GILDEMEISTER

Anual Report

2012

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KNOWLEDGE

POWER

VALUES

together.

IDEAS

KNOW-HOW

EXCHANGE

innovative.

GILDEMEISTER

TALENT

PROGRESS

GROWTH

COOPERATION

global.

SUSTAINABILITY

SYNERGY

together

innovative

global

KEY FIGURES The Consolidated Annual Financial Statements for GILDEMEISTER Aktiengesellschaft as at 31 December 2012 were prepared in accordance with the International Financial Reporting Standards (IFRS) – as they have to be applied in the European Union.

01 **GILDEMEISTER GROUP**

	2012	2011	Changes 2012 against 2011	
	€ million	€ million	€ million	%
Sales revenues				
Total	2,037.4	1,687.7	349.7	21
Domestic	722.1	632.6	89.5	14
International	1,315.3	1,055.1	260.2	25
% International	65	63		
Order intake				
Total	2,260.8	1,927.3	333.5	17
Domestic	735.8	764.2	– 28.4	– 4
International	1,525.0	1,163.1	361.9	31
% International	67	60		
Order backlog*				
Total	1,003.5	811.2	192.3	24
Domestic	252.2	237.6	14.6	6
International	751.3	573.6	177.7	31
% International	75	71		
Investments	74.5	89.7 **	– 15.2	– 17
Personnel costs	440.4	384.7	55.7	14
Personnel quota in %	21.4	22.1		
Employees	6,267	5,810	457	8
plus trainees	229	222	7	3
Total employees*	6,496	6,032	464	8
EBITDA	173.8	146.1	27.7	19
EBIT	132.9	112.5	20.4	18
EBT	120.1	66.9	53.2	80
Annual result	82.4	45.5	36.9	81

* Reporting date 31 December
** of which € 14.8 million capital inflow to financial assets

Page reference

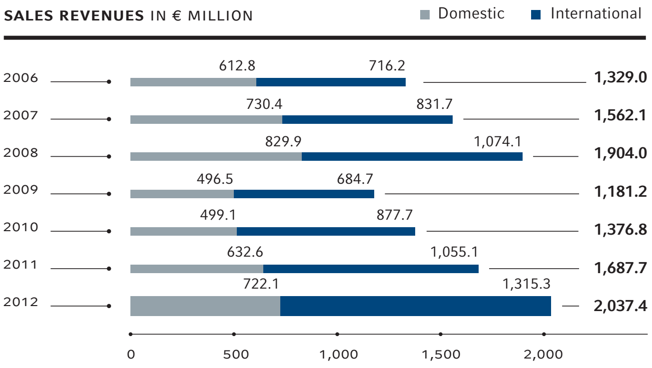
P Page reference for further information in the Annual Report

G Reference to a diagram or table providing visual representation

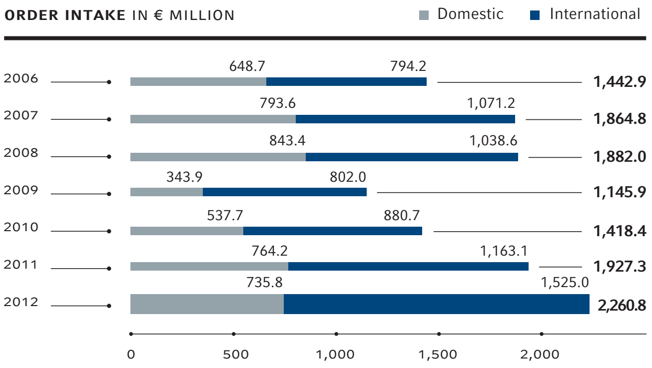
I Reference to further / updated information in the internet

Key Figures

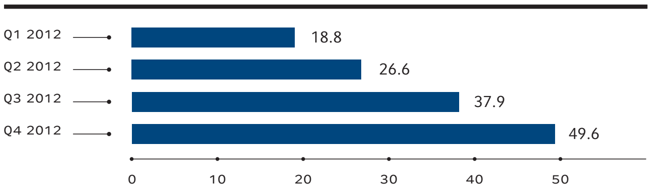
02 **SALES REVENUES** IN € MILLION



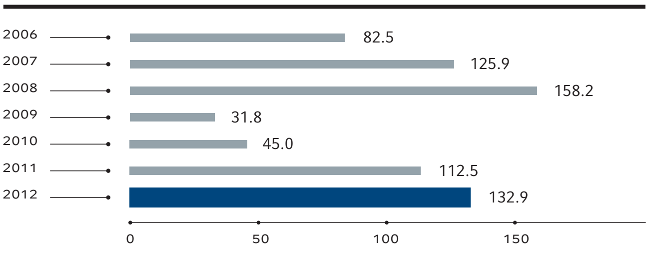
03 **ORDER INTAKE** IN € MILLION



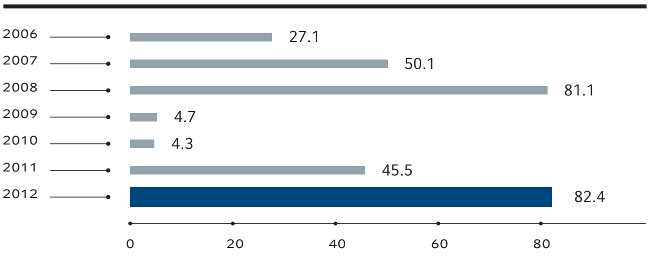
04 **QUARTERLY RESULTS (EBIT)** IN € MILLION



05 **EBIT** IN € MILLION



06 **ANNUAL RESULT** IN € MILLION



GILDEMEISTER Annual Report 2012

TOGETHER.
INNOVATIVE.
GLOBAL.

Business Report

GILDEMEISTER in Brief

GILDEMEISTER holds a leading position worldwide as a producer of cutting machine tools. Its range of products includes innovative high-tech machines and services, as well as software and energy solutions. GILDEMEISTER has a broad, diverse and established customer base in a variety of industries and regions.

The "Machine Tools" segment is our core segment and includes the group's new machines business with the business divisions of turning, milling and ultrasonic / lasertec, as well as the ECOLINE product range and electronics. At GILDEMEISTER the production plants have been arranged in associations across all locations in order to consolidate core technological expertise. This gives rise to the Turning Association, the Milling Association, the Milling and Processing Association as well as the ECOLINE Association.

The "Industrial Services" segment comprises the business activities of the Services and Energy Solutions divisions. In Services, GILDEMEISTER has brought together all the services and service products relating to the entire life cycle of our machine tools as well as the Mori Seiki machines business. The Energy Solutions division offers integrated energy solutions for the production, storage and use of energy by industrial operations and constructs large-scale photovoltaic plants for investors.

The group-wide holding functions are combined under "Corporate Services".

The Year 2012

01 JANUARY

As of 1 January 2012 Christian Thönes is appointed deputy member of the Executive Board of GILDEMEISTER Aktiengesellschaft.

On 1 January 2012, DMG and Mori Seiki found the joint European head office in Switzerland. Some 17 national companies will be managed from Dübendorf in the Zurich canton.

In January the project cluster “It’s OWL” is recognised by the federal government. GILDEMEISTER thus stands for technological excellence as a part of this economic and research initiative.

02 FEBRUARY

The successful open house exhibition in Pfronten achieves order intake of € 163.4 million and 530 machines sold. GILDEMEISTER thus takes positive stock of the first major open house exhibition of the year.

GILDEMEISTER opens a new technology centre in Singapore. The sales and service activities for south-east Asia will be managed from there together with Mori Seiki

03 MARCH

As the largest exhibitor, GILDEMEISTER achieves order intake at the international trade fair, METAV, in Dusseldorf of € 41.5 million. 181 machines sold confirm the good start to the year 2012.

As part of the GILDEMEISTER junior staff programme, seven trainees take part in an exchange with Mori Seiki.

In the first quarter GILDEMEISTER is able to markedly increase order intake, sales revenues and results. Order intake of +36% is clearly above the previous year’s quarter.

04 APRIL

GILDEMEISTER organises the 1st Corporate Day in Ulyanovsk, Russia, with the regional government. In preparation for local production, GILDEMEISTER strengthens relations with local customers and suppliers.

Effective as of 18 April, Prof. Dr.-Ing. Raimund Klinkner becomes the new member of the Supervisory Board of GILDEMEISTER Aktiengesellschaft. He succeeds Dr.-Ing. Jürgen Harnisch.

05 MAY

On 18 May the 110th Annual General Meeting with more than 1,200 shareholders in attendance takes place in the Stadthalle Bielefeld. All proposals on the agenda are approved with a large majority.

DMG and Mori Seiki present innovative products and services for the Russian market to visitors to the METALLOOBRABOTKA in Moscow.

06 JUNE

At the INTERSOLAR in Munich GILDEMEISTER presents its restructured division for the production, storage and use of renewable energies. The Energy Solutions’ focus lies on integrated solutions for energy consumption by industrial operations and the construction of large-scale photovoltaic plants.

GILDEMEISTER continues its growth trend in the second quarter: Order intake, sales revenues and earnings are increased. Through the cooperation with Mori Seiki, GILDEMEISTER improves its presence in Asia and the USA.

DEVELOPMENT OF THE GILDEMEISTER SHARE 2012

07 JULY

GILDEMEISTER receives the "Volkswagen Group Award 2012". The VW group bestows this award to its 18 best suppliers worldwide in recognition of a successful cooperation.

The first joint website from DMG and MORI SEIKI goes online. Customers can now find all the products and services offered by DMG / MORI SEIKI at a glance.

08 AUGUST

GILDEMEISTER takes on 78 trainees at the start of the new vocational training year. The technology group once again underscores the importance it places on its vocational training and invests in the future.

In August the Twitter channel of the GILDEMEISTER group goes online. Interested parties are kept directly up-to-date on all the latest news, trade fair activities and job offers.

manager magazin once again awards the GILDEMEISTER Annual Report 2011 a top position in its rankings of "The Best Annual Report".

09 SEPTEMBER

The important autumn trade fairs, the IMTS in Chicago and the AMB in Stuttgart, are successful with order intake of € 93.7 million and 377 machines sold.

Two trainees at GILDEMEISTER Drehmaschinen GmbH take the first two places in the German vocational skills championships in CNC turning and qualify for the 42nd World-Skills in Leipzig.

At its Bielefeld site, GILDEMEISTER opens the Energy Solutions Park covering 20,000 square metres. With installed capacity of about one megawatt, solar and wind power installations produce up to 15% of the site's energy requirements.

GILDEMEISTER is able to increase order intake, sales revenues and earnings figures in the third quarter as planned. Overall, the world markets for machine tools reveal surprisingly steady demand.

10 OCTOBER

GILDEMEISTER invests a total of € 20.1 million at the Seebach site in expanding capacity with cluster assembly, logistics and a technology centre. With additional areas for prototype construction and assembly DECKEL MAHO in Thüringen is strengthened.

On 23 October a ground-breaking ceremony takes place for the production plant in Ulyanovsk, Russia. A manufacturing and assembly plant with training and technology centre is to be built on the 16,000 square metre surface in 2013.

11 NOVEMBER

As the largest exhibitors, DMG and Mori Seiki present 30 innovative machines at the JIMTOF in Tokyo.

On 22 November the Supervisory Board appoints Dr. Thorsten Schmidt as deputy chairman of the Executive Board. As of the same date, Christian Thönes is made a full member of the Executive Board.

The Financial Times Deutschland recognises Kathrin Dahnke as one of the 25 top female managers of the year in Germany.

DECEMBER

GILDEMEISTER receives orders worth € 29.2 million for the Energy Solutions division. The projects for the production and storage of renewable energies in Romania, Italy and Germany start up even before the end of the year.

In 2012, order intake and sales revenues are above € 2 billion for the first time in the company's history reaching € 2,260.8 million and € 2,037.4 million, respectively. EBT totals € 120.1 million and at € 82.4 million the net income for the year reaches the highest figure in the company's history.

The Supervisory Board

Hans Henning Offen (72)

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

The Supervisory Board paid very close attention in financial year 2012 to the business and earnings performance of GILDEMEISTER in various markets as well as to developments on the international machine tool markets. Also in the reporting year the Supervisory Board was regularly informed in-depth, also by written reports, and timely by the Executive Board of any events that were of significant importance for GILDEMEISTER, and on the development of the company's key performance indicators. Furthermore, the Supervisory Board discussed issues of company strategy, the risk position and risk management, as well as those of compliance and of group development up to 2015 with the Executive Board. In addition, issues relating to employee development, the plan to reduce costs and increase flexibility, the Energy Solutions division and deliberations on extending the cooperation with Mori Seiki played an important role.

The Supervisory Board performed its tasks with the utmost care pursuant to the articles of association and statutory provisions and met four times in total in Bielefeld. The Supervisory Board committee chairmen reported regularly to the plenary meeting on the matters reviewed and discussed, and the recommendations drawn up, at committee meetings. There were no conflicts of interest to report whatsoever for any members of the Supervisory Board in the financial year just ended.

Over the course of the reporting year, the following **personnel changes occurred on the Executive Board and on the Supervisory Board:** Kathrin Dahnke was re-elected as a member of the Executive Board by resolution of 27 July 2012. On 22 November 2012, the Supervisory Board passed a resolution firstly to appoint Dr. Thorsten Schmidt as deputy chairman of the Executive Board as of the start of 23 November 2012 and, secondly, to appoint Christian Thönes as of the same date and time as a full member of the Executive Board. Dr Jürgen Harnisch resigned from his position as member of the Supervisory Board upon the expiry of 15 March 2012. He has been succeeded by Prof. Dr.-Ing. Raimund Klinkner, effective as of 18 April 2012, who has been appointed chairman of the Technology and Development Committee of the Supervisory Board of GILDEMEISTER Aktiengesellschaft by resolution of 17 May 2012.

On 22 January 2013, Dr.-Ing. Jürgen Harnisch passed away. He was a member of the Supervisory Board for many years and chaired the Technology and Development Committee until his resignation. The Supervisory Board and Executive Board will remember him as a knowledgeable and dedicated entrepreneur and businessman.

At the **balance sheet meeting on 13 March 2012** the annual auditors, the entire Executive Board and all members of the Supervisory Board took part, namely: Hans Henning Offen, Prof. Dr. Edgar Ernst, Dr.-Ing. Jürgen Harnisch, Ulrich Hocker, Prof. Dr.-Ing. Walter Kunerth, Dr.-Ing. Masahiko Mori, Oliver Grabe, Mario Krainhöfner, Dr. Constanze Kurz, Matthias Pfuhl, Günther-Johann Schachner and Norbert Zweng.

Following their own review as well as having heard the report of the external auditors and the report of the Finance and Audit Committee, which had met prior to the meeting, they unanimously approved the annual and consolidated financial statements of GILDEMEISTER Aktiengesellschaft as of 31 December 2011. Furthermore, the Supervisory Board discussed the management report and group management report in-depth. The Supervisory Board set the short-term, long-term and performance-based remuneration of the Exe-cutive Board. This was based on the Supervisory Board resolutions from the meeting of 15 March 2011. At that meeting the Board approved the specific arrangement for the short-term, long-term and performance-based Executive Board remuneration on the basis of the rules on the short-term incentive (STI) and the long-term incentive (LTI). In addition, the Supervisory Board passed a resolution unanimously on the agenda for the 110th Annual General Meeting of GILDEMEISTER Aktiengesellschaft on 18 May 2012. Among the agenda items, the Executive Board and Supervisory Board were to propose to the meeting to amend Article 12 of the Articles of Association to the effect that members of the Supervisory Board and its committees received an attendance fee of € 800 for each Supervisory Board and committee meeting they took part in as a member.

Also at the second **meeting of 17 May 2012** all members of the Supervisory Board and of the Executive Board were present. The subject matter of the discussions was the 110th Annual General Meeting that was to take place the following day. The Supervisory Board was informed in great detail of the latest developments and the requirements made of financial accounting. In addition, the Technology and Development Committee informed the Supervisory Board of the findings of its discussions. As a result, the Supervisory Board resolved unanimously to appoint Prof. Dr.-Ing. Raimund Klinkner as an additional member of the Technology and Development Committee of the Supervisory Board of GILDEMEISTER Aktiengesellschaft, and elected him unanimously as chairman of that committee. Moreover, trainees at the group gave a presentation to the plenary meeting of extracts from their current projects.

At the third **meeting on 27 September 2012** all members of the Executive Board attended; the Supervisory Board member Dr Constanze Kurz was unable to attend. The subjects under discussion included the development of DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd and the cost reduction plan. The recognition accorded to GILDEMEISTER by the Volkswagen Group Award as one of the best suppliers worldwide in 2012 was positively received by the Supervisory Board as was the receipt, once again, of an award from manager magazin for the GILDEMEISTER financial report. The plenary meeting heard the reports from the meetings of the Finance and Audit Committee and of the Technology and Development Committee, which had both been held earlier that day.

Other agenda items were the latest amendments to the German Corporate Governance Code and reporting with regards to sustainability. The Supervisory Board passed the following resolutions unanimously: Firstly, both the rules of procedure for the Supervisory Board and the rules of procedure for the Executive Board have been revised in accordance with the latest version of the German Corporate Governance Code; secondly, the Supervisory Board has instigated the setting up of a technology advisory council at GILDEMEISTER.

At the **planning meeting on 22 November 2012**, which was attended by all members of the Supervisory Board and Executive Board, the focus of discussions was placed on investment planning for 2013 and corporate strategy for the next two years. The Supervisory Board approved the group planning 2013, including the consolidated balance sheet and the consolidated statement of cash flows. In addition, the Supervisory Board approved the medium-term planning for 2014 and 2015; likewise the corresponding consolidated balance sheet and the consolidated statement of cash flows. The proposal for the investment budget 2013 was also approved. Following thorough discussion, the Supervisory Board agreed unanimously on the form of the remuneration for the Executive Board with respect to the STI, the performance-based remuneration and the LTI. Finally, the key aspects of the annual audit as of 31 December 2013 were determined, these included the intrinsic value of intangible assets, the recognition and measurement of inventories, determining the overhead rates within the framework of determining the production costs for finished and unfinished goods, as well as the group management report focusing on the reporting of forecasts, the risk report and the presentation of material factors affecting the results of operations. Furthermore, the Supervisory Board dealt with the declaration of conformity pursuant to Section 161 of the German Stock Corporation Act (AktG – Aktiengesetz) and passed resolutions on this, which are set out in the Corporate Governance section on page 74.

A large proportion of the Supervisory Board's work is performed by various committees. The **Finance and Audit Committee** met six times in financial year 2012; it monitored the independence of the external auditors and obtained their declaration of independence pursuant to Article 7.2.1 of the German Corporate Governance Code. Moreover, it reviewed the annual financial statements and evaluated the proposal for appointing the external auditor. Financial key performance indicators and GILDEMEISTER`s liquidity were also topics of the meetings as were risk management and the internal audit and compliance report. Furthermore, interim reports were clarified with the Executive Board as well as the financial status, the net working capital and the internal audit; other issues included the standardisation of transfer prices within the GILDEMEISTER group and an audit of the compliance system, as well as tax provisions and the restructuring of the financing. The committee unanimously resolved to propose to the Supervisory Board to approve the single and the consolidated financial statements of GILDEMEISTER Aktiengesellschaft for financial year 2011. Prof. Dr. Edgar Ernst, a qualified financial expert with many years' experience in finance, accounting and risk management, chaired the committee.

The **Personnel, Nominations and Remuneration Committee** held a total of three meetings. It discussed issues of personnel development on the Executive Board and also in the group, as well as international projects and cooperation on vocational training for trainees. Other topics discussed were issues of remuneration and the declaration of conformity. The committee prepared the resolutions on the remuneration of the Executive Board; it also reviewed the remuneration of the Supervisory Board and initiated a recommendation on setting up a technology advisory council. Furthermore, it recommended the re-appointment of Diplom Kauffrau Kathrin Dahnke to the Executive Board until 19 May 2016, the appointment of Dr. Thorsten Schmidt as deputy chairman of the Executive Board and the appointment of Christian Thönes as a full member of the Executive Board.

The Technology and Development Committee likewise met three times. Among the subjects of its discussions and analyses were both general topics, such as common trends in machine tool construction, and special topics, such as the service portfolio of DMG Electronics and determining medium-term targets for productivity. In addition, the committee dealt with setting up a technology advisory council and set out the initial priority topics for this council.

The **Nominations Committee** met once in financial year 2012 and submitted a proposal to the plenary meeting on improving the composition of the Supervisory Board of GILDEMEISTER Aktiengesellschaft. In the reporting year there was no need to call a meeting of the **Conciliation Committee.**

Since the last declaration of conformity of November 2011, GILDEMEISTER Aktiengesellschaft has complied with the recommendations of the **German Corporate Governance Code** in the version of 26 May 2010 since its publication in the Electronic Federal Gazette (Elektronischer Bundesanzeiger) on 2 July 2010 and will comply with them in the future, although with the following exception: The Supervisory Board member Dr. Masahiko Mori is the president of a foreign producer of machines for metal cutting processes and thus a competitor. The high level of expertise of Dr Mori represents additional expertise for the company and through this a significant gain for the work of the Supervisory Board; suitable measures are employed by the company to act against any conflicts of interests. With this exception, GILDEMEISTER Aktiengesellschaft has also complied with the recommendations of the "Government Commission on the German Corporate Governance Code" in the version of 15 May 2012 since its publication in the Electronic Federal Gazette on 15 June 2012 and will continue to comply with these in the future. The declaration of the Executive Board and of the Supervisory Board of GILDEMEISTER Aktiengesellschaft pursuant to Section 161 German Stock Corporation Act (AktG – Aktiengesetz) was published on 28 December 2012.

