ssurance enables intensive cooperation across all departments for the early identification of faults in our products (before start of production).

PULL

PULL stands for **P**roduktions- **u**nd **L**ogistik-**L**eistung (performance of production and logistics) and has been the basis for the GILDEMEISTER production system since June 1998. In line with examples from the motor industry (Toyota production system, TPS) it combines different components and individual measures with the aim of increasing efficiency in production and in the production-related areas, such as materials planning, receipt of goods and stock of goods, in one continual improvement process.

SKD set
SKD-sets represent an intermediate step in the conversion of assembly processes, previously completed with the aid of → CKD sets, to regular, complex procurement processes. Semi knocked down sets include major component parts and subassemblies, which require only assembly processes and, to a limited extent, local procurement processes to complete the end product.

SPEED
The SPEED line offers CNC Swisstype automatic lathes equipped with linear drive technology for highly productive machining of long lathe work with highest precision, as used in medical technology or the clock-and-watch-making industry.

SPRINT
This product line provides single-spindle machines for CNC automatic turning for the flexible economic and integrated machining of short lathe work of up to 65 mm in diameter.

Transhipment Point
A logistical programme where selected service providers bring together incoming freight of various suppliers to one place and delivers it to the plants in time for production. Outgoing freight is transhipped in a similar way. The service providers are 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 demanding integrated machining of chuck, shaft and rod parts.

Ultrasonic
The Ultrasonic product line consists of machines for ultrasound-supported, economic machining of 'advanced materials', such as ceramics, glass, silicon, composites, metal carbide, hardened steel, sapphire or mother-of-pearl.

The ultrasonically energised main spindles interfere with the traditional machining process (for example milling) through a high-frequency oscillating motion. Compared with traditional machining processes, this machine design results in a productivity that is up to five times higher, longer tool lives and at the same time better surface quality, and, with regard to the processed workpiece geometries, a substantially higher flexibility.

Financial Calendar

31 March 2005	Press conference on Financial Statements
31 March 2005	Publication of the Annual Report 2004
01 April 2005	Discussion with analysts
12 May 2005	First Quarterly Report 2005 (01 January to 31 March)
20 May 2005	General meeting of shareholders at 10am in the Town Hall Bielefeld
23 August 2005	Second Quarterly Report 2005 (01 April to 30 June)
08 November 2005	Third Quarterly Report 2005 (01 July to 30 September)
14 February 2006	Press release on provisional figures for the financial year 2005
19 May 2006	General meeting of shareholders at 10am at the Town Hall in Bielefeld

Subject to alteration

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Index

A
Affiliated companies 158

B
Balance sheet 47, 55, 131, 163
Branch offices 75
Business Report 30

C
Capital increase 52, 59, 136
Cash flow statement 51, 150, 167
Cash flow 51, 167
Communication 62, 95
Company situation 39
Company suggestion system 81
Corporate Bond 52, 60
Corporate governance 63
"Corporate Services" segment
40, 42, 71, 103, 173
Corporate situation 106

D
Depreciation/amortisation 44, 70, 169
Dividend 57, 60, 113

E
Employees 91, 100, 102, 103, 117
Equity 47, 49, 166
Executive Board/units 22, 161

F
Financial assets 70, 132
Financial position 44, 113
Forecast 109
Foreign exchange rates 35, 129, 158

G
Group structure 14, 73, 158

I
Income Statement 44, 56, 151, 162
Internet 96
Investments 70, 113
Investor Relations 62

L
Legal corporate structure 74, 117
Logistics 81, 115

M
"Machine Tools" segment
14, 40, 42, 71, 82, 98, 115, 148, 173
Market capitalisation 59
Marketing 95

N
Net worth position 47
Notes 120

O
Orders position 40, 43, 106, 112
Organisation 14, 73, 107
Overall economic development 30, 106, 110

P
Procurement 77, 114
Product facility 81, 84, 115
Production facility 73, 81, 85, 100, 117
Production 81, 115
Products 81, 115, 191
Profitability 3, 23, 39, 178
Public relations 97

R
Research and development 87, 116
Results 44, 113
Risk management 113
Risk reporting 66

S
Sales revenues 39, 106, 112
Sector trends 33, 106, 109, 111
Segmental reporting 98, 148, 173
"Services" segment
14, 40, 42, 71, 85, 101, 116, 148, 173
Share prices 58
Staff training 92
Stock market environment 57
Supervisory Board 16, 160
Supplementary Report 106
Suppliers 77

V
Value added 53
Vocational training 87, 91

Y
Year 2004 26

Index

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