At the **balance sheet meeting of 12 March 2013,** which the member of the Supervisory Board Matthias Pfuhl could not attend, the annual auditor reported on the audit procedure and the material results of the annual audit and was available for further questioning. Following its own audit, the Supervisory Board approved the annual and consolidated financial statements for financial year 2012. The annual financial statements of GILDEMEISTER Aktiengesellschaft are therefore deemed to have been approved in accordance with Section 172 German Stock Corporation Act. The Supervisory Board endorses the Executive Board's proposal for the appropriation of net income. The Executive Board prepared the Annual Financial Statements and the Management Report 2012 of GILDEMEISTER Aktiengesellschaft in accordance with the provisions of the German Commercial Code (HGB – Handelsgesetzbuch). The 2012 consolidated financial statements of GILDEMEISTER Aktiengesellschaft were prepared in accordance with the International Financial Reporting Standards (IFRS), as applicable within the European Union. Pursuant to the exemption provision in Section 315a of the German Commercial Code, consolidated financial statements in accordance with the German Commercial Code were not prepared. The auditors, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, issued an unqualified audit certificate for both financial statements and management reports. The auditors reported in detail on the audit procedure and findings. The Supervisory Board discussed the management and group management report in-depth. The chairman of the Finance and Audit Committee, as well as the chairman of the Supervisory Board, additionally reported on their activities within the scope of the audit of the annual financial statements; they referred particularly in this respect to their discussions with the Executive Board. Moreover the Supervisory Board appointed Dr. Maurice Eschweiler as deputy member of the Executive Board of GILDEMEISTER Aktiengesellschaft effective as of 1 April 2013. He will be responsible for the newly established Executive department Industrial Services.

In financial year 2012 GILDEMEISTER was able to continue its satisfactory performance and achieve record results. The Supervisory Board would like to thank the Executive Board and all employees of the group for their dedication and commitment.

Hans Henning Offen

Hans Henning Offen
Chairman of the Supervisory Board
Bielefeld, 12 March 2013

The Executive Board

1 **Dr. Rüdiger Kapitza** (58)

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

Dear Shareholders,

In the reporting year, GILDEMEISTER was able to achieve the highest order intake, the highest sales revenues and the highest annual profit in the company's history! With 8,155 machines sold, we have also set a record sales number. This success was reflected in our share's performance over the year. The share was one of the MDAX winners in 2012 with a gain of 56.4% (year-on-year). At the Annual General Meeting, we will propose to you that we distribute a dividend of € 0.35 per share for the reporting year (€ 0.25 in the previous year); this corresponds to a dividend yield of 2.3%.

Long-term we want to create value, so that we can ensure a lasting, steady, acceptable return on your invested capital for you To achieve this goal, we are pursuing a clear strategy and are using our opportunities for growth. We are expanding the basis of our success even more by focusing on further globality and high-tech development. That is why our financial report takes the slogan **"together. innovative. global"**. Our technologically advanced products are successful throughout the world. Behind these innovations are people, who are jointly bringing about the group's success – both in financial year 2012 and in the future. Some of the people in our group with very different areas of specialisation are introduced to you in the first few pages of this report.

First of all, however, I would like to summarise the most important **key figures for business development in the reporting year** and then, subsequently, show what the record results have yielded and how we intend to develop the group further. The euro crisis has caused our business to stagnate in some southern European countries, nevertheless we were still able to achieve order intake of € 2,260.8 million and increase sales revenues to € 2,037.4 million – a rise of 17% and 21%, respectively. Our business progressed satisfactorily during the year. We managed to do far better than our forecasts. Following € 66.9 million in the previous year, we have increased EBT by 80% to a value of € 120.1 million; in the annual result for the period we made a gain of 81% to reach € 82.4 million in the reporting year (previous year: € 45.5 million).

This can be traced back, amongst others, to the fact that we have tapped into **global markets** with growth potential and that with Mori Seiki we have a strong, reliable sales and service partner worldwide. In the reporting year we lay the groundwork for further success; Eastern Europe – and above all Russia with its high investment in infrastructure – is practically unaffected by the euro crisis. As I announced in my letter to you last year, we wanted to increase our sales in Russia and we have been working on this throughout the reporting year. On 23 October we held a ground-breaking ceremony for our Ulyanovsk plant; production is due to start up at our Russian site at the end of 2013 /

beginning of 2014. Over a building surface area of 16,000 square metres, we intend to produce up to 100 machines per month, which are destined for the local market.

Furthermore, we had announced that we were going to expand the cooperation with Mori Seiki to the Chinese market. Since then we have received approval for a sales and service joint venture from the Chinese government and will start to implement the cooperation in the coming months.

The decisive factor in our sales success is primarily our machines business. We are proud of the **innovations** that we have presented at the international trade fairs for the industry in recent months, for example at the IMTS in Chicago, the AMB in Stuttgart, the BIMU in Milan and the JIMTOF in Tokyo. We have impressed the trade fair visitors and have thus been able to book excellent order intake despite the increasingly difficult general business environment.

All this is possible because we have excellently trained **employees** worldwide. We consistently assist our employees in developing their skills and qualifications and provide training in technology and services. In the reporting year, we integrated the European sales force of Mori Seiki; we now have an additional 227 sales and service employees and so are able to advise and reach our customers in 39 countries even better than before. This cooperation gives rise to a large number of synergies for us, from which our company, our employees and our customers will benefit long-term. Structurally we are placing increasing value at GILDEMEISTER on diversity management and are actively promoting a corporate culture that unites the various groups of people. We would greatly appreciate having more women on board but, in a traditional machine building company, this is a goal that can only be reached over a longer period of time. However, whilst the proportion of female trainees was only 5% five years ago, the current level has reached about 14%.

Indispensable for our own production are the most **up-to-date technologies**; through **process optimisation** we improve our production to the customer's benefit. Local production is increasingly proving its worth in local markets. In Shanghai we produce the MILLTAP for the Chinese market and in Pfronten some Mori Seiki products for the European market. At our Seebach site we have invested a total of € 20.1 million in expanding capacity to 10,500 square metres. In the new production hall, the completely new style of cluster assembly is shortening throughput times considerably. The newly created computer-controlled logistics centre with integrated high racks and large parts store ensures optimum materials flow. In addition, the technology centre provides room for development and prototype construction; you can read more about this on page 51.

Long-term success is increasingly a question of **sustainable action**. At our site in Bielefeld we have constructed an "Energy Solutions Park". Since the end of October, its solar and wind power plants with installed capacity of about one megawatt have been generating up to 15% of the energy requirement for the whole site! This amount of energy would be sufficient to provide uninterrupted full supply to an average 220 households. Furthermore, the GILDEMEISTER energy solutions products produce green electricity in Seebach and thus at this site alone can produce about 500 machines per year climate-neutral.

Our concept for the production, storage and use of renewable energies for industrial operations is trend-setting; in the production of electricity from renewable sources for self-consumption, we are taking on a **pioneering role**. In acknowledgement of our implementation of trend-setting concepts, the Volkswagen Group has recognised us as one of its 18 best suppliers worldwide in 2012.

The technologies in our Energy Solutions division will increasingly gain in importance in the coming years, particularly in the supply of electricity for industrial operations. The focus on industrial customers and investors has had a steadying effect on our business and has proven to be a workable concept; you can read more about this on page 66.

Dear Reader, to conclude I would like to briefly mention our **expectations for the current financial year.** Overall, my colleagues on the Executive Board and I consider the general economic conditions to be increasingly volatile. We anticipate that worldwide demand for machine tools will stagnate overall in the year 2013. At the present time we consider the growth in worldwide machine tool consumption of 7.6% that the industry associations are currently forecasting for the year 2013 to be somewhat overestimated.

Nevertheless, the persistent difficult situation in Europe is offset by favourable opportunities in the growth markets, which we intend to take advantage of thanks to our international market presence. The second half-year 2013 will be marked for us by the largest machine tools trade fair worldwide, the EMO in Hanover. We are directing our innovations towards this industry highlight. Over the course of the year we will push further ahead with our cooperation in order to exploit new potential synergies. We are planning for GILDEMEISTER to develop steadily overall in the current year.

I would like to thank all those who have contributed to the fact that we are able to report on such a successful year on behalf of the entire Executive Board: that is to say, you, our shareholders, our customers, suppliers, business and cooperation partners, and also our employees! Your confidence has the effect of both an incentive and duty on our work. My Executive Board colleagues and I will continue to lead GILDEMEISTER with the aim of focusing the group globally and of safeguarding our technological leadership through market-based innovations.

Yours sincerely,
Your

Rüdiger Kapitza

Dr. Rüdiger Kapitza
Chairman of the Executive Board
Bielefeld, 12 March 2013

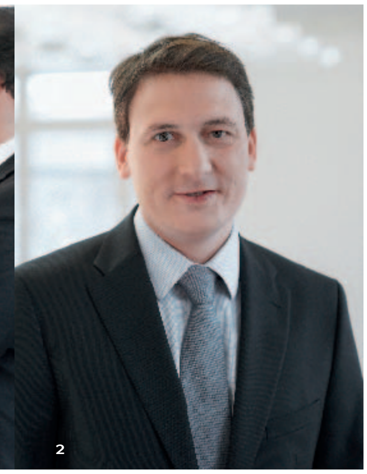
2 Dr. Thorsten Schmidt (40)

has been a member of the Executive Board since October 2006; he has held the position of deputy chairman of the Executive Board since 23 November 2012. He holds a doctorate in economics from Munster University and has been working at GILDEMEISTER since January 2002. He took over management responsibility for sales and services in America, after which he became a managing director in Asia. Dr. Thorsten Schmidt is responsible for sales and service and information technology (IT).

3 Günter Bachmann (61)

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


4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3


5

4 Kathrin Dahnke (52)

has been a member of the Executive Board since May 2010. The business studies graduate (Diplom-Kauffrau) joined the group in 2005 as the head of finance. Previously she held various roles, most recently as general manager for finance. Kathrin Dahnke is responsible for controlling, finance, accounting, tax and risk management.

5 Christian Thönes (40)

has been a deputy member of the Executive Board since January 2012. The business graduate (Diplom-Kaufmann) joined the GILDEMEISTER group in 1998, he built up the Advanced Technologies (lasertec and ultrasonic) and was most recently managing director of DECKEL MAHO Pfronten GmbH. Christian Thönes is responsible for product development technology and the continuing internationalisation of the production workshops

Group Structure

GILDEMEISTER is a globally operating enterprise: 135 national and international sales and service locations ensure direct contact with our customers. Among this also count the markets, that are worked by our cooperation partner Mori Seiki.

A . 01

Segments in the GILDEMEISTER Group

GILDEMEISTER

- MACHINE TOOLS
  - TURNING TECHNOLOGY
  - MILLING TECHNOLOGY
  - ULTRASONIC / LASERTEC
  - ECOLINE
  - ELECTRONICS
- INDUSTRIAL SERVICES
  - SERVICES
  - ENERGY SOLUTIONS
- CORPORATE SERVICES

A . 02

Group Structure

CORPORATE SERVICES

GILDEMEISTER Aktiengesellschaft; Bielefeld

MACHINE TOOLS

GILDEMEISTER Beteiligungen GmbH, Bielefeld; Production (11)

Turning Association	Milling Association	Milling and Processing Association	ECOLINE Association	Electronics
GILDEMEISTER Drehmaschinen GmbH (Bielefeld)	DECKEL MAHO Pfronten GmbH (Pfronten)	DECKEL MAHO Seebach GmbH (Seebach)	DMG ECOLINE GmbH (Klaus / Austria)	DMG Electronics GmbH (Pfronten)
GRAZIANO Tortona S.r.l. (Tortona / Italy)	SAUER GmbH (Idar-Oberstein, Pfronten)	FAMOT Pleszew Sp. z o.o. (Pleszew / Poland)	DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., (Shanghai / China)	
GILDEMEISTER Italiana S.p.A. (Bergamo / Italy)			Ulyanovsk Machine Tools ooo* (Ulyanovsk / Russia)	

INDUSTRIAL SERVICES

Worldwide Sales and Service organizations (135)

DMG / MORI SEIKI **Germany** Stuttgart (8)

- DMG / MORI SEIKI Stuttgart Vertriebs und Service GmbH
- DMG / MORI SEIKI München Vertriebs und Service GmbH
- DMG / MORI SEIKI Hilden Vertriebs und Service GmbH
- DMG / MORI SEIKI Bielefeld Vertriebs und Service GmbH
- DMG / MORI SEIKI Berlin Vertriebs und Service GmbH
- DMG / MORI SEIKI Frankfurt Vertriebs und Service GmbH
- DMG / MORI SEIKI Hamburg Vertriebs und Service GmbH

DMG / MORI SEIKI **Europe*** Dübendorf / Switzerland (33)

- DMG / MORI SEIKI Italia S.r.l., (Bergamo, Tortona, Ancona)
- DMG / MORI SEIKI France SAS (Paris, Lyon, Scionzier)
- DMG / MORI SEIKI (Schweiz) AG (Dübendorf / Zurich)
- DMG / MORI SEIKI Austria GmbH (Klaus, Wiener Neudorf)
- DMG / MORI SEIKI Sweden AB (Gothenburg)
- DMG / MORI SEIKI Polska Sp. z o. o. (Pleszew)
- DMG / MORI SEIKI Czech s.r.o. (Brno, Trencin)
- DMG / MORI SEIKI (UK) Ltd., (Coventry)
- DMG / MORI SEIKI Iberica S.L.U. (Barcelona, Madrid, San Sebastian)
- DMG / MORI SEIKI Benelux (Veenendaal, Zaventem)
- DMG / MORI SEIKI Denmark ApS (Copenhagen)
- DMG Russland o.o.o. (Moscow, St. Petersburg, Ekaterinburg)
- DMG / MORI SEIKI Hungary Kft. (Budapest)
- DMG Scandinavia Norge AS (Stokke)
- DMG / MORI SEIKI South East Europe M.E.P.E. (Thessaloniki)
- DMG / MORI SEIKI Romania S.R.L., (Bukarest)
- DMG / MORI SEIKI Middle East FZE (Dubai)
- DMG Egypt for Trading in Machines Manufactured LLC. (Cairo)
- DMG / MORI SEIKI Istanbul Ltd. Sti. (Istanbul, Izmir, Ankara)

DMG / MORI SEIKI **Asia** Shanghai, Singapore (53)

- DMG TECHNOLOGY TRADING (Shanghai) Co. Ltd. (Shanghai)
- DMG Beijing Sales office (Beijing)
- DMG Guangdong Sales Office (Guangdong)
- DMG Chongqing Sales Office (Chongqinq)
- DMG Shenyang Sales Office (Shenyang)
- DMG Xi'an Sales Office (Xi'an)
- DMG / MORI SEIKI South East Asia Pte. Ltd. (Singapore, Kuala Lumpur, Hanoi, Ho Chi Minh)
- DMG / MORI SEIKI Korea Co. Ltd (Seoul)
- DMG / MORI SEIKI India Pvt. Ltd (Bangalore, New Delhi, Ahmedabad, Pune)
- DMG / MORI SEIKI (Taiwan) Co. Ltd. (Taichung)

DMG / MORI SEIKI Asia / Australia**

- DMG / MORI SEIKI Japan (Nagoya)***
- DMG / MORI SEIKI Australia (Melbourne, Sydney)
- DMG / MORI SEIKI Thailand (Ayutthaya)
- DMG / MORI SEIKI Indonesia (Jakarta)

DMG / MORI SEIKI **America** Itasca / Illinois (14)

DMG North America

- DMG Canada Inc. (Toronto)
- DMG / MORI SEIKI México S.A. de C.V. (Queretaro)

DMG South America

- DMG Brasil Ltda. (Sao Paulo, Caixa du Sol)

DMG / MORI SEIKI USA**

- DMG / MORI SEIKI USA (Chicago, Charlotte, Boston, Los Angeles, Dallas, Detroit, San Francisco, Seattle, Houston, Cincinnati)

DMG / MORI SEIKI **Services** Bielefeld, Pfronten (22)

- DMG Gebrauchtmaschinen GmbH (Geretsried, Bielefeld,Singapore)
- DMG Trainings-Akademie GmbH (Bielefeld, Pfronten, Stuttgart, Geretsried, Seebach, Klaus, Moscow, Singapore, Shanghai)
- DMG Spare Parts GmbH (Geretsried, Waigaoquiao)
- DMG AUTOMATION GmbH (Hüfingen)
- DMG Service Drehen GmbH (Bielefeld)
- DMG Service Fräsen GmbH, (Pfronten, Seebach, Geretsried)
- DMG Microset GmbH (Bielefeld)
- DMG Service Drehen Italia S.r.l. (Bergamo, Tortona)

a+f GmbH Wurzburg (5)

- a+f Italia S.r.l. (Milan)
- AF SUNCARRIER Ibérica S.L. (Madrid)
- Cellstrom GmbH (Vienna)
- SUNCARRIER OMEGA Pvt. Ltd., (Bhopal)

* Two new group companies 2012

** These markets are worked and consolidated by our cooperation partner Mori Seiki.

*** 46 sites in the home market of Mori Seiki.

Simplified organisational structure according to management criteria. The legal corporate structure is presented in the Notes to the Financial Statements 2012 on pages 228 et seq.

As at 12 March 2013

Business Environment

The global rate of growth slowed down over the course of 2012. The world economy initially grew steadily due to fiscal and monetary policies; however the phasing out of economic stimulus programmes caused it to lose momentum again. The global consumption of machine tools grew steadily overall. GILDEMEISTER was able to compensate declining demand in Europe through good performance in Asia and America.

Overall Economic Development

The world economy lost momentum over the course of 2012. As a consequence of the euro crisis, the economy weakened; the slowdown had already started in the second half of 2011. According to provisional calculations by the Institute for World Economics (IfW) at the University of Kiel, the world economy still grew in 2012 by 3.2% (previous year: 3.8%). Although economic growth in Asia slowed down slightly, nevertheless it continued to grow by 6.6% (previous year: 8.2%). Compared to other industrial countries, the growth trend in the USA was positive. In the newly industrialising countries, primarily in the BRIC countries, domestic demand was supported by private consumption and an increase in investments, resultin g in positive growth over the course of the year. In Europe economic growth was restrained as the government debt and euro crisis became acute in the middle of the year and spread to other countries in the eurozone. The German economy proved to be robust.

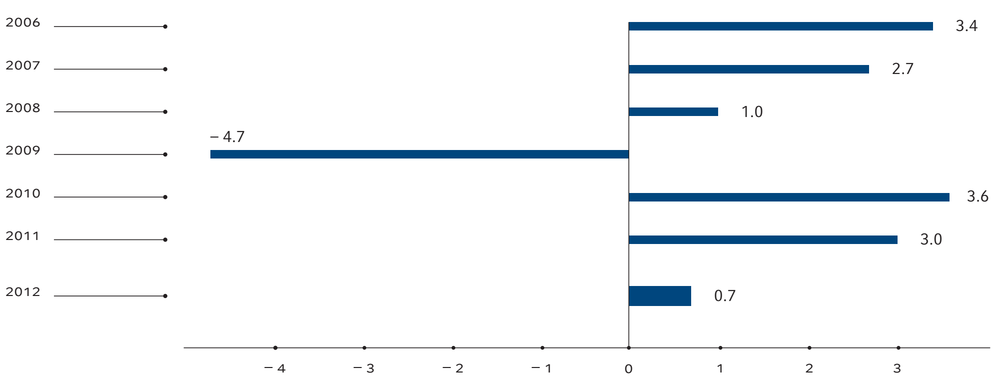
Economic growth in 2012 was the strongest in **Asia**; above all it was the Chinese economy that continued to boom. According to the IfW, China's gross domestic product achieved growth of 7.8% (previous year: 9.2%) and in Japan it rose by 2.0% (previous year: –0.7%).

In the **USA** the economy grew moderately. Gross domestic product increased over the whole year according to IfW calculations by 2.2% (previous year: 1.7%).

The economic differences within **Europe** have intensified in the reporting year 2012. For some countries the high level of private and public debt led to doubts about their solvency. Many eurozone member states found themselves forced to take – in some cases drastic – cost-cutting measures. This was an additional restraint on economic expansion. Consequently, Gross Domestic Product stagnated in countries of the eurozone according to provisional calculations and fell by 0.5% (previous year: + 1.4%).

P. 28 – 29
Overall Statement of the Executive Board on the Business Environment

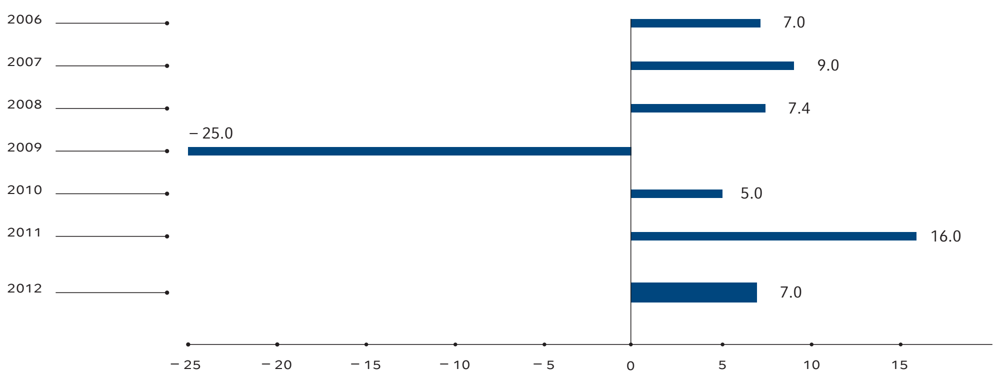
B . 01 **GROSS DOMESTIC PRODUCT IN GERMANY**
REAL CHANGES AGAINST THE PREVIOUS YEAR
IN %



In **Germany** economic growth slowed down noticeably during the year 2012. As the crisis in the eurozone became acute and some member states slid into recession, exports from Germany to neighbouring countries declined. It was possible to offset this, despite the persistent deterioration in the world economy, through external trade with countries outside the EU. Thus external trade contributed substantially to Germany's gross domestic product. According to the German Federal Statistical Office in Wiesbaden, Gross Domestic Product rose over the full year by 0.7% (previous year: 3.0%); exports climbed by 3.4% (previous year: 7.8%). According to provisional calculations, investments rose by

7.0% (previous year: 16.0%), capital expenditure in manufacturing industries made a significant contribution to this. The following chart shows a multiple year comparison:

B . 02 **INVESTMENT IN THE GERMAN MANUFACTORING SECTOR**
NOMINAL CHANGES AGAINST THE PREVIOUS YEAR
IN %



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

Still positive in Germany was the labour market trend even though the upwards trend slowed down over the course of the year. On average, 2.9 million people were registered unemployed (previous year: 2.98 million). The number of business insolvencies fell slightly to 29,619 (previous year: 30,294). In 2012 the rate of inflation was 2.0% (previous year: 2.3%) according to initial calculations. In 2012 government revenues exceeded expenditure by 0.1% (deficit ratio previous year: –0.8%).

For GILDEMEISTER's international business, mainly the US dollar but also the Chinese renminbi and the Japanese yen are of particular importance. In comparison with the previous year, the **exchange rate** of currencies that are significant for GILDEMEISTER moved against the euro as follows: The euro gained in value against the dollar and closed the year at USD 1.32 (previous year: USD 1.29). Likewise the euro recorded an increase in value against the Chinese renminbi and at year-end was 8.22 renminbi (previous year: 8.16 renminbi). The Japanese yen lost in value against the euro and closed the year at an exchange rate of 113.6 yen (previous year: 100.2 yen).

An analysis of the average exchange rate in the reporting period, however, shows a different trend, compared to the previous year it was as follows: The US dollar against the euro was USD 1.28 (previous year: USD 1.39). Against the renminbi the euro was 8.11 renminbi (previous year: 9.00 renminbi). The average value of the euro against the yen amounted to 102.5 yen (previous year: 111.0 yen).

Thus the US dollar recorded a gain in value on a yearly average of 7.7% compared to the previous year and the renminbi of 9.9%. The Japanese yen gained 7.6% in value. The exchange rate led to favourable terms for our products in the USA and in the dollar-dependent markets and had a favourable effect on exports from our European production to the People's Republic of China. In addition, the change in value of the Japanese yen led to a rise in prices for components and machines acquired from Japan.

Development of the Machine Tool Building Industry

International Development

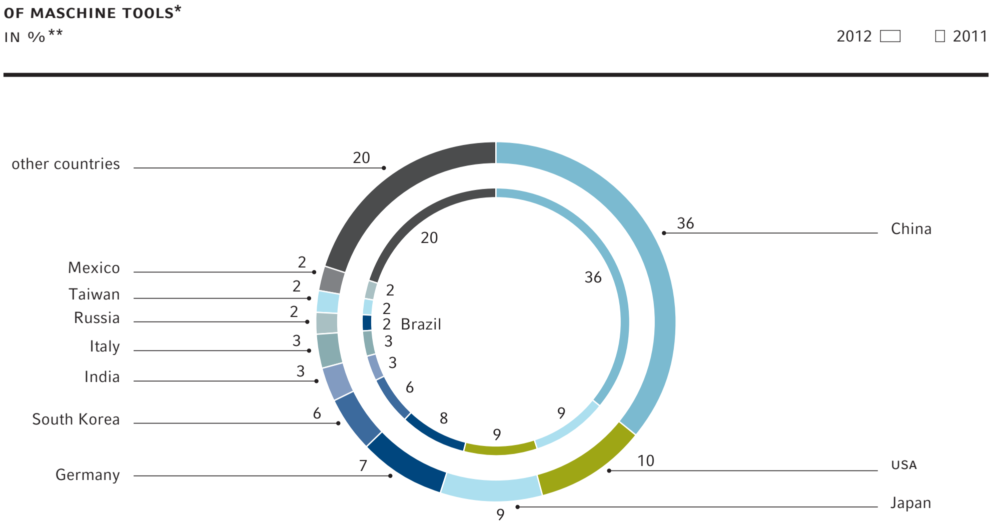
The world market for machine tools grew overall at a steady pace in 2012. The German Machine Tool Builders Association (VDW – Verein Deutscher Werkzeugmaschinenfabriken) calculated growth in **world consumption** of 7.2% or € 4.4 billion to € 66.2 billion (previous year: € 61.8 billion).

P. 120 – 129
Forecast Report

The structural shift of the worldwide machine tool market from Europe and America towards Asia continued. **Asia's** share in **world consumption** in 2012 was 61%. Growth in Asia was 5.6% (previous year: 24%). In **America**, consumption rose the most by 17.5% following strong growth in 2011 (previous year: +40%). Whilst the machine tool industry in **Europe** in 2011 was still able to record a high rate of growth of 27%, the trend in 2012 was slightly downwards (–1.3%).

By a clear margin, most machine tools in 2012 were once again consumed in **China**. China was again the world's largest sales market at € 23.8 billion and with a share in world consumption of 36% (previous year: € 22.9 billion; + 8%). The second most important market for machine tools in 2012 was the **USA** with growth of 29% and consumption of € 6.8 billion. **Japan's** machine tool consumption rose by 9% and was in third place with € 5.8 billion (previous year: € 5.3 billion). In **Germany** consumption slightly decreased in the reporting year (– 2%) and amounted to 4.9 billion (place four). South Korea (€ 3.6 billion; – 4%) took fifth place as in the previous year. The ten most important consumer markets accounted for 80% of world machine tool consumption, as they had the previous year; the following diagram presents an overview:

B . 03 **WORLDWIDE CONSUMPTION OF MASCHINE TOOLS***
IN %**



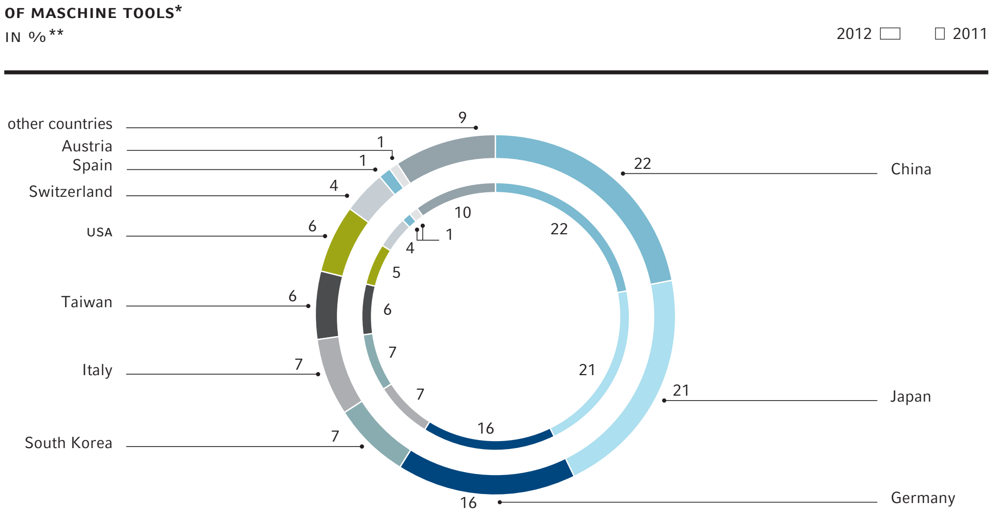
2012: Total € 66.2 BILLION // 2011: Total € 61.8 BILLION

* Figures 2012 provisional; figures 2011 revised
** rounded figures / note: Place two 2011: Japan; Place three 2011: USA; Place eight 2011: Brazil

The German Machine Tool Builders Association (VDW) likewise calculated a rise in **world production** of 7.2% or € 4.4 billion to € 66.2 billion (previous year: € 61.8 billion). The world's biggest producer of machine tools in 2012 was China with a volume of € 14.6 billion – this corresponds to 22% of machine tools produced worldwide (change from the previous year + 6%). Japan followed with production of € 14.2 billion (+ 8%) or a 21% share of world production. Germany at € 10.6 billion (+ 10%) was once again the third largest producer; this corresponds to a share in world production of 16%. The ten most important production countries represent 91% of all machine tools (previous year: 90%).

In **imports** of machine tools, China took first place for the tenth year in a row with € 10.6 billion (+ 12%) (previous year: € 9.5 billion). In the USA imports grew with a rise of 40% to € 4.5 billion (previous year: € 3.3 billion). In 2012 China and the USA imported in total 49% of all machine tools (previous year: 43%). China's **import ratio** grew by two percentage point to 45% (previous year: 43%). The USA covered 67% of its consumption last year with imports (previous year: 62%). The German import ratio was 50% (previous year: 42%). In the major markets, the production shares developed as follows:

B . 04 **WORLDWIDE PRODUCTION OF MASCHINE TOOLS***
IN %**



2012: Total € 66.2 BILLION // 2011: Total € 61.8 BILLION

* Figures 2012 provisional; figures 2011 revised
** rounded figures / note: Place four 2011: Italy; Place five 2011: South Korea

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

In the reporting period, € 37.0 billion or 56% of the world production of machine tools was exported (previous year: 53%). With **exports** in value terms of € 9.0 billion and an export ratio of 63%, Japan was ranked in first place (previous year: € 8.3 billion). Germany followed with an export volume of € 8.1 billion (previous year: € 6.8 billion). This corresponds to an export ratio of 77% (previous year: 71%). German and Japan together achieved a share of 46% of world exports as in the previous year. Ranked three to ten were Italy (9%), Taiwan (9%), Switzerland (6%), South Korea (5%), the USA (4%), China (4%), Spain (2%) and Belgium (2%).

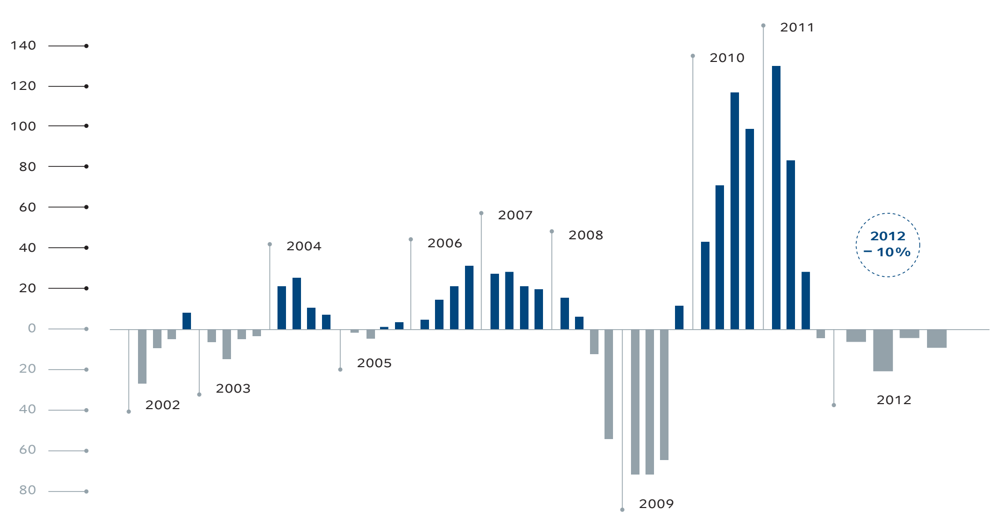
German Machine Tool Industry

For industry and trade, the **ifo business climate index** is the leading indicator for economic development in Germany. According to its survey, the main consumer industries (mechanical engineering, automotive manufacturing and electrical engineering) reported significantly lower values than in the previous year. These reflected the changes in the general conditions in the industries.

In 2012 the German machine tool industry reported declining order intake yet higher production and a rise in sales revenues. At € 15.1 billion, **order intake** in the industry remained 10% below the previous year's figure (€ 16.9 billion). At the same time, domestic demand fell by 10% (previous year: +46%) and international demand fell by 11% (previous year: +44%). For order intake the German Machine Tool Builders' Association (VDW) reports a drop of 13% in cutting machines compared to the previous year; due to high order backlogs, it was possible for sales revenues at German machine tool builders to increase by 11%.

Over the course of the year, order intake of the German machine tool industry developed as follows:

B . 05 **MASCHINE TOOL ORDER INTAKE IN GERMANY PER QUARTER***
REAL CHANGES AGAINST THE PREVIOUS YEAR IN %

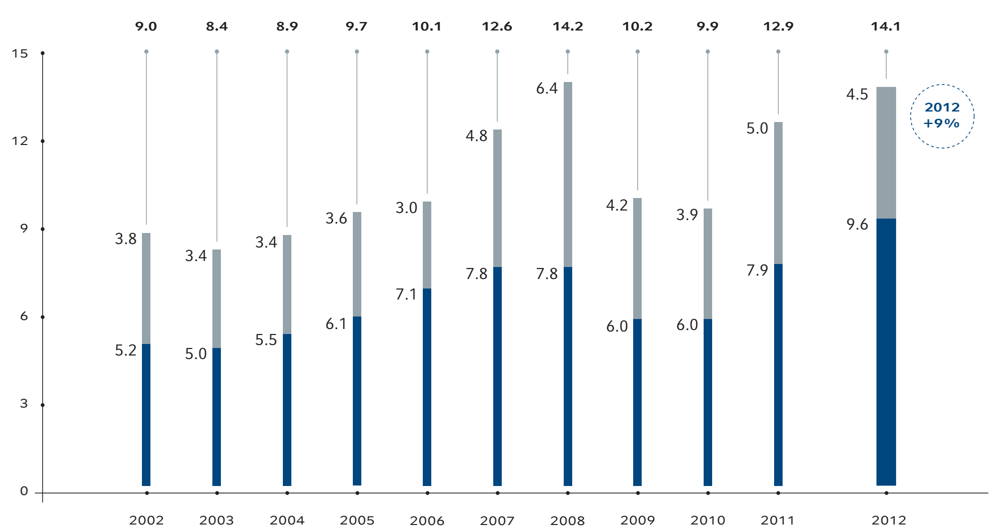


* previous year's figures partly adjusted

Production (including parts, accessories and maintenance) reached a volume of € 14.1 billion and thus surpassed the previous year's figure of € 12.9 billion by 9%. Machines to a value of € 9.6 billion were exported, **exports** increased by 20% compared to the previous year; the export ratio reached 68% (previous year: 62%). The most important export market for German machine tools was once again China at € 2.6 billion, this represents 27% of German machine tool exports (previous year: 29%). The USA took second place with an export volume of € 1.0 billion (previous year: € 723.4 million; export share: 11%). Russia was the third most important export market, to which machines to a total value of € 479.1 million were supplied (previous year: € 375.9 million; export share: 5%). This was followed in the rankings by France (€ 362.6 million; export share 4%), Great Britain (€ 342.5 million; export share 4%) and Austria (€ 340.6 million; export share 4%).

The development and composition of German machine tool production is shown in the following multiple year comparison:

B . 06 **MASCHINE TOOL PRODUCTION IN GERMANY**
IN € BILLION



Machine tool **imports** grew by € 0.4 billion or 14% to € 3.2 billion (previous year: € 2.8 billion). With an import share of 28%, more than every fourth machine tool imported came from Switzerland. This was followed by Japan (12%), Italy (9%), the Czech Republic (7%) and Austria (4%). Of the top 10 import countries, imports from the Czech Republic rose the most at 67%. **Domestic consumption** slightly fell to € 6.6 billion (previous year: € 6.7 billion, including parts and accessories but excluding repairs and maintenance).

Over the year, **capacity utilisation** rose at German machine tool producers. The capacity utilisation of producers of cutting machines was 96.1% (previous year: 95.1%).

Although the extent of **order backlog** decreased slightly over the course of the year, it was an average of 8.5 months (previous year: 9.1 months). This extent of order backlog is based on calculations and represents an average figure for the industry. The total number of **employees** at German machine tool companies rose on an annual average in total to 69,314 (previous year: 65,837).

Reliable information on the **profitability** of the German machine tool industry is not readily available as only a few companies publish corresponding figures. Therefore the industry's association has to rely on estimates.

Overall Statement of the Executive Board on the Business Environment

GILDEMEISTER was able to maintain its competitive position in a challenging market environment. As a leading manufacturer of cutting machine tools, we have slightly increased our **world market share** in the market that is relevant for us.

In 2012 government debts and the euro crisis continued to affect the global economy and these **general business conditions** have had a substantial effect on our business. In southern Europe our business stagnated due to a decline in demand. Changes in the general economy as well as in the machine tool industry increased their pace in 2012, which the growing volatility and shorter economic cycles made even clearer. **Customer requirements** in our industry are becoming more diverse and require a range that is specific to the target group – from entry level machines through to comprehensive technology solutions and extensive services. Thus in 2012, too, we have aligned our product portfolio even closer with these requirements. This has enabled us to increase our order intake worldwide in the reporting year. We have adapted our production capacity in such a way that we can respond flexibly to **market circumstances** and, moreover, have managed to position our product innovations quickly on the market. In the markets that are important for us and that depend on the dollar, our products became cheaper, the exchange rate of the US dollar fell in the reporting year to an average EUR 1.28.

G P. 31
Development of Regional Distribution of GILDEMEISTER order intake

Industry situation and competitive environment: A structural shift in the machine tool market worldwide was also apparent in 2012. A share of 43% of all machine tools were sold in the **BRIC markets**, China was once again the most important market with a share of 36%. GILDEMEISTER is working these **growth markets** with particular emphasis. In the reporting year we expanded our business both in China and in Russia. We want to strengthen our presence there, for example with the planned construction of our own production plant in Russia. We have further consolidated our **competitive position** in these strategically important markets of the future. At the same time, we have maintained our position as a market leader in the machine tools business in the established markets. Our **sales and service cooperation** with Mori Seiki also contributes to this success. We have managed to reinforce our traditionally strong **market position** in Germany through our innovative capacity as well as through our technological lead.

The effects that the various economic factors have on GILDEMEISTER's business are illustrated in the following overview:

B . 07 **MACROECONOMIC FACTORS INFLUENCING BUSINESS DEVELOPMENT IN 2012**

Gross domestic product	+
Industrial production	+
Unemployment rate	0
Business climate index	–
Exchange rates (weak euro)	++
Investments	+
Structural shifts in the machine tools market	+

Effects of the factors ++ = very positive, + = positive, 0 = neutral, – = negative, – – = very negative

Results of Operations, Net Worth and Financial Position

In the financial year 2012, GILDEMEISTER increased its business volume and quality of earnings over the course of the year. For the first time in the company's history order intake and sales revenues were above the € 2 billion mark and reached € 2,260.8 million (+17%) and € 2,037.4 million (+21%), respectively. EBIT reached € 132.9 million (+18%) and EBT rose by 80% to € 120.1 million. The group reports annual profit of € 82.4 million (+81%) – the highest figure in the company's history.

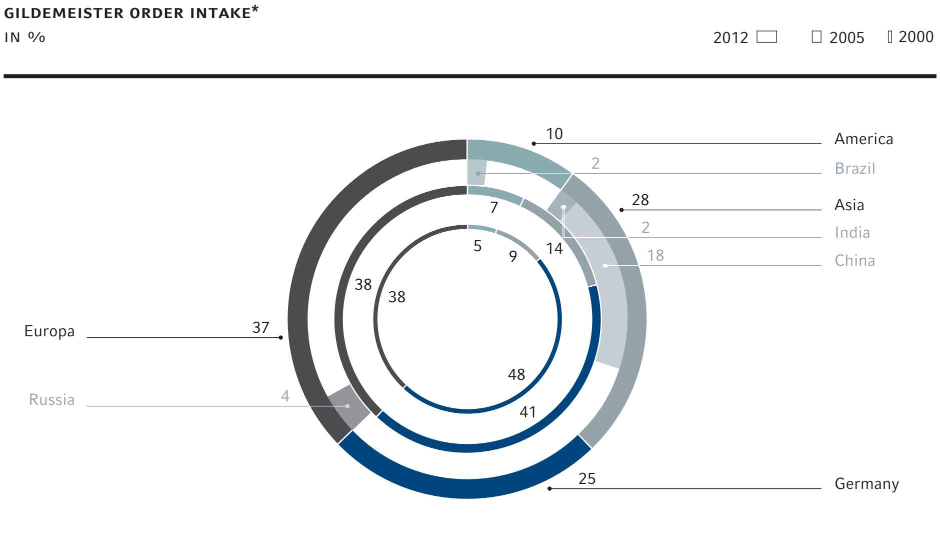
Corporate Strategy

GILDEMEISTER's corporate strategy focuses on extending its market and innovations leadership. We are targeting specific growth markets whilst taking special account of growing profitability. A central pillar in this implementation remains the **cooperation with Mori Seiki**: Both our customers and employees, as well as our shareholders, benefit from the synergies, in particular in the areas of sales and services, and we are developing selected types of machines together.

On the one hand we are aligning our core business of machine tools with global markets and, on the other, we are placing our focus on particularly fast-growing areas, such as aerospace, medical technology, the automotive industry and renewable energies. Moreover, we are placing our emphasis on a consistent service orientation. The Industrial Services segment now contributes 42% to sales revenues (previous year: 35%). The range of services offered by GILDEMEISTER covers the entire life cycle of a machine tool. Our activities in the renewable energies division are directed towards providing complete energy management solutions for industrial customers. The following additional core aspects define GILDEMEISTER's business activities:

- **Consolidating and extending the leading international market position:** GILDEMEISTER is consistently managed with a focus on markets and products. Our primary goal is to increase our market share in all relevant markets. Through this we strengthen our position as an innovative producer of cutting machine tools and place our main focus on growth markets and industries.
- **Strategic alignment with growth markets:** In particular China and Russia are highly significant for GILDEMEISTER due to their above-average rates of growth in the consumption of machine tools. Our strategy focuses on winning new customers in these countries. Overall in the medium-term we intend to achieve more than one-third of our order intake for new machines in the BRIC countries. Compared to the previous year, we were able to achieve a share increase of three percentage points to 26%, which is essentially due to the development in Russia and China. As a result, we are achieving an increasingly broader spread on the world markets and in this way can better even out regional fluctuations in the markets. The following diagram shows the development over the past years:

C.01 **DEVELOPMENT OF REGIONAL DISTRIBUTION OF GILDEMEISTER ORDER INTAKE***
IN %



* Percentage figures on quantity basis

We are expanding sales and services further; in particular the number of sales territories has been increased in growth markets in line with demand to provide even better service locally to potential and current customers. In addition, for the future we are planning for GILDEMEISTER to establish a presence with its own production workshops in particularly strong growth markets. On 23 October 2012, a ground-breaking ceremony was held for the construction of our plant in the Russian region of Ulyanovsk.

- **Focus on growth sectors:** GILDEMEISTER is geared towards the demands of the global markets and places its focus on strongly growing areas such as the aerospace industry, medical technology, automotive and renewable energies. Our expertise is concentrated in industry-specific centres of expertise, such as the Aerospace Excellence Centre at the Pfronten site, where comprehensive, individual solutions are developed for customers from the aerospace industry. Our High Speed Cutting Centre of Expertise (HSC-Centre) in Geretsried advises customers on the use of HSC. By concentrating expertise, we are able to offer industry-appropriate, technologically-advanced production solutions.
- **Product and service innovations as the core growth driver:** The goal of GILDEMEISTER is to launch new, innovative products and services from every business area onto the market at regular intervals. In the "Machine Tools" segment in future we will also offer high-quality, innovative products with turning, milling and ultrasonic / lasertec technologies as well as ECOLINE products. We will markedly expand our range in the field of automation solutions. In the area of Energy Solutions we are planning new services, which will assist in optimising the energy efficiency of industrial production plants; they will complement our product portfolio and we will benefit from these strengths – we will be able to build upon our existing product range with new developments and enhancements.
- **Strengthening the cooperation with Mori Seiki:** The cooperation with Mori Seiki has been in place since March 2009; customers worldwide benefit extensively from the cooperation in the "Machine Tools" and "Industrial Services" segments. In 2013 we intend to extend the cooperation in the sales and service areas to other markets; we are currently working on integrating our activities in China. Through this, GILDEMEISTER and Mori Seiki will firstly be able to offer customers a better and faster service as well as improved spare parts supply. Secondly, there is the possibility of operating the machines of both producers and the advantages of using the joint services. Together with one other partner, GILDEMEISTER and Mori Seiki manage the

joint company, MG Finance GmbH, Wernau, which offers tailor-made customer financing. As a result of the great success in the markets in Germany and France, we are planning to set up or expand this business in other European markets.

- **Focus on energy management solutions in the area of Energy Solutions:** GILDEMEISTER is focusing in Energy Solutions on offering innovative and technologically complex solutions, in particular for industrial customers. These solutions cover the entire cycle of generation, storage and usage of renewable energies. GILDEMEISTER offers industrial customers and investors products and solutions to optimise their energy management – against a background of fast-rising energy costs, a comprehensive energy efficiency advisory service will further gain in importance. In selected growth markets, such as Romania, GILDEMEISTER will also continue to construct solar parks.
- **Strengthening existing customer relations:** In the machine tools core business we intend to bind our diverse and broad customer base to us and to further intensify our relationships. Our innovative and extensive product and service portfolio, which is tailored to suit the needs of our customers, provides the basis for this in the area of production technology. To intensify cooperation with our major customers, we will further expand our existing global key account management (KAM). With the aid of the KAM, we intend to position our group as a long-term partner with a range of comprehensive solutions. Our diverse and universally applicable product portfolio offers highly cost-effective solutions for a variety of fields of application.

P. 111 – 118
Opportunities and Risk Report

Sales Revenues

In the reporting year, GILDEMEISTER achieved the highest sales revenues in the company's history. For the first time it surpassed the € 2 billion mark to reach € 2,037.4 million and was € 349.7 million or 21% above the previous year's figure (€ 1,687.7 million). In the fourth quarter sales revenues rose by 23% to € 604.5 million (previous year: € 493.4 million).

P. 53 – 61
Sales revenues of segments

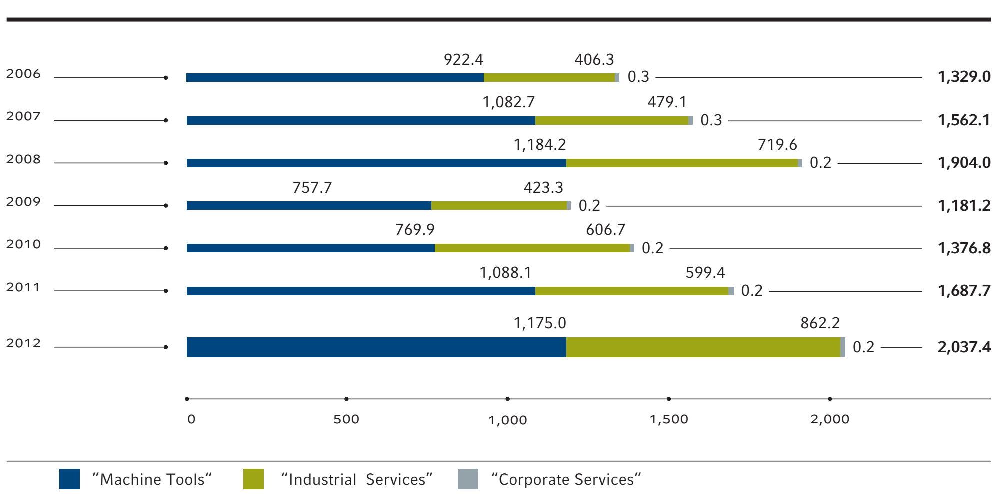
Sales revenues in the core "Machine Tools" business rose by 8% to € 1,175.0 million (previous year: € 1,088.1 million); in the fourth quarter sales revenues reached € 348.4 million (previous year's quarter: € 345.1 million).

The "Industrial Services" segment performed exceptionally well with a rise in sales revenues of € 262.8 million or 44% to € 862.2 million (previous year: € 599.4 million). Sales revenues in the Services area rose by € 289.4 million or 58% to € 790.5 million (previous year: € 501.1 million). The business sales with Mori Seiki products amounted to € 292.2 million. Energy Solutions accounted for € 71.7 million (previous year: € 98.3 million). In the fourth quarter sales revenues in the "Industrial Services" segment reached € 256.1 million (previous year's quarter: € 148.3 million).

The group's international sales revenues rose by 25% to € 1,315.3 million; domestic sales revenues increased by 14% to € 722.1 million. The export ratio rose to 65% (previous year: 63%).

In a multiple year comparison, the segments contributed to group sales revenues as follows:

C . 02 **SALES REVENUES AT THE GILDEMEISTER GROUP**
IN € MILLION



Order Intake

Order intake for the first time in the company's history surpassed the € 2 billion mark. It exceeded the previous year's figure (€ 1,927.3 million) by € 333.5 million and reached € 2,260.8 million - a gain of 17%. In the fourth quarter order intake reached € 554.4 million and was thus 34% above the previous year's figure (€ 415.0 million).

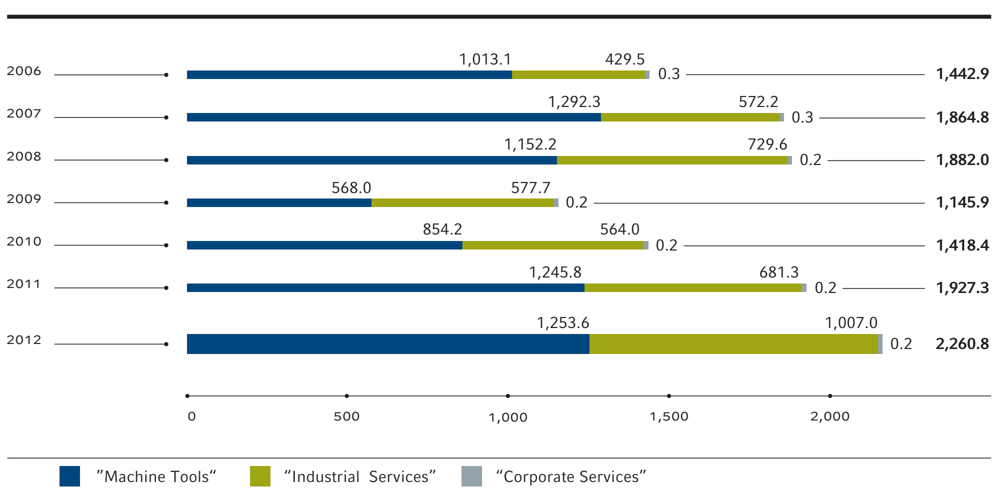
P. 53 – 61
Order intake of segments

Orders in the "Machine Tools" segment in the reporting year were € 1,253.6 million (previous year: € 1,245.8 million). "Industrial Services" once again performed positively; order intake rose in this segment by 48% to € 1,007.0 million (previous year: € 681.3 million). At the same time Services recorded a rise of 50% to € 937.1 million; the sale of Mori Seiki products contributed € 358.0 million of this. Order intake for Energy Solutions was € 69.9 million (previous year: € 57.9 million).

Whilst domestic orders at € 735.8 million remained slightly below the high level of the previous year of € 764.2 million, international orders grew by 31% to € 1,525.0 million (previous year: € 1,163.1 million). The proportion of international orders thus rose to 67% (previous year: 60%)

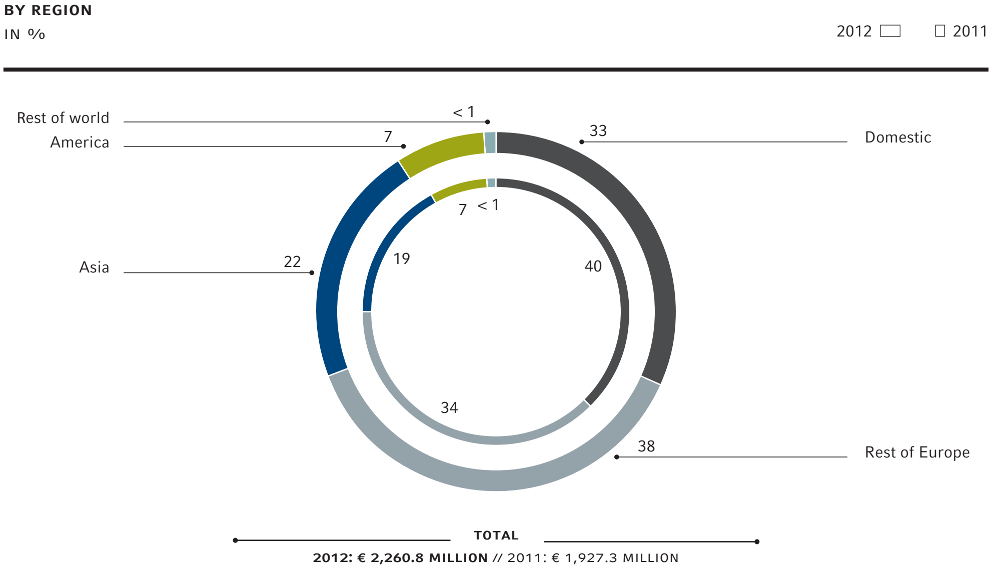
In a multiple year comparison, the segments contributed to group order intake as follows:

C . 03 **ORDER INTAKE GILDEMEISTER GROUP**
IN € MILLION



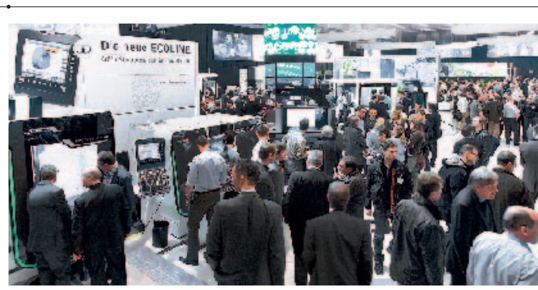
In the individual market regions, order intake developed as follows:

C.04 **ORDER INTAKE AT THE GILDEMEISTER GROUP BY REGION**
IN %



With 8,155 machines, we set a record for the quantity sold in the reporting year (previous year: 7,141); they were delivered to 5,163 different customers. A major order for 846 machines from the electronics industry played a decisive role in this result. This increaesd the **sales volume** in "Machine Tools" by 14% in comparison with the previous year. In the reporting year we raised **selling prices** across the entire product range by about 4%. Our **key accounting** once again made a significant contribution to order intake by contributing 11%. With machine orders to a value of € 240.6 million (+6%), the business with our globally active customers continued to improve. Technology products from the automotive sector and the aerospace industry contributed in particular to this.

13 February 2012



With order intake of € 163.4 million and 530 machines sold, GILDEMEISTER takes positive stock of the traditional open house exhibition in Pfronten at the start of the year.

Our network of local sales and service companies, which is unique in the industry, forms the basis for strong customer loyalty. In the reporting year, we received 61% of all orders from customers who were already operating machines from GILDEMEISTER; the determining factors for this **repeat order rate**, in addition to our dense sales and service network, are the advantages provided by our range of full service offers over the entire life cycle of a machine. In the surveys on **customer satisfaction**, which we carry out regularly, our service field staff worldwide is rated on average at 1.8 (rating scale of 1 = "excellent" to 5 = "poor").

Order Backlog

On 31 December 2012, the order backlog in the group was € 1,003.5 million; it was thus € 192.3 million or 24% above the previous year's level (31 Dec. 2011: € 811.2 million).

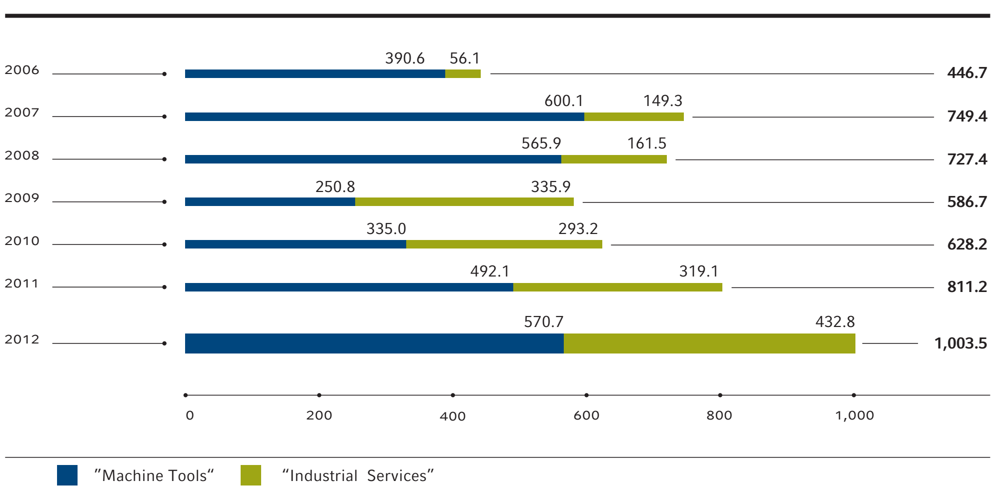
The domestic order backlog was € 252.2 million (previous year: € 237.6 million). With a gain of 31%, the international order backlog rose markedly by € 177.7 million to € 751.3 million (previous year: € 573.6 million); of the present orders, international orders account for 75% (corresponding date of the previous year: 71%).

P. 53 – 61
Order backlog of segments

In the individual segments the order backlog varied. In "Machine Tools" it rose in a year on year comparison by € 78.6 million or 16% to € 570.7 million (31 Dec. 2011: € 492.1 million). "Industrial Services" had an order backlog as of 31 December 2012 totalling € 432.8 million (31 Dec. 2011: € 319.1 million); of this the backlog in the Services division accounted for € 395.9 million (31 Dec. 2011: € 249.1 million). The Energy Solutions order backlog was in line with plan at € 36.9 million (31 Dec. 2011: € 70.0 million).

The following graph shows the development of order backlog in a multiple year comparison:

C . 05 **ORDER BACKLOG AT THE GILDEMEISTER GROUP**
IN € MILLION



The order backlog as of 31 December 2012 in "Machine Tools" gives rise to an average forward order book of about six months, which is a good basic capacity utilisation for the current financial year. In this respect the individual product companies report different capacity utilisation.

Results of Operations

Highest annual profit in the company's history

GILDEMEISTER was able to increase its earnings key performance indicators markedly as of 31 December 2012. They improved in the reporting year as follows: The **EBITDA** rose over the whole year by 19% to € 173.8 million (previous year: € 146.1 million); **EBIT** amounted to € 132.9 million (+18%, previous year: € 112.5 million). **EBT** rose by 80% to € 120.1 million (previous year: € 66.9 million) and the **annual profit** in the group of € 82.4 million reached the highest figure in the company's history (+81%, previous year: € 45.5 million).

In the **fourth quarter** EBITDA reached € 60.8 million (previous year: € 56.5 million); EBIT amounted to € 49.6 million (previous year: € 46.0 million). EBT increased to € 47.4 million (previous year: € 40.3 million). Earnings after tax amounted to € 32.6 million (previous year: € 27.4 million).

C.06

INCOME STATEMENT GILDEMEISTER GROUP	2012 € million	2012 %	2011 € million	2011 %	Changes against previous year € million	Changes against previous year %
Sales revenues	**2,037.4**	**99.1**	**1,687.7**	**96.8**	**349.7**	**20.7**
Changes in finished goods and work in progress	8.0	0.4	44.8	2.6	−36.8	82.1
Own work capitalised	9.7	0.5	11.1	0.6	−1.4	12.6
Total work done	**2,055.1**	**100.0**	**1,743.6**	**100.0**	**311.5**	**17.9**
Cost of materials	−1,129.3	−55.0	−952.7	−54.6	−176.6	18.5
Gross profit	**925.8**	**45.0**	**790.9**	**45.4**	**134.9**	**17.1**
Personnel costs	−440.4	−21.4	−384.7	−22.1	−55.7	14.5
Other income and expenses	−311.6	−15.1	−260.1	−14.9	51.5	19.8
EBITDA	173.8	8.5	146.1	8.4	27.7	18.9
Depreciation of fixed assets	−40.9	−2.0	−33.6	−1.9	−7.3	21.7
EBIT	**132.9**	**6.5**	**112.5**	**6.5**	**20.4**	**18.1**
Financial results	−13.7	−0.7	−46.1	−2.7	32.4	70.3
Results of at equity valued companies	0.9	0.0	0.5	0.0	0.4	80.0
EBT	**120.1**	**5.8**	**66.9**	**3.8**	**53.2**	**79.5**
Taxes on profit	−37.7	−1.8	−21.4	−1.2	−16.3	76.2
Annual profit	**82.4**	**4.0**	**45.5**	**2.6**	**36.9**	**81.1**

The inclusion of the European Mori Seiki sales and service companies since 1 January 2012 in the consolidated financial statement has had an effect on the key performance indicators for the results of operations, net worth and financial position. The consolidation leads to a balance sheet extension, a rise in minority interests in equity and to additional earnings from the business with Mori Seiki products.

P. 132 – 135
Consolidated Financial Statements

P. 43 – 48
Net Worth

Total work done in financial year 2012 rose to € 2,055.1 million; it was thus € 311.5 million or 17.9% above the previous year's figure (€ 1,743.6 million). This rise resulted from the increase in sales revenues of € 349.7 million or 20.7% (previous year: € 1,687.7 million).

The **materials ratio** rose slightly to 55.0% (previous year: 54.6%). The rise in the materials ratio was due mainly to the higher sales volume with goods from our cooperation partner. With a rise in total work done, the cost of materials amounted to € 1,129.3 million (previous year: € 952.7 million). The gross profit improved by € 134.9 million (17.1%) to € 925.8 million; the gross margin reached 45.0% (previous year: 45.4%).

P. 70 – 73
Employees

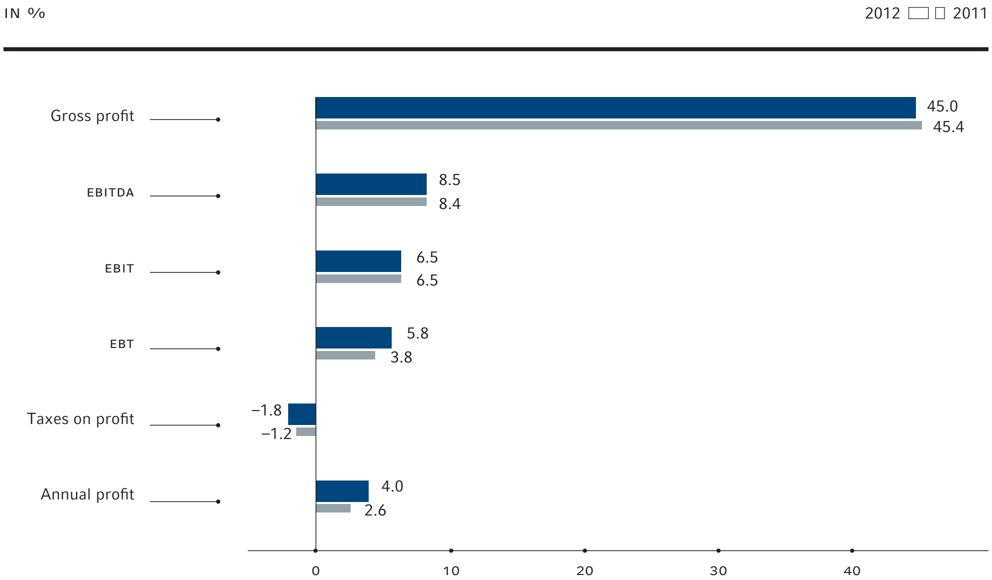
P. 173 – 179
Consolidated Financial Statements

Employee expenses rose by € 55.7 million to € 440.4 million (previous year: € 384.7 million). With a rise in total work done, the personnel expenses ratio decreased to 21.4% (previous year: 22.1%). The balance of other expenses and income amounted to € 311.6 million (previous year: € 260.1 million). Other operating expenses rose by € 45.5 million to € 374.4 million (previous year: € 328.9 million). This rise resulted mainly from expense related to sales revenues as well as from the increased use of temporary workers. Other operating income amounted to € 62.8 million (previous year: € 68.8 million); as in the previous year, this includes primarily the release of provisions as well as currency gains.

Depreciation was € 40.9 million (previous year: € 33.6 million). The financial result amounted to € –13.7 million (previous year: € –46.1 million) and improved essentially due to the lower net debt in the year. The tax ratio was 31.4% (previous year: 31.9%); the **tax expense** increased alongside a rise in earnings to € 37.7 million (previous year: € 21.4 million).

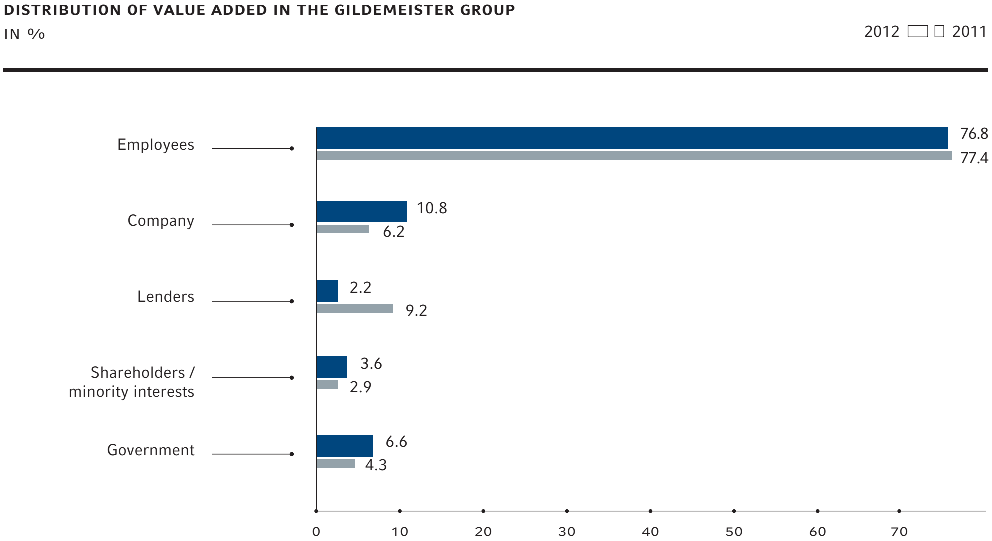
The earnings margins, which are determined on the basis of total work done, have changed as follows: The gross margin was 45.0% (previous year: 45.4%). The EBITDA margin reached 8.5% (previous year: 8.4%), the EBIT margin was 6.5% (previous year: 6.5%) and the EBT margin was 5.8% (previous year: 3,8%). Taking the tax expenses into consideration, the net income margin was 4.0% (previous year: 2.6%).

C . 07 **CHANGES IN MARGINS OF THE GILDEMEISTER GROUP**
IN %



In financial year 2012 the **value added** of the GILDEMEISTER group was € 574.2 million and thus rose by € 76.3 million compared to the previous year (€ 497.9 million).

C . 08 **DISTRIBUTION OF VALUE ADDED IN THE GILDEMEISTER GROUP**
IN %



The following table shows the **value added statement** in detail:

C.09

VALUE-ADDED STATEMENT OF THE GILDEMEISTER GROUP	2012 € million	%	2011 € million	%	Changes against previous year € million	%
Source						
Sales revenues	2,037.4	96.2	1,687.7	93.1	349.7	20.7
Other revenues	80.5	3.8	124.7	6.9	−44.2	−35.4
Operating performance	2,117.9	100.0	1,812.4	100.0	305.5	16.9
Cost of materials	1,129.3	53.3	952.7	52.6	176.6	18.5
Depreciation	40.9	1.9	33.6	1.8	7.3	21.7
Other expenses	373.5	17.6	328.2	18.1	45.3	13.8
Purchased materials and services	1,543.7	72.9	1,314.5	72.5	229.2	17.4
Value added	574.2	27.1	497.9	27.5	76.3	15.3
Distribution						
Employees	441.3	76.8	385.4	77.4	55.9	14.5
Companies	62.0	10.8	30.9	6.2	31.1	100.6
Lenders	12.8	2.2	45.6	9.2	−32.8	−71.9
Shareholders/minority interests	20.4	3.6	14.6	2.9	5.8	39.7
Government	37.7	6.6	21.4	4.3	16.3	76.2
Value added	574.2	100.0	497.9	100.0	76.3	15.3

Financial Position

The group's financial position improved in the reporting year. **Cash flow from operating activities (cash received)** improved by € 7.7 million to € 168.7 million (previous year: € 161.0 million); earnings before tax (EBT) contributed € 120.1 million (previous year: € 66.9 million) to this and depreciation € 40.9 million (previous year: € 33.6 million). The decrease in trade receivables of € 28.9 million and the rise in pre-payments received of € 28.0 million led to an improvement in cash flow. The rise in inventories (€ +14.6 million) – due to an increase in business volume – as well as interest payments (€ 17.8 million) and income taxes (€ 24.4 million) reduced cash flow.

C.10

CASHFLOW	2012 € million	2011 € million
Cash flow from operating activity	168.7	161.0
Cash flow from investment activity	−63.0	−80.6
Cash flow from financing activity	−39.2	−86.7
Changes in cash and cash equivalents	68.1	−6.6
Liquid funds at the start of the reporting period	105.2	111.8
Liquid funds at the end of the reporting period	173.3	105.2

P. 51 – 52
Investments

The cash flow from investment activity (cash outflow) decreased by € 17.6 million to € –63.0 million (previous year: € –80.6 million). Investments in property, plant and equipment were € 56.3 million (previous year: € 44.1 million) and in intangible assets were € 15.5 million (previous year: € 25.5 million).

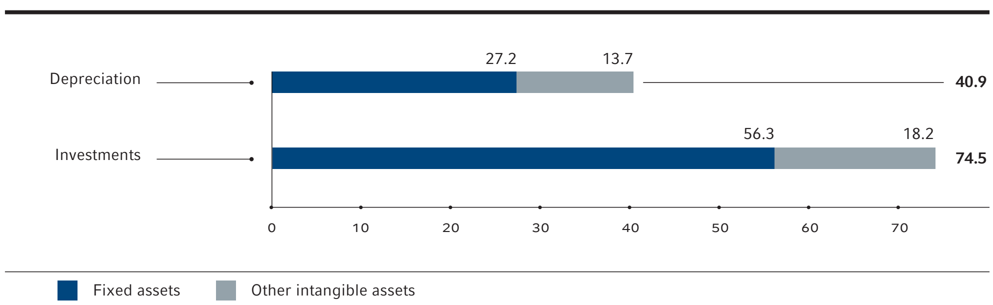
Cash flow from financing activities (cash outflow) was € – 39.2 million (previous year: € – 86.7 million). Payments resulted from the reduction in financial liabilities of € 19.9 million and from the distribution of the dividend in May 2012 of € 14.6 million.

The **free cash flow** was € 99.1 million (previous year: € 95.2 million).

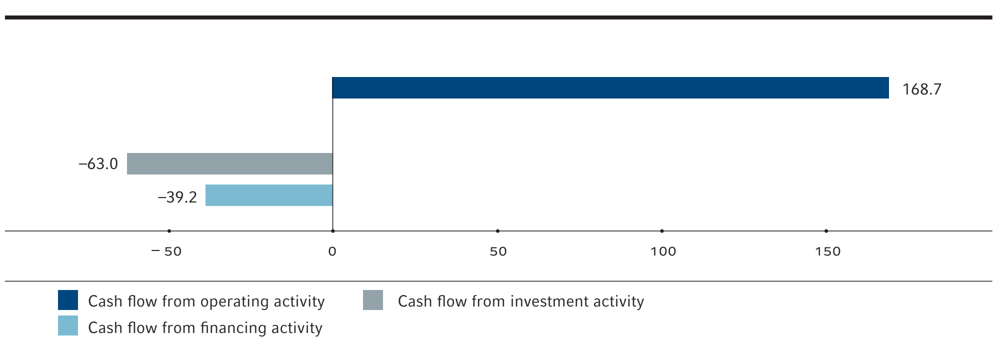
As of 31 December 2012 we had completely reduced net debt and report surplus funds of € 161.0 million.

Within the overall financing, GILDEMEISTER had sufficient **liquidity** at year-end 2012. The balance of liquid funds amounted to € 173.3 million (previous year: € 105.2 million).

C.11 **CASH FLOW ANALYSIS 2012 (CASH FLOW-STATEMENT)**
IN € MILLION



C.12 **COMPOSITION OF THE CASH FLOW STATEMENT 2012**
IN € MILLION



P. 135
Detailed cash flow statement

GILDEMEISTER covers its capital requirements from the operating cash flow and from taking out short- and long-term financing. The amount of the agreed financing lines totals € 790.8 million. Significant elements of this are the syndicated credit facility of € 450.0 million, with a term until 2016, further aval lines of € 131.5 million and factoring agreements of € 176.5 million. In addition, we still have some long-term loans and short-term bilateral loan commitments to individual subsidiaries with a total volume of € 32.8 million (previous year: € 46.7 million). For its operating activities GILDEMEISTER requires aval lines in order to have guarantees for advance payments and warranties issued.

P. 202 – 205
Financial liabilities

GILDEMEISTER does not have a **corporate rating** as we are not planning any capital market financing and any such rating involves significant costs.

Our financing includes customary agreements on compliance with defined key performance indicators (covenants). The financing is extended through off balance sheet operating leasing agreements. The sum of future obligations from the operating lease agreements is € 60.8 million (previous year: € 53.4 million).

P. 207
Future financial obligations

Through this financing mix we have sufficient financing lines with which we can make the necessary liquidity available for our business.

P. 210 – 220
Risks from financing and evaluation

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

Net Worth

The assets and capital structure developed as follows in the reporting year: The **balance sheet total** rose to € 1,615.3 million (previous year. € 1,371.8 million). The balance sheet extension resulted from the inclusion of the European Mori Seiki sales and service companies. On the equity and liabilities side, equity rose by € 132.7 million to € 787.9 million. The increase was due substantially to the net income for the year and the rise in minority interests in equity through the inclusion of the European Mori Seiki companies. The **equity ratio** rose to 48.8% (previous year: 47.8%).

C . 13

BALANCE SHEET OF THE GILDEMEISTER GROUP	2012		2011		Changes against previous year	
	€ million	%	€ million	%	€ million	%
Assets						
Long-term assets						
Fixed assets	500.7	31.0	403.9	29.4	96.8	24.0
Long-term receivables and other assets	58.6	3.6	59.3	4.4	–0.7	–1.2
	559.3	34.6	463.2	33.8	96.1	20.7
Short-term assets						
Inventories	486.3	30.1	452.0	32.9	34.3	7.6
Short-term receivables and other assets	396.4	24.5	351.4	25.6	45.0	12.8
Liquid funds	173.3	10.8	105.2	7.7	68.1	64.7
	1,056.0	65.4	908.6	66.2	147.4	16.2
Balance Sheet total	**1,615.3**	**100.0**	**1,371.8**	**100.0**	**243.5**	**17.8**
Equity and liabilities						
Long-term financing resources						
Equity	787.9	48.8	655.2	47.8	132.7	20.3
Outside capital						
Long-term provisions	41.9	2.6	38.3	2.8	3.6	9.4
Long-term liabilities	21.9	1.4	41.9	3.0	–20.0	–47.7
	63.8	4.0	80.2	5.8	–16.4	–20.4
	851.7	52.8	735.4	53.6	116.3	15.8
Short-term financing resources						
Short-term provisions	196.8	12.2	158.4	11.5	38.4	24.2
Short-term liabilities	566.8	35.0	478.0	34.9	88.8	18.6
	763.6	47.2	636.4	46.4	127.2	20.0
Balance Sheet total	**1,615.3**	**100.0**	**1,371.8**	**100.0**	**243.5**	**17.8**

P. 51 – 52
Investments

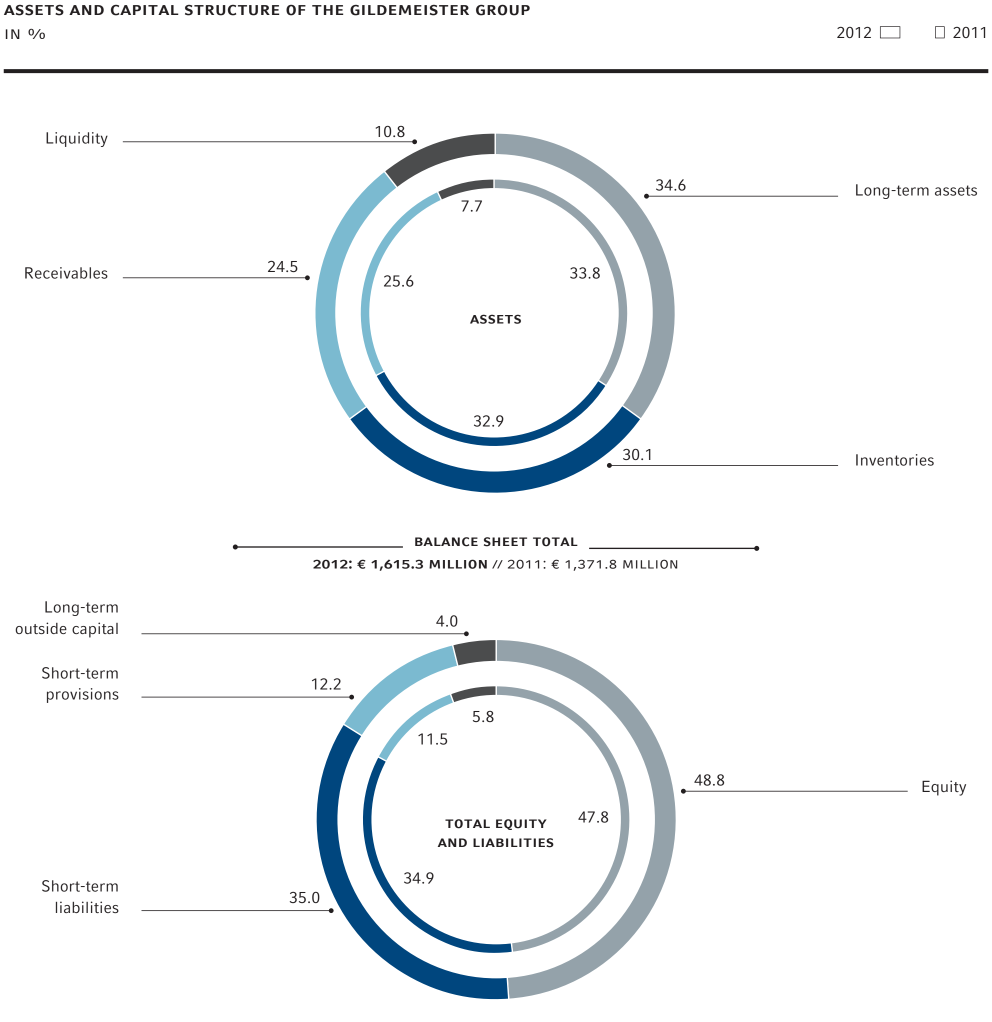
On the **assets side**, assets rose by € 96.8 million or 24.0% to € 500.7 million (previous year: € 403.9 million). Intangible assets rose by € 52.3 million to € 184.6 million and property, plant and equipment rose by € 45.2 million to € 263.2 million. Financial assets amounted to € 52.9 million (previous year: € 53.6 million).

Long-term receivables and other assets fell by € 0.7 million or 1.2% to € 58.6 million (previous year: € 59.3 million). At the same time, deferred taxes amounted to € 44.2 million (previous year: € 41.3 million). Other assets include discounted customer bills of exchange of € 0.7 million (previous year: € 2.2 million).

By an increase in total operating revenue of 17.9%, **inventories** rose by 7.6% or € 34.3 million to € 486.3 million (previous year: € 452.0 million). The inventory of raw materials and consumables rose by € 8.1 million to € 200.3 million (previous year: € 192.2 million) and stocks of work in progress by € 4.2 million to € 123.1 million (previous year: € 118.9 million). Stocks of finished goods and merchandise amounted to € 156.6 million (previous year: € 139.4 million); this includes machines from Mori Seiki of € 27.5 million (previous year: € 3.5 million). The turnover rate of inventories improved to 4.2 (previous year: 3.7).

Overall, the share of inventories in the balance sheet total fell to 30.1% (previous year: 32.9%).

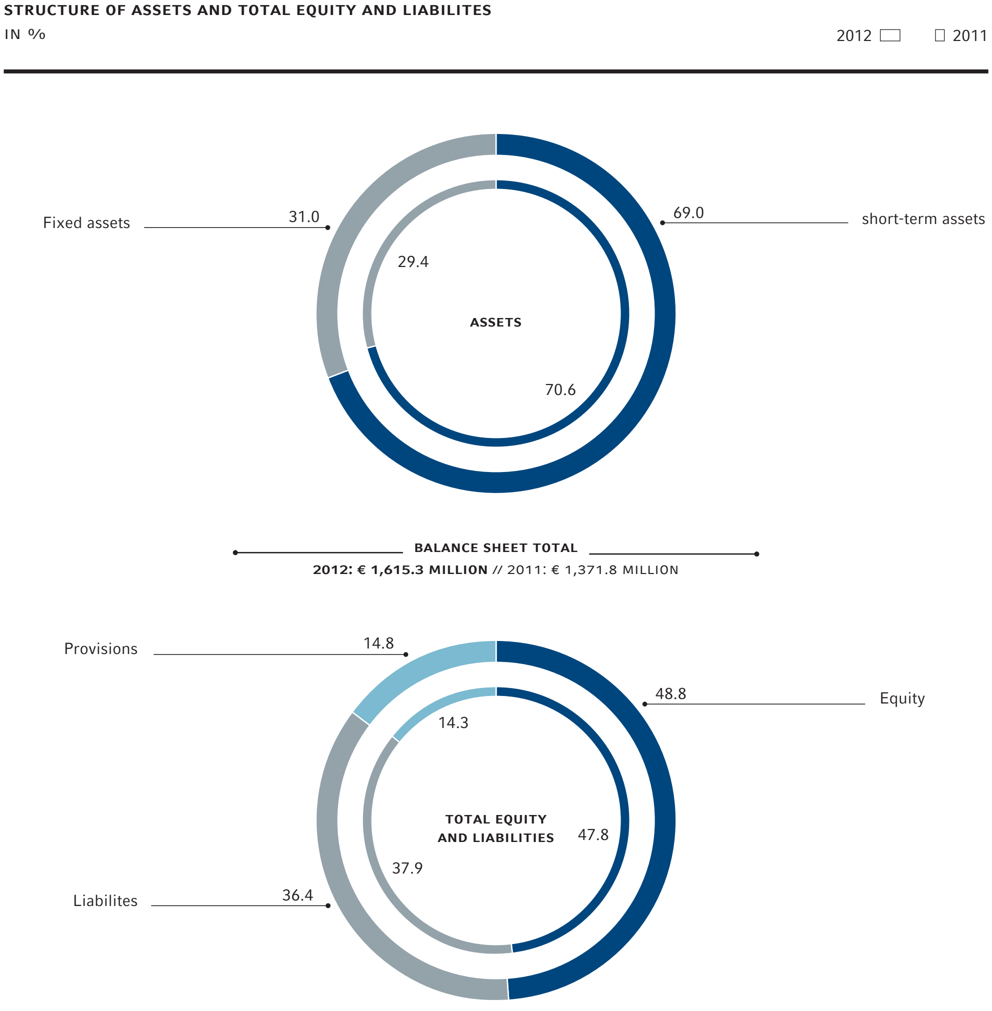
C.14 **ASSETS AND CAPITAL STRUCTURE OF THE GILDEMEISTER GROUP**
IN %



Short-term receivables and other assets rose compared to the previous year by 12.8% or € 45.0 million to € 396.4 million. At the same time trade receivables rose by € 19.2 million to € 228.1 million. The turnover rate of trade receivables improved to 8.9 (previous year: 8.1). Other assets increased to € 168.3 million (previous year: € 142.5 million).

At the end of the reporting period, **cash and cash equivalents** amounted to € 173.3 million (previous year: € 105.2 million) or 10.8% of the balance sheet total (previous year: 7.7%). In the assets structure, the share of long-term assets rose by 0.8 percentage points to 34.6% (previous year: 33.8%).

C.15 **STRUCTURE OF ASSETS AND TOTAL EQUITY AND LIABILITES**
IN %



Under **equity and liabilities**, equity rose by € 132.7 million or 20.3% to € 787.9 million (previous year: € 655.2 million). The net income for the year of € 82.4 million increased equity whilst the dividend distribution in May 2012 of € 14.6 million led to a reduction.

Again surplus funds

The **minority interests in equity** grew through the inclusion of the European Mori Seiki companies by € 72.5 million to € 84.6 million. The equity ratio thus increased to 48.8% (previous year: 47.8%). As at the same time in the previous year, we have surplus funds and thus no **gearing**.

Long-term borrowings decreased by € 20.4 million to € 63.8 million. The share of the balance sheet total fell by 1.8 percentage points to 4.0% (previous year: 5.8%). The share of long-term provisions amounts to 2.6% (previous year. 2.8%). This includes company pension provisions of € 21.7 million (previous year: € 21.6 million), which have been measured at a higher figure due to the interest rate, as well as other provisions for obligations from human resources of € 15.2 million (previous year: € 12.7 million). Liabilities of € 7.5 million (previous year: € 7.7 million) relate to deferred tax liabilities.

Long-term financing resources rose in the reporting year by € 116.3 million or 15.8% to € 851.7 million. Long-term assets are financed as to 152.3% (previous year: 158.8%) by long-term available funds.

Short-term financing resources rose to € 763.6 million (previous year: € 636.4 million). Trade payables were € 329.5 million (previous year: € 267.4 million). Prepayments received rose to € 155.8 million (previous year: € 127.8 million); the prepayments ratio was 15.5% (previous year: 15.8%). Provisions rose by € 38.4 million to € 196.8 million (previous year: € 158.4 million). Short-term financial liabilities decreased to € 9.1 million (previous year: € 19.5 million). Under short-term liabilities € 10.9 million are reported in connection with pending assets held for sale (previous year: € 11.9 million).

The total of fixed assets and inventories of € 987.0 million (previous year: € 855.9 million) is covered as to 86.3% (previous year: 85.9%) by long-term financing resources. The structure of equity and liabilities shows in a year on year comparison a rise in the **equity ratio** of 1.0 percentage points to 48.8%. The ratio of provisions rose by 0.5 percentage points to 14.8% and the ratio of liabilities fell by 1.5 percentage points to 36.4% (previous year: 37.9%).

In addition to the assets shown in the group balance sheet, the group also uses **off balance sheet assets**. These relate mainly to specific leased or rented goods (operating lease). As off-balance sheet financial instruments, the group makes use of factoring programmes. Of special importance are our excellent, long-term relationships of trust with our customers and suppliers; they make it possible for us to have direct access to the relevant markets and render us independent of short-term market fluctuations.

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Factoring programmes, operating leasing

Annual Financial Statements of GILDEMEISTER Aktiengesellschaft (in brief)

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

C.16 **BALANCE SHEET OF GILDEMEISTER AKTIENGESELLSCHAFT (HGB)**

	2012 € million	2011 € million
Assets		
Fixed assets		
Shares in affiliated companies	415.5	415.5
Other fixed assets	84.1	75.1
	499.6	**490.6**
Short-term assets		
Receivables from affiliated companies	440.4	336.9
Other short-term assets	100.7	82.0
	541.1	**418.9**
Balance Sheet total	**1,040.7**	**909.5**
Equity and liabilities		
Equity	**614.5**	**584.3**
Provisions	**46.9**	**41.0**
Liabilities		
Financial liabilities	0.6	0.7
Liabilities to affiliated companies	367.6	271.1
Other liabilities	11.1	12.4
	379.3	**284.2**
Balance Sheet total	**1,040.7**	**909.5**

The balance sheet total of GILDEMEISTER Aktiengesellschaft rose by € 131.2 million to € 1,040.7 million (previous year: € 909.5 million). The substantial changes arise from the increase in receivables from affiliated companies due to the higher distributed profits as well as from the rise in bank deposits.

C.17 **INCOME STATEMENT OF GILDEMEISTER AKTIENGESELLSCHAFT (HGB)**

	2012 € million	2011 € million
Sales	13.8	11.4
Other operating income	14.9	15.1
Other expenses	–55.4	–66.3
Income from financial assets	92.3	64.7
Financial result	6.1	–2.6
Result from ordinary activities	71.7	22.3
Extraordinary income	–0.2	–0.2
Income taxes	–26.6	–8.3
Net income	**44.9**	**13.8**
Retained profits brought forward	**2.2**	**3.0**
Appropriation to revenue reserves	22.4	0.0
Net profit	**24.7**	**16.8**

The earnings of GILDEMEISTER Aktiengesellschaft were determined substantially by income from financial assets (€ 92.3 million), which comprises the transfer of profits of DMG Vertriebs und Service GmbH (€ 32.8 million), of GILDEMEISTER Beteiligungen GmbH (€ 58.3 million) and income from the investment in Mori Seiki of € 1.2 million (previous year: € 1.0 million).

The financial result was € 6.1 million (previous year: € –2.6 million). The tax expense was € –26.6 million (previous year: € –8.3 million).

GILDEMEISTER Aktiengesellschaft closes financial year 2012 with net income for the year of € 44.9 million (previous year: € 13.8 million). The appropriation to revenue reserves was € 22.4 million (previous year: € 0.0 million). Taking into account the profit carry-forward of the previous year, net profits were € 24.7 million (previous year: € 16.8 million).

The Executive Board and the Supervisory Board will propose to the 111th Annual General Meeting on 17 May 2013 that a dividend of € 0.35 per share be distributed for financial year 2012 (previous year: € 0.25). Moreover, it will be proposed to the Annual General Meeting to carry forward the remaining net retained profits of GILDEMEISTER Aktiengesellschaft of € 4.2 million to new account.

Value Reporting

For GILDEMEISTER, value reporting forms part of a value-oriented corporate management. Our transparent, regular and structured reports allow investors an opportunity to determine corporate value, in addition to the valuation of the company on the stock exchange. Our detailed interim reports over the course of the year, as well as at the end of the financial year with detailed information in the Group Management Report and Consolidated Financial Statements, meet the high requirements of the capital market.

GILDEMEISTER gears its corporate management towards a systematic and sustainable increase in corporate value. With the aid of our company's internal controlling and management system, we manage the activities of the group and of the individual companies with a focus on value. At the same time, **earnings before tax** (EBT), sales revenues and order intake as well as – at the group level – the **return on capital employed** (ROCE) are important internal targets and key performance indicators. Management according to ROCE and the relative economic value added – the difference between ROCE and the cost of capital following the **WACC method** (weighted average cost of capital) – is based on the assumption that the enterprise value rises when sustainable, positive economic value added is achieved. Due to the higher EBIT and the increased capital employed, the ROCE rose in the reporting year to 15.4% and was thus above the WACC (previous year: 14.4%). Positive economic value added of 7.0% was achieved (previous year: 4.1%). Additional values are shown in the following table:

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ROCE AND ECONOMIC VALUE ADDED

	2012	2011
EBIT (€ million)	132.9	112.5
Capital Employed (€ million)	865.6	780.7
ROCE (in %)	15.4	14.4
WACC (in %)	8.4	10.3
Relative economic value added before taxes (in %)	7.0	4.1
Economic value added before taxes (€ million)	60.6	32.1

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Multiple Year Overview

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WEIGHTED AVERAGE COST OF CAPITAL (WACC)

	2012	2011
Risk-free interest rate	2.25%	4.0%
Market risk premium	6.75%	5.0%
Beta factor	1.0	1.0
Cost of equity after tax	9.0%	9.0%
Cost of debt capital before tax	4.2%	8.2%
Tax rate*	1.2%	2.4%
Cost of debt capital after tax	3.0%	5.8%
Share of equity	49%	48%
Share of debt capital	51%	52%
Cost of capital after tax	5.9%	7.3%
Tax rate	29.4%	28.8%
Cost of capital before tax (WACC)	8.4%	10.3%

* 2012: 29.4%; 2011: 28.8%

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Future development of the GILDEMEISTER Group

Investments

Investment in plant, property and equipment, and in intangible assets of € 74.5 million was at the level of the previous year (€ 74.9 million). Depreciation of fixed assets taking into account capitalised development costs and finance leases was above the previous year's level at € 40.9 million (previous year: € 33.6 million).

One priority in our investment activities was the capacity expansion totalling 10,500 square metres at the Seebach site; we put the new style cluster assembly into operation and reduced throughput times of machines by up to 60%. In addition, a computer-controlled logistics centre with high racks and large parts store to optimise materials flow, as well as a technology centre for prototype construction, have been realised.

Moreover, on 26 September GILDEMEISTER opened the "GILDEMEISTER energy solutions Park" in Bielefeld. The site will be supplied with up to 15% of its power from self-produced energy, produced without any emissions. At the Geretsried site, the new spare parts centre is completing the final stages of construction. Furthermore, on 23 October we held a ground-breaking ceremony in Ulyanovsk, Russia, for our new production and assembly plant with a training and technology centre.

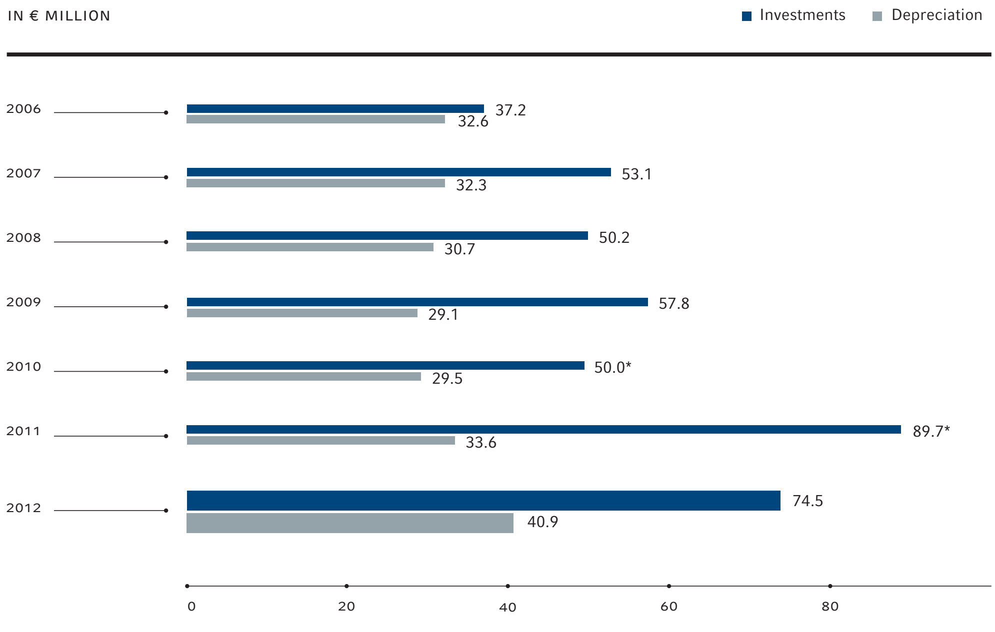
P. 53 – 62
Segments

A further focus of our investment actvities was the development of innovative products. Priority was placed on completing the 5-axis product ranges, the integration of the NHX series and building upon the milling-turning technology.

16 October 2012

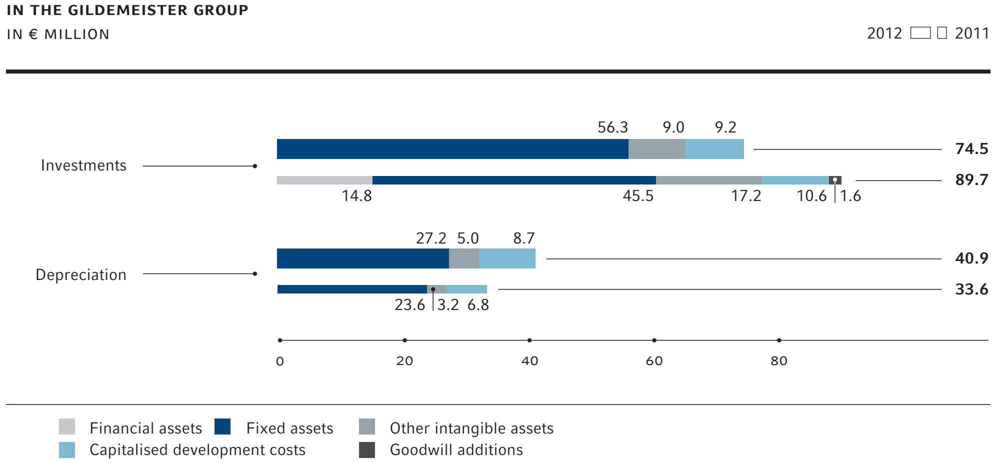
GILDEMEISTER invests a total of € 20.1 million in Seebach in expanding the production with cluster assembly, a logistics centre and technology centre, as well as an Energy Solutions Park. The opening ceremony took place in the presence of Dr Rüdiger Kapitza and Dr Masahiko Mori.

C.20 **INVESTMENTS AND DEPRECIATION / AMORTISATION IN THE GILDEMEISTER GROUP**
IN € MILLION



* Of which inflow to financial assets 2011: € 14.8 MILLION; 2010: € 11.0 MILLION

C.21 **BREAK DOWN OF INVESTMENTS / AMORTISATION IN THE GILDEMEISTER GROUP**
IN € MILLION



Segment Report

Our business activities include the "Machine Tools" and "Industrial Services" segments. The "Corporate Services" segment essentially comprises GILDEMEISTER Aktiengesellschaft with its group-wide holding functions.

The selected Mori Seiki machines produced by us under licence are included in "Machine Tools". The business with Mori Seiki products and the services are booked under "Industrial Services".

The breakdown of sales revenues, order intake and EBIT for the individual segments is as follows in the reporting year:

C. 22 **SEGMENT KEY INDICATORS OF THE GILDEMEISTER GROUP**

	2012 € million	2011 € million	€ million	Changes 2012 against 2011 %
Sales revenues	**2,037.4**	**1,687.7**	**349.7**	**21**
Machine Tools	1,175.0	1,088.1	86.9	8
Industrial Services	862.2	599.4	262.8	44
Corporate Services	0.2	0.2	0.0	0
Order intake	**2,260.8**	**1,927.3**	**333.5**	**17**
Machine Tools	1,253.6	1,245.8	7.8	1
Industrial Services	1,007.0	681.3	325.7	48
Corporate Services	0.2	0.2	0.0	0
EBIT	**132.9**	**112.5**	**20.4**	**18**
Machine Tools	69.3	73.4	−4.1	
Industrial Services	88.4	56.9	31.5	
Corporate Services	−25.5	−17.5	−8.0	

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Explanations to segment data

"Machine Tools"

The "Machine Tools" segment is our core segment and includes the group's new machines business with the business divisions turning, milling and ultrasonic / lasertec, as well as the ECOLINE and Electronics.

The production plants at GILDEMEISTER are combined into associations independent of location, in order to strengthen core technological expertise. Through this we achieve additional synergies and can make optimum use of our capacity and reduce fixed costs. Moreover, the organisation into associations increases our efficiency in producing innovative and competitive products.

In the **Turning Association**, GILDEMEISTER Drehmaschinen GmbH in Bielefeld, GRAZIANO Tortona S.r.l. and GILDEMEISTER Italiana S.p.A. bring together their core expertise in turning. Our full-line turning machine range comprises six product lines, ranging from universal and vertical turning machines to turning centres and turning-milling centres for 5-axis machining.

In the **Milling Association**, DECKEL MAHO Pfronten GmbH and SAUER GmbH pool their core expertise in milling as well as in ultrasonics and lasertec. In the **Milling and Processing Association**, DECKEL MAHO Seebach GmbH and FAMOT Pleszew Sp. z.o.o. complement each other in the efficient management and capacity utilisation of the mechanical production capacity within the group.

Our portfolio in the milling division concentrates on eight product lines: from universal milling machines to horizontal and vertical machining centres, and from travelling column and HSC precision machines to milling machines and machining centres for 5-axis machining.

The **ECOLINE Association** offers access to turning and milling processing at attractive entry level prices to a broad, global market segment. The four product lines in this increasingly important area are covered by DMG ECOLINE GmbH, DECKEL MAHO GILDEMEISTER Machine Tools Co., Ltd., Shanghai, and in future also by Ulyanovsk Machine Tools OOO in Russia.

P. 103 – 107
Production, technology and logistic

DMG Electronics GmbH combines our control and software development expertise from throughout the group.

C . 23

KEY FIGURES "MACHINE TOOLS" SEGMENT

	2012 € million	2011 € million	Changes 2012 against 2011 € million	Changes 2012 against 2011 %
Sales revenues				
Total	1,175.0	1,088.1	86.9	8
Domestic	396.9	373.1	23.8	6
International	778.1	715.0	63.1	9
% International	66	66		
Order intake				
Total	1,253.6	1,245.8	7.8	1
Domestic	386.3	469.1	– 82.8	– 18
International	867.3	776.7	90.6	12
% International	69	62		
Order backlog*				
Total	570.7	492.1	78.6	16
Domestic	130.2	140.8	– 10.6	– 8
International	440.5	351.3	89.3	25
% International	77	71		
Investments	47.6	47.9	– 0.3	– 1
Employees	3,293	3,178	115	4
plus trainees	221	219	2	1
Total employees*	3,514	3,397	117	3
EBITDA	95.8	97.3	– 1.5	
EBIT	69.3	73.4	– 4.1	
EBT	57.4	59.7	– 2.3	

* reporting date 31 December

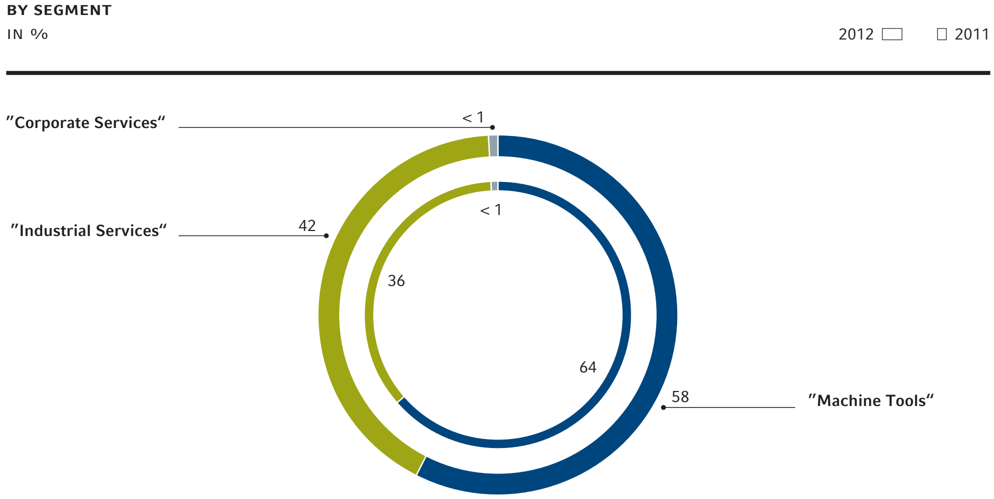
The "Machine Tools" segment performed in order intake, sales revenues and earnings in financial year 2012 as follows: In the fourth quarter **sales revenues** of € 348.4 million reached the previous year's level (€ 345.1 million). Over the whole year "Machine Tools" achieved sales revenues of € 1,175.0 million. This corresponds to an increase of 8% or € 86.9 million when compared to the previous year (€ 1,088.1 million). Domestic sales revenues rose by 6% or € 23.8 million to € 396.9 million (previous year: € 373.1 million). International sales revenues grew by 9% or € 63.1 million to € 778.1 million (previous year: € 715.0 million). International sales accounted for 66% as in the previous year.

The "Machine Tools" segment contributed 58% of sales revenues (previous year: 64%). The turning technology of GILDEMEISTER contributed 14% of this (previous year: 16%). The milling technology of DECKEL MAHO contributed 36% of the sales revenues (previous year: 39%); ultrasonic / lasertec accounted for 2% (previous year: 2%). The ECOLINE division contributed 6% (previous year: 7%).

The **sales quantity** of new machines rose when compared to the previous year by 15% to 7,941 (previous year. 6,928).

With respect to the total sales revenues of the group, the "Machine Tools", "Industrial Services" and "Corporate Services" participated as follows:

C.24 **SALES REVENUES DISTRIBUTION IN THE GILDEMEISTER GROUP BY SEGMENT**
IN %



TOTAL
2012: € 2,037.4 MILLION // 2011: € 1,687.7 MILLION

Order intake in our core business grew in line with plans. Our innovations were very well received by the market. In the fourth quarter order intake was € 330.2 million (previous year's quarter: € 225.2 million). Over the whole year order intake grew to € 1,253.6 million and was thus € 7.8 million or 1% above the previous year's figure (€ 1,245.8 million).

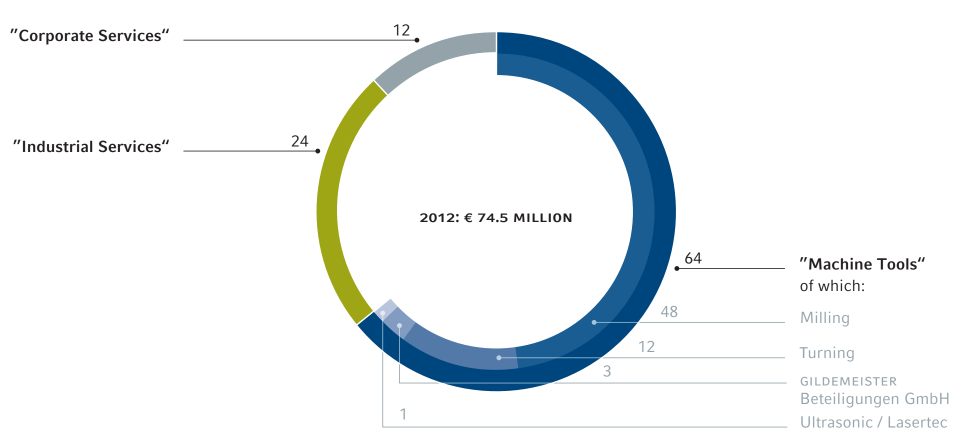
Domestic order intake fell by 18% or € 82.8 million to € 386.3 million (previous year: € 469.1 million). International orders increased by 12% or € 90.6 million to € 867.3 million (previous year: € 776.7 million); international orders accounted for 69% of orders (previous year: 62%). The share of orders in the "Machine Tools" segment was 55% (previous year: 65%).

The **order backlog** as of 31 December 2012 of € 570.7 million (+16%) was above the previous year's figure (€ 492.1 million). The domestic order backlog fell by € 10.6 million to € 130.2 million (previous year: € 140.8 million). International orders registered 77% (previous year: 71%); they grew by € 89.3 million or 25% to € 440.5 million (previous year: € 351.3 million).

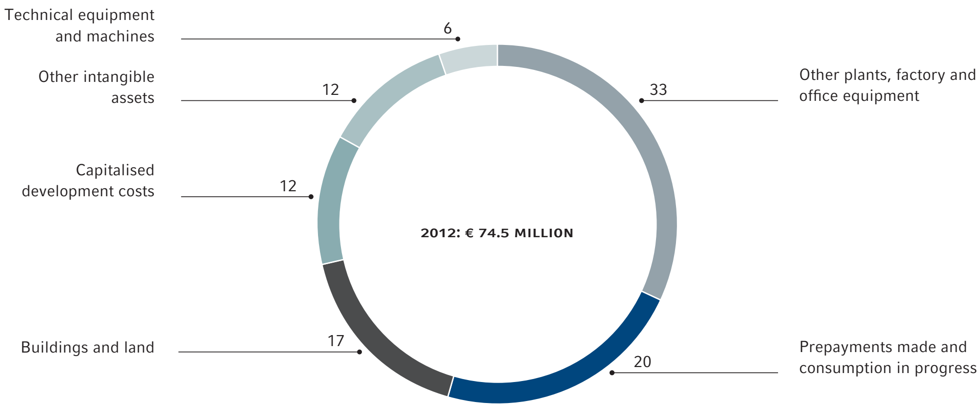
The results were burdened by local competitive pressure in some markets in the "Machine Tools" segment; additionally, finished goods partly could no longer be delivered in time with respect to the balance sheet date. **EBITDA** amounted to € 95.8 million (previous year: € 97.3 million). **EBIT** reached € 69.3 million (previous year: € 73.4 million) and **EBT** totalled € 57.4 million (previous year: € 59.7 million).

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

C.25 **SHARE OF INDIVIDUAL SEGMENTS / DIVISION IN INVESTMENTS**
IN %



C . 26 **DISTRIBUTION OF INVESTMENT VOLUME BY TYPE OF INVESTMENT**
IN %



Investments in the **"Machine Tools"** segment totalled € 47.6 million (previous year: € 47.9 million). The focus was on the capacity expansion of 10,500 square metres at Seebach. In the newly-constructed assembly hall we have introduced the principle of cluster assembly. Through this we are building machines in the eVolution series with noticeably reduced throughput times. With the new computer-controlled logistics centre and integrated modern high racks and large parts store we have optimised materials flow. The new technology centre also provides up-to-date conditions for development and for prototype construction. Part of the energy requirement for production will be produced from sun and wind power by the site's own energy park.

On 23 October a ground-breaking ceremony took place in Ulyanovsk, Russia, for our new site. An up-to-date production plant with a training and technology centre will be constructed in this industrial region on the Volga. At our site in Bielefeld we set up a modern progressive assembly system, which has enabled us to reduce the throughput times of our universal turning machines by up to 30%. In Pfronten we have re-installed

23 October 2012

On 23 October 2012 the ground breaking ceremony for the GILDEMEISTER production site in Ulyanovsk, Russia, takes place. On a surface of 16,000 square metres a production and assembly factory with training and technology centre will be build.

the motor spindle assembly as a line assembly and through this we have further increased quantities and quality. The production plant FAMOT in Pleszew, Poland, likewise introduced a new progressive assembly system. Furthermore, GILDEMEISTER Beteiligungen GmbH invested in optimising business processes and IT systems. Capitalised development costs totalled € 8.1 million.

The focus of developments in the milling division was placed on completing the 5-axis product lines, on integrating the NHX series and in building upon the milling-turning technology. In the turning area, the SPRINT 50 was re-designed from scratch as a platform concept. In total, we presented 17 new developments.

At the end of the year, the "Machine Tools" segment had 3,514 **employees** (previous year: 3,397). This represents 54% of the total staff at the GILDEMEISTER group (previous year: 56%). In comparison with the previous year, the number of employees has risen by 117. The increase in staff occurred in particular at our sites in Pleszew, Seebach and Pfronten against the background of positive business development. The personnel ratio in the "Machine Tools" segment was 16.9% as in the previous year; employee expenses totalled € 198.6 million (previous year: € 183.4 million).

"Industrial Services"

The "Industrial Services" segment comprises the business activities of the Services and Energy Solutions divisions. These are DMG Vertriebs und Service GmbH and its subsidiaries, as well as a+f GmbH and the companies responsible for production and for sales and services. In this way we achieve a closer linking of our sales organisation and underscore our focus on industrial customers also with respect to our Energy Solutions products. This segment provides all services from one source.

In the **Services** business division we have brought together all the services and products relating to our machine tools. By taking advantage of the DMG / MORI SEIKI LifeCycle Services our customers can optimise the productivity of their machine tools over their entire life cycle – from their commissioning until part exchange as a used machine. A diverse range of training, repair and maintenance services ensures that our customers enjoy high cost-efficiency of their machine tools. Through the integration of the European sales and service companies of Mori Seiki in the reporting year we have created a comprehensive, widespread network.

This dense network of highly trained service technicians, which is unique in the marketplace, also ensures fast and sustained availability of machines in the event of damage. DMG Spare Parts ensures more than 95% availability of DMG and Mori Seiki spare parts within 24 hours worldwide from its state-of-the-art central warehouse in Geretsried near Munich as well as from several satellite warehouses in Asia and America. We maintain more than 70,000 spare parts and more than 1,000 spindles in stock for despatch to our customers. DMG / MORI SEIKI LifeCycle Products – such as software solutions from DMG Powertools, Tool Management from DMG Microset and automation solutions from DMG Automation – enable users to set up processes for machining workpieces safely and quickly and thus cost-effectively.

Energy Solutions comprise the four business areas of Components, SunCarrier, Cellstrom and Service. In the "GILDEMEISTER energy solutions park" we demonstrate integrated energy solutions at the Bielefeld site. The installed capacity of about one megawatt offers impressive performance with a trend-setting concept for the production, storage and use of renewable energies for self-consumption by industrial enterprises. We have geared the Energy Solutions towards a stronger focus on new markets, industrial customers and investors with an enhanced product and service portfolio. In the reporting year we have concentrated on exploiting new markets and target groups.

C.27 **KEY FIGURES "INDUSTRIAL SERVICES" SEGMENT**

	2012 € million	2011 € million	€ million	Changes 2012 against 2011 %
Sales revenues				
Total	862.2	599.4	262.8	44
Domestic	325.0	259.3	65.7	25
International	537.2	340.1	197.1	58
% International	62	57		
Order intake				
Total	1,007.0	681.3	325.7	48
Domestic	349.3	294.9	54.4	18
International	657.7	386.4	271.3	70
% International	65	57		
Order backlog*				
Total	432.8	319.1	113.7	36
Domestic	122.0	96.8	25.2	26
International	310.8	222.3	88.5	40
% International	72	70		
Investments	17.6	24.2	−6.6	−27
Employees	2,894	2,561	333	13
plus trainees	8	3	5	167
Total employees*	2,902	2,564	338	13
EBITDA	100.7	64.8	35.9	
EBIT	88.4	56.9	31.5	
EBT	83.8	39.6	44.2	

* reporting date 31 December

The "Industrial Services" segment continued to improve in the reporting year. The Services business recorded clear growth in order intake, sales revenues and earnings. The service and spare parts business, as well as the sale of Mori Seiki products, contributed to this.

Overall **sales revenues** totalled € 862.2 million (previous year: € 599.4 million). Abroad, sales revenues were € 537.2 million (+58%); this represents a share of 62% (previous year: 57%).

Domestic sales revenues rose to € 325.0 million (previous year: € 259.3 million); this corresponds to a rise of 25% or € 65.7 million. The Services division recorded a rise in sales revenues of 58% or € 289.4 million to € 790.5 million (previous year: € 501.1 million). Sales revenues in Energy Solutions were € 71.1 million (previous year: € 98.3 million).

"Industrial Services" had a share of 42% of group sales revenues (previous year: 36%).

Order intake reached € 1,007.0 million and was thus 48% above the previous year's figure (€ 681.3 million). At the same time the share of Services rose to € 937.1 million (previous year: € 623.4 million); of this, the sale of Mori Seiki products contributed € 358.0 million. The Energy Solutions division achieved order intake of € 69.9 million (previous year: € 57.9 million). Domestic orders in "Industrial Services" totalled € 349.3 million (previous year: € 294.9 million). Some 65% of all orders came from abroad; they rose by 70% or € 271.3 million to € 657.7 million (previous year: € 386.4 million). Within the group, "Industrial Services" accounted for 44% of all orders (previous year: 35%).

The **order backlog** as of 31 December totalled € 432.8 million (previous year: € 319.1 million).

We were able to further increase our earnings in the "Industrial Services" segment. **EBITDA** totalled € 100.7 million (previous year: € 64.8 million).

EBIT was € 88.4 million (previous year: € 56.9 million). In the Services division, EBIT grew to € 118,7 million. Energy Solutions closed with EBIT of € –30.3 million. Alongside the reduction in sales volume, the interest paid, legal and advisory costs as well as follow-up costs for existing parks, this also results from investments within the framework of the strategic repositioning of the division. Through increasing our shareholding in Cellstrom GmbH to 100%, we have invested further in the trend-setting business area of storage technology. Service orders for additional solar parks have strengthened our business. In total the "Industrial Services" **EBT** rose to € 83.8 million (previous year: € 39.6 million).

21 February 2012

GILDEMEISTER opens a new technology centre in Singapore (L-R): Dr Christian Braun (Managing Director DMG / MORI SEIKI South East Asia Pte. Ltd.), Dr Jens Hardenacke (Managing Director DMG Asia Holding), Dr Rüdiger Kapitza (chairman of the Executive Board GILDEMEISTER Aktiengesellschaft), Mr Yeoh Keat Chuan (Assistant Managing Director Economic Development Board Singapore), Dr Masahiko Mori (President Mori Seiki Co., LTD.), Mr Yasuhiko Arimitsu (President Mori Seiki Asia & Oceania).

Investments in property, plant and equipment and in intangible assets in the "Industrial Services" segment totalled € 17.6 million (previous year: € 24.2 million). The first highlight of the year took place on 21 February with the opening of the DMG / MORI SEIKI Technology Centre in Singapore. Through this we have reinforced our presence in the southeast Asian markets. In the European markets the emphasis was placed on integrating and strengthening our sales and service activities together with our cooperation partner, Mori Seiki.
In Geretsried the new spare parts centre is now entering the final construction stages; this will allow us to meet the growing demands of spare parts supply worldwide in the future. Capitalised development costs in the "Industrial Services" segment were € 1.1 million.

The number of **employees** in the "Industrial Services" segment rose in comparison with the previous year by 338 to 2,902 (previous year: 2,564). The proportion of employees working in the segment was 45% (previous year: 43%). The increase in personnel is primarily due to combining our sales and services activities with those of Mori Seiki in Europe and the accompanying integration of 227 employees. Moreover, we have increased the number of employees at our companies in China, the largest market worldwide, as well as in the growth markets of India and Russia.

The personnel expenses ratio in the "Industrial Services" segment was 25.6% (previous year: 30.9%); the employee expenses totalled € 220.5 million (previous year: € 185.3 million).

"Corporate Services"

The "Corporate Services" segment essentially comprises GILDEMEISTER Aktiengesellschaft with its group-wide holding functions. Central functions have been assigned to it, such as group strategy, the coordination of development and purchasing, the management of intercompany projects in production and logistics, financing, group controlling and group human resources. The holding functions across the group incur expenses and sales revenues.

C . 28 **KEY FIGURES "CORPORATE SERVICES" SEGMENT**

	2012 € million	2011 € million	Changes 2012 against 2011 € million
Sales revenues	0.2	0.2	0.0
Order intake	0.2	0.2	0.0
Investments	9.3	17.6*	−8.3
Employees**	80	71	9
EBITDA	−23.4	−15.7	−7.7
EBIT	−25.5	−17.5	−8.0
EBT	−21.8	−32.1	10.3

* of which € 14.8 million inflow to financial assets
** reporting date 31 December

In the “Corporate Services” segment, both **sales revenues** and **order intake** of € 0.2 million each (previous year: € 0.2 million) consisted mainly of rental income. “Corporate Services” again accounted for less than 0.1% of group sales revenues (previous year: <0.1%). **EBIT** totalled € – 25.5 million (previous year: € – 17.5 million). This includes employee expenses and project costs for the group‘s international alignment and for the modernisation of the Bielefeld site. The net financial costs improved in comparison with the previous year to € 3.7 million (previous year: € – 14.6 million). The financial expense was reduced essentially by the refinancing in 2011 and the low net debt in the year. **EBT** was € – 21.8 million (previous year: € – 32.1 million).

Investments in property, plant and equipment, and in intangible assets in the “Corporate Services” segment totalled € 9.3 million (previous year: € 2.8 million). On 26 September GILDEMEISTER opened the “GILDEMEISTER energy solutions park” in Bielefeld. The trend-setting concept for the production, storage and use of renewable energies has been implemented over a surface area of 20,000 square metres. Some 13 SunCarrier 250 and 88 SunCarrier 22 as well as four WindCarrier ensure the sustainable production of one megawatt of renewable energy. Through this we produce up to 15% of our own requirements ourselves and make green energy available around the clock to safeguard the holding functions.

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Sustainability

As of 31 December 2012, this “Corporate Services” segment had 80 **employees** (previous year: 71 employees). As in the previous year, this represents a 1% proportion of the group workforce.

Overall Statement of the Executive Board on Business Development

GILDEMEISTER has achieved all its targets in all its key performance indicators and overall we consider business development in 2012 to have been positive: order intake rose to € 2,260.8 million (+ 17%) and sales revenues reached € 2,037.4 million (+ 21%) – both figures were the highest in the company’s history.

Customer needs in our industry are becoming increasingly diverse and require specific products for each target group - from entry machines to comprehensive technology solutions as well as services that cover the entire process chain. Thus in 2012, we continued to align and refine our product portfolio to meet these requirements. “Industrial Services” achieved EBT of € 83.8 million, the Services division in particular was very successful. In Energy Solutions we have completed the realignment; this negatively impacted the results. We have invested in the trend-setting storage technology; the order situation improved markedly as of year-end. The “Machine Tools” segment contributed € 57.4 million to the group’s EBT. We have started the new financial year with a sound order backlog.

The quality of earnings in the group has improved noticeably when compared to the previous year. EBT reached € 120.1 million (+80%) and EBIT totalled € 132.9 million (+18%). The annual profit for the year in the group totalled € 82.4 million (+81%) and is thus the highest figure in the company's history. The improvement was also evident in the EBT margin: It reached 5.8% (previous year: 3.8%). The free cash flow totalled € 99.1 million. Equity increased to € 787.9 million: Thus the equity ratio reached 48.8%. Over the course of the year we have completely reduced net financial liabilities completely and at year-end cash and cash equivalents (€ 173.3 million) clearly exceeded our financial liabilities (€ 12.3 million).

C.29 **TARGETS AND RESULTS 2012 AT THE GILDEMEISTER GROUP**

	Results 2011	Targets 2012 [1]	Results 2012
Sales revenues	€ 1,687.7 million	above € 1.9 billion	€ 2,037.4 million
Order intake	€ 1,927.3 million	above € 2 billion	€ 2,260.8 million
EBIT	€ 112.5 million	above € 125 million	€ 132.9 million
EBT	€ 66.9 million	above € 110 million	€ 120.1 million
Annual profit	€ 45.5 million	above € 70 million	€ 82.4 million
Dividend	0.25 €	above previous year	€ 0.35 [2]
Free Cashflow	€ 95.2 million	above € 50 million	€ 99.1 million
Net Working Capital	€ 271.3 million	Improvement	€ 221.3 million
ROCE	14.4%	previous year's level	15.4%
Investments	€ 89.7 million	about € 80 million [3]	€ 74.5 million
Employees	6,032	rise	6,496
Research & Development expenses	€ 54.6 million	about € 56 million	€ 55.9 million
New developments / world premiers	20	17	17

1) Status: last published target values
2) Proposal for the annual meeting of shareholders 2013
3) Property, plant and equipment and intangible assets (without goodwill)

GILDEMEISTER performed within the predicted range in the reporting year and has started financial year 2013 according to plan.

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Supplementary Report

Corporate Situation

GILDEMEISTER once again proved its innovative capacity in 2012: We presented 17 new developments at 65 international trade fairs. In Europe we have combined our resources with those of Mori Seiki and now have 227 new employees at our sales and service locations. The group's positive performance is reflected in the performance of the GILDEMEISTER share: It gained 56.4% in value (year-on-year) over the course of the year.

Sustainability

GILDEMEISTER sees itself as having a duty of creating sustainable value in its commercial dealings. We bear as much a responsibility towards the environment as we do to our employees and want to treat our resources with respect and care – with our innovative products we also strive to meet this aspiration. We act responsibly and in accordance with applicable law. We also expect sustainable business practices and a transparent supply chain from our suppliers and business partners. Our employees are instrumental in the success of the company; at the same time, they enjoy equal opportunities according to their skills and abilities in working for GILDEMEISTER and in continuing to advance in their career. We understand sustainable development as being a continuous process. Thus we are constantly developing our strategy and seeking an active dialogue with customers, employees and business partners.

Stable management at GILDEMEISTER

Sustainability forms an essential part of our **corporate dealings**. We count amongst this a stable management that is directed towards securing the company long-term. Continuity in terms of staff forms one of the building blocks of our success. All the members of the Executive Board held senior positions within the group before their appointment; some of them even completed their vocational training at GILDEMEISTER. This **staff continuity** among the top management is high when compared to that of other stock market listed groups: Dr. Rüdiger Kapitza was appointed to the Executive Board as early as 1992, since April 1996 he has held the position of chairman of the Executive Board. Whereas in 2012 the average period of office of a member of an executive board of a German stock corporation was 5.5 years, and the average tenure of the chairman of an executive board was 5.4 years (Source: Spencer Stuart Board Index Germany 2012).

We want to make our sustainable actions visible in quantitative and qualitative figures. Therefore we measure ourselves against sustainability criteria, the "Sustainable Development Key Performance Indicators" (SD-KPI's). The German Federal Ministry for the Environment and Nature Conservation set out the SD-KPI Standard 2010-2014 in 2009. The **non-financial key performance indicators** for sustainable development are comparable within industries.

Development of energy-saving products

From GILDEMEISTER's point of view, sustainable environmental protection not only includes technological innovations and the eco-friendly production of machines but also that the machines themselves have environmental characteristics. The proportion of our products that have been developed taking special account of energy-saving aspects when in use is rising steadily. We are co-initiators of the **VDW-Initiative Blue Competence**. The aim of this initiative is to reduce the energy requirements of production machinery in Europe. A condition of membership of the initiative is to meet specific ecological criteria, which our company does. Traditionally a high value has been placed on the **energy efficiency of the machines** at GILDEMEISTER – for several years we have been setting the benchmarks in the industry. Our activities to increase energy efficiency are combined under the DMG ENERGY SAVING label; they extend in an integrated manner over the electronics, control technology and mechanical areas. The combination of increasing productivity and optimising energy consumption has facilitated energy savings of up to 30%. The results of DMG ENERGY SAVING currently find their way into 65% of the high-tech machines in our product portfolio. Due to the very different arrangement of machine tools, reliable comparative analyses with other company's products in the industry are not possible.

DMG ENERGY SAVING increases energy efficiency

Greenhouse gas emissions and energy consumption per production unit

GILDEMEISTER reduces energy consumption and CO_2 output

For years GILDEMEISTER has relied on the regenerative drives of its machines in order to re-use braking energy for subsequent acceleration processes. Our thermotechnically enhanced electrical cabinet design is aimed at avoiding the need for additional energy for cooling. In the construction of drives and aggregates, we avoid any unnecessary base loads and use all existing performance reserves. In addition to low friction guideways, weight counterbalance on the axes compensates the vertically moving mass. Both measures reduce the acceleration force required and therefore the energy consumption. We are working together with manufacturers of control technology on developing a possible energy-saving axis control. Intelligent axis controls avoid energy-intensive acceleration and braking processes. However, with respect to the machines' energy consumption, sound benchmarking with other companies in the industry is not possible as the products vary greatly in their functions and characteristics.

Within the scope of the **"NC+" research project**, which is sponsored by the German Federal Ministry for Education and Research, DECKEL MAHO Pfronten GmbH has proven that with consistent implementation of energy-saving measures in the production and operation of a machine tool, up to 30% of energy costs can be additionally saved; significant potential savings can be found both in the cooling aggregate as well as in the cooling lubricant pumps. These findings have already been incorporated in series production at DECKEL MAHO Pfronten GmbH; in part, even old machines can sometimes be re-fitted. In a production environment, a lower power loss from machines also eases the air conditioning in a production hall noticeably, so that our customers immediately benefit doubly from our energy-efficient machines, for each kilowatt of power less that a machine loses means a saving of an additional 0.5 kilowatts of cooling power, approximately, and reduces the energy consumption of the production hall air conditioning by 1.5 kilowatts. This success story makes it clear that research that focuses on sustainability will pay off long-term.

In addition to the energy optimisation of our machines, we are also striving to organise our logistics to be as climate-friendly as possible. To keep the CO_2 emissions at our company as low as possible, when transporting operational and auxiliary supplies or spare parts, in addition to economic aspects, we also take account of ecological aspects. Thus in selecting our suppliers we also pay attention as to whether their vehicles are equipped with the latest motor technologies and adhere to current emission standards.

Custom-made energy concepts: produce, store, use

Integrated energy concept implementation

At our head office in Bielefeld we implemented an integrated **energy concept** in the reporting year. Through a systematic analysis of the actual state, the introduction of an intelligent energy management system and quickly implemented improvements, the electricity costs for various areas of the company were initially reduced by 25%, including those for the production hall lighting, the air conditioning and the compressors in production. A key element of our concept is: producing, storing and using energy locally. In September 2012, we opened our **"energy solutions park"** in Bielefeld with top output of 1 megawatt. It produces about 1 gigawatt hour annually, which reduces the CO_2 emissions by about 560 tonnes per year. Up to 15% of the energy that the plant in Bielefeld requires is produced by GILDEMEISTER itself now. In addition, sensitive areas, such as central IT, are supported with energy produced on-site. Through procuring less electricity externally, peak shaving and efficiency measures this generated a saving of about € 257,600 at the Bielefeld site in the reporting year.

Just how efficiently our **innovative energy systems** work together to supply electricity for industrial purposes can be demonstrated visibly to our customers: 86 SunCarrier 22, 13 SunCarrier 250 and four WindCarrier produce emission-free energy in the "energy solutions park". The core of the energy park is the cellcube FB 200-400 energy storage device with storage capacity of 400 kilowatt hours and which was put into operation at the start of 2012. The parallel connection of several container units of the CellCube FB 200-400 allows for the simple build-up of energy storage in the megawatt range. The energy content of the basic unit can be varied to suit.

Step-by-step GILDEMEISTER is implementing a custom-made energy concept at all sites. Thus, following the Bielefeld "energy solutions park", a **second energy park** is currently being constructed on the premises of DECKEL MAHO Seebach GmbH. Already installed are two SunCarrier 250, two SunCarrier 22, one WindCarrier and one roof-top installation. A further eight SunCarrier 22 are currently in the planning stage. Following its commissioning, the energy park can produce about 300,000 kilowatt hours of emission-free electricity per year for self-consumption – this corresponds to a reduction in CO_2 of 175 tonnes and saves about € 50,000 in energy costs per year. A further € 120,000 may also be saved in the future through energy efficiency measures that have already been introduced.

Target: Further reduction of total energy consumption

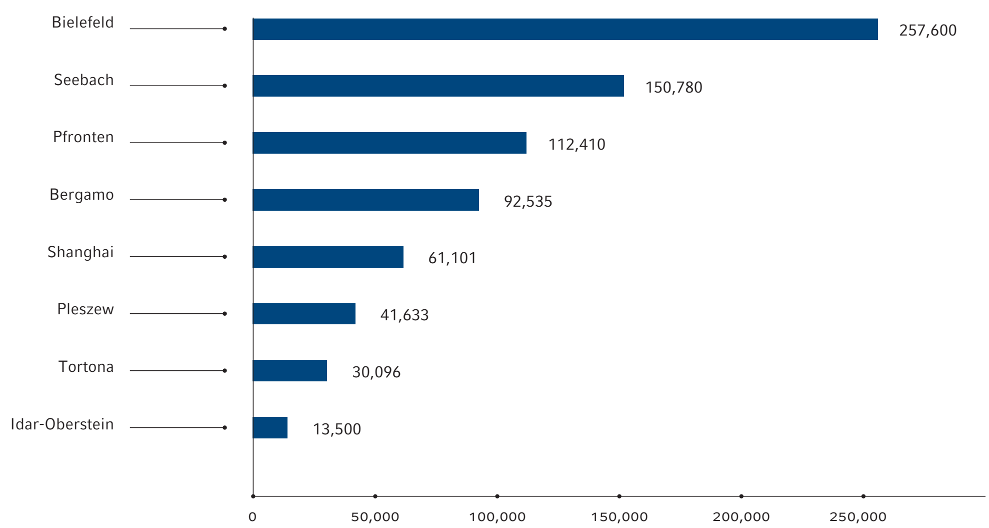
Overall, maximum savings at GILDEMEISTER production sites of € 759,655 per year have been calculated as being feasible if the energy concept is fully implemented. We will further exploit the savings potential.

26 September 2012

Covering an area of 20,000 square metres, GILDEMEISTER puts the "energy solutions Park" in Bielefeld into operation. About 1 gigawatt hour of green energy will be produced here for self-consumption.

The following diagram shows the savings potential at the GILDEMEISTER production sites:

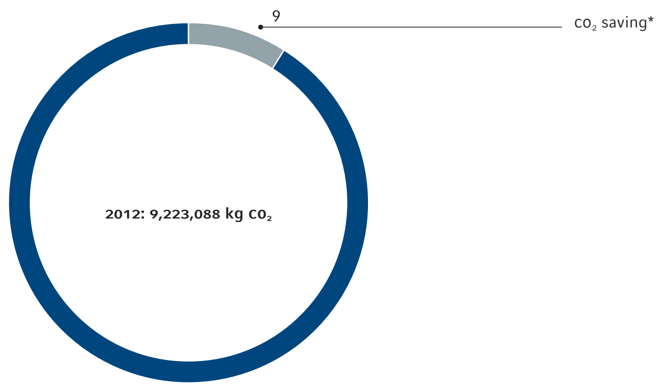
D . 01 **POTENTIAL SAVINGS THROUGH EFFICIENCY MEASURES AT THE GILDEMEISTER SITES**
IN € IN YEAR



Source: Calculation / Estimates GILDEMEISTER 2012

At five group sites we have installed the SunCarrier for environmentally-friendly energy generation; additional solar and wind energy installations are currently being planned for other production sites. In 2013 we will thus produce about 1.43 million kilowatt hours of electricity without any emissions and be able to prevent about 800 tonnes of CO2 emissions – as the basis of calculation we have taken the average CO_2 emissions of 559 grams per kilowatt hour, which were determined by the Federal Environmental Agency for the year 2011 in Germany. In the following example the CO_2 savings at the Bielefeld site can be seen clearly:

D . 02 **CO_2- OUTPUTS: DEVELOPEMENT AT THE BIELEFELD SITE**
IN %



* extrapolation for a calendar year

No production-related accumulation of harmful substances

In order to be able to meet the overall standards of an environmentally-conscious industrial operation, GILDEMEISTER purposely avoids the use of any harmful materials and consumables. Therefore in the production operations themselves **no harmful substances** arise. In addition, we deliberately do not use halogen, for example in electrical wiring (PVC). For us it is part of our environmental responsibility that it must always be possible to recycle our products.

Employees

As of 31 December 2012, GILDEMEISTER had 6,496 employees, of whom 229 were trainees (previous year: 6,032). The number of employees rose in comparison with the previous year by 464.

In the “Machine Tools” segment we have hired new staff at our sites in Pleszew, Seebach and Pfronten against the background of the positive business trend.

The increase in personnel in the “Industrial Services” segment is primarily due to combining our sales and services activities with those of Mori Seiki in Europe and the associated integration of 227 employees. Moreover we have increased the number of employees at our companies in the growth markets of China, Russia and India.

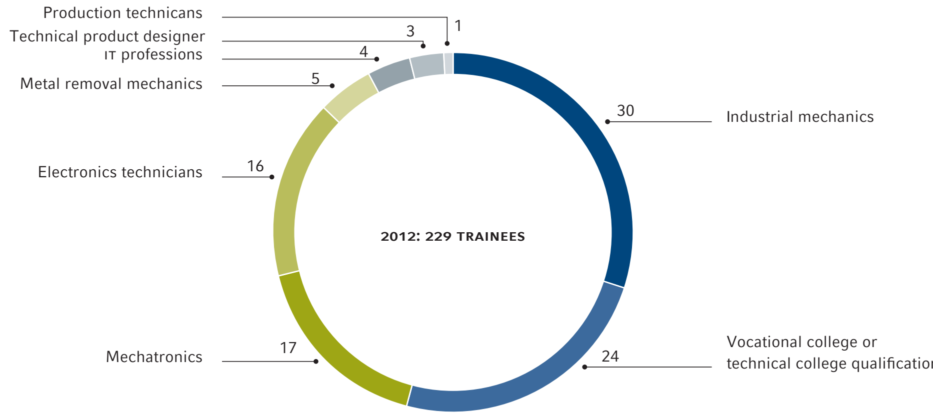
At year-end, 3,711 employees (57%) worked at our domestic companies and 2,785 employees (43%) worked at our companies abroad.

The number of **agency workers** employed throughout the group was 609 at the end of the financial year (previous year: 546).

78 trainees taken on

At the end of December 2012, within the GILDEMEISTER group there were a total of 229 **trainees** (previous year: 222). At the start of the new training year, GILDEMEISTER took on 78 trainees (previous year: 57). The vocational training ratio at the domestic companies in the “Machine Tools” segment amounted to 8.8% (previous year: 9.0%). Overall, we offer vocational training in ten different occupations. In addition, we offer courses of study in cooperation with regional colleges of advanced vocational education and universities of applied sciences. We are continuously expanding and developing these co-operations. In the reporting year the **number of women** employed in the GILDEMEISTER group rose by 90 to 853 (+12%). The **proportion of females** in the group was 13.1% (previous year: 12.6%). In the “Machine Tools” segment the proportion of women was 10%, in “Industrial Services” 17% and in “Corporate Services” 33%. GILDEMEISTER promotes the reconciliation of work and family life. We support flexible working times, the use of parental leave by both female and male employees as well as individual solutions for improved reconciliation of work and family life. In an industry that has traditionally been preferred by men, we are making every effort to continue to increase the proportion of female employees at GILDEMEISTER, and most especially the number of female employees in vocational training. The percentage of female trainees in the reporting year was 13.5% (previous year: 13.1%). With projects such as MINT-relation, we are specifically supporting girls and women in their interest in the natural sciences and technical occupations and encourage their commitment.

D . 03 **TRAINING IN THE GILDEMEISTER GROUP**
ALLOCATION BY FIELDS
IN %

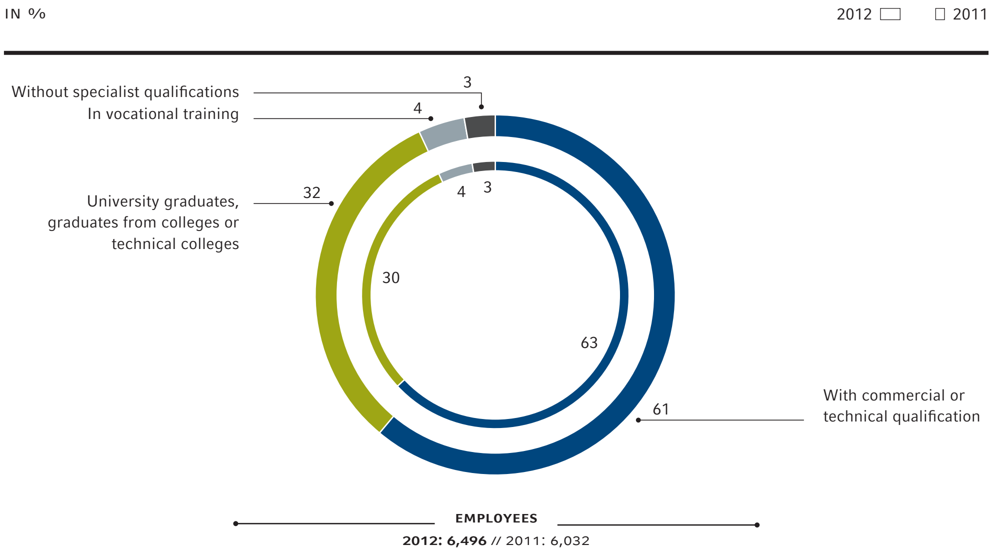


In the area of **Human Capital** we have been placing a high value on the skills of our employees for years. The qualifications structure has constantly remained at the high level of previous years. In all, 97% of the workforce has a professional qualification or is currently receiving vocational training (previous year: 97%). Overall 3,818 employees or 59% of the workforce took part in further training courses (previous year: 3,783 employees or 63%). This places GILDEMEISTER clearly above the industry average of 44%. A key aspect was further training for our domestic and foreign sales and service employees on newly-developed machines. Moreover, skills development courses were held in the fields of information technology, languages and management and working techniques. In total, expenses for vocational and further training amounted to € 9.0 million (previous year: € 9.7 million). The following diagram shows that the GILDEMEISTER group places a high value on the professional training and **qualifications** of its workforce.

59% of employees in further training courses

229 young people worldwide are undergoing vocational training at the GILDEMEISTER group in 2012 to obtain a recognised qualification. GILDEMEISTER recruits from its own ranks and thereby secures junior staff for skilled and management positions at the group.

D . 04 **QUALIFICATIONS STRUCTURE OF EMPLOYEES IN THE GILDEMEISTER GROUP**
IN %



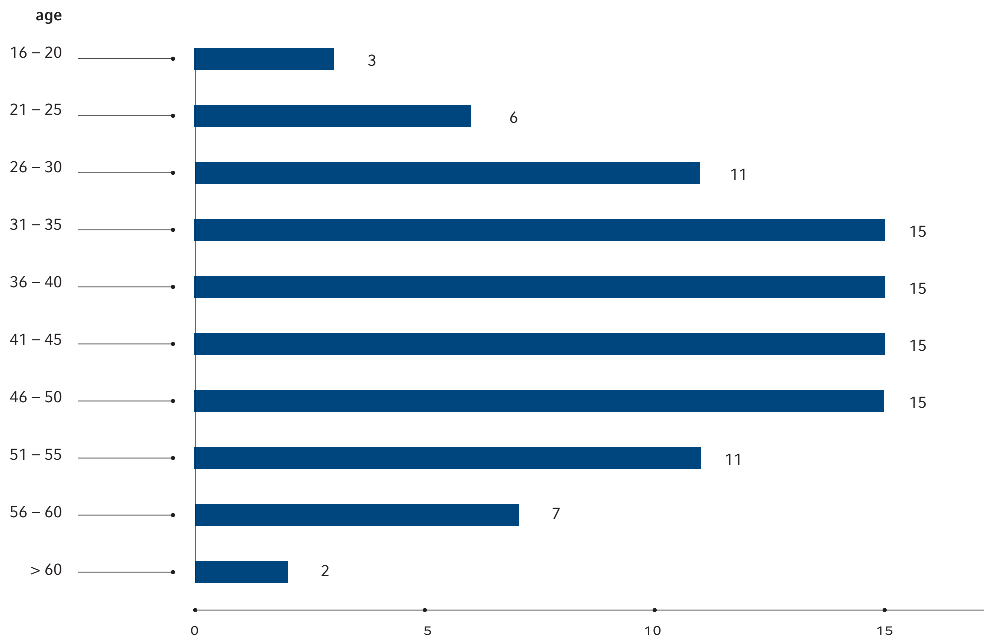
Variable income components reward individual performance and encourage **employee motivation**. Moreover, we have agreed a bonus scheme worldwide, which allows employees to share in the company's success in 2012.

Further components of employee motivation are occupational safety and health protection, which are a core element in our value creation system both nationally and internationally. Our certified quality management system sets out the working conditions, naturally also in the emerging countries in which GILDEMEISTER has production plants and sales and service companies.

Employee expenses rose by € 55.7 million to € 440.4 million (previous year: € 384.7 million). Of this, wages and salaries accounted for € 372.0 million (previous year: € 326.3 million), social insurance contributions for € 61.7 million (previous year: € 53.3 million) and the costs of retirement pensions € 6.7 million (previous year: € 5.1 million). The personnel expenses ratio slightly decreased as a consequence of higher gross revenue for the period to 21.4% (previous year: 22.1%).

The part-time retirement plan covered 80 employment agreements (previous year: 96), for which we use the block model. The entire period of part-time retirement is divided into equal active and passive phases. In the active phase there were eight employees and 72 in the passive phase. Of our employees, 35% are 35 years of age and younger (previous year: 37%); the percentage of employees who are 50 years of age and younger remains unchanged at 80%. Our employees' age structure is balanced and is represented as follows:

D . 05 **AGE STRUCTURE OF EMPLOYEES IN THE GILDEMEISTER GROUP 2012**
IN %



Other key performance indicators have changed as follows: In the reporting year there were 158 commuting and operational accidents (previous year: 118); based on the total number of staff, this represents a slight increase to 2.4% (previous year: 2.0%). The sick leave ratio of 3.6% was slightly higher than the previous year's figure of 3.4% and below the industry average of 3.9%. The employee fluctuation rate in the financial year just ended was 7.1% (previous year: 7.9%).

Two employees have been recognised for their 50 years' employment with the company. In addition, 29 employees celebrated 40 years', 54 employees 25 years' and 143 employees 10 years' employment at the company. We would like to thank all our employees who are celebrating their jubilee for their loyalty to the company and their unceasing commitment. At this point we would also like to thank all our employees for their unreserved commitment and achievements!

Corporate Governance

Pursuant to Article 3.10 of the German Corporate Governance Code, the Executive Board and the Supervisory Board report on corporate governance at GILDEMEISTER.

Good corporate governance has long been a key component of corporate management and of all corporate areas at GILDEMEISTER. For the Executive Board and Supervisory Board corporate governance represents responsible and transparent corporate management and controlling throughout the group. GILDEMEISTER has been following the recommendations of the German Corporate Governance Code for several years already.

Since the issue of the last declaration of conformity in November 2011, GILDEMEISTER Aktiengesellschaft has complied with the recommendations of the Government Commission's German Corporate Governance Code in the version dated 26 May 2010 with the exceptions stated and justified therein.

GILDEMEISTER complies with the Corporate Governance Code

In November 2012, the Executive Board and the Supervisory Board once again issued a declaration of conformity, which confirmed compliance with all recommendations of the "Government Commission's German Corporate Governance Code" in the Code version of 15 May 2012 and its publication in the Electronic Federal Gazette (Elektronischer Bundesanzeiger) on 15 June 2012 and likewise confirmed that they would comply with them in the future although with the following exception:

- The Supervisory Board member Dr. Masahiko Mori is the president of a foreign producer of machines for metal cutting processes and thus a competitor. The high level of expertise of Dr. Mori represents additional expertise for the company and through this a significant gain for the work of the Supervisory Board. The company takes appropriate measures to counteract any conflicts of interest.

GILDEMEISTER.COM
Declaration of conformity

The current declaration of conformity and the corporate governance report are permanently accessible at our website www.gildemeister.com, as are the declarations of conformity of previous years.

Insurance for Supervisory Board and Executive Board members of the GILDEMEISTER group

GILDEMEISTER has D&O insurance (manager liability insurance) and legal costs insurance for all members of the Supervisory Board, the Executive Board, managing directors as well as for all executive staff. The D&O insurance provides for the corresponding excess provided for in the Code and in the pertinent statutory provisions, respectively.

Responsible Management of Opportunities and Risks

A systematic opportunities and risk management is an important element of corporate management for us and belongs to good corporate governance; it assists in identifying opportunities and risks in good time and in assessing them. Opportunities are identified and analysed by simulating positive deviations from plan assumptions. The risk management system at GILDEMEISTER is structured in such a way that significant risks are systematically identified, assessed, aggregated, monitored and notified. The Executive Board and the Supervisory Board are informed regularly about the current risk situation of the group and of the individual business units.

The early risk identification system set up by the Executive Board pursuant to Section 91(2) of the German Stock Corporate Act (AktG) is audited by the annual auditors, is continuously enhanced by GILDEMEISTER and adapted to meet the changing economic environment.

Cooperation between the Executive Board and Supervisory Board

The Executive Board and Supervisory Board work closely together in the interests of the company. The Executive Board agrees the strategic direction of the company with the Supervisory Board and informs the latter regularly, timely and comprehensively of all issues of relevance to the company relating to strategy, business development, the risk position, risk management and compliance. Any deviations in the course of business from the established plans and targets of the group are discussed and the grounds therefor are stated. The Executive Board forwards the half-year and quarterly reports to the Finance and Audit Committee and discusses them with the Finance and Audit Committee before their publication.

The Supervisory Board's right to reserve approval for a number of business procedures is specified in the articles of association as well as in the rules of procedure for the Executive Board.

The remuneration of the members of the Supervisory Board as well as of the members of the Executive Board is set out in detail in the remuneration report, which forms part of the management report of the consolidated financial statements of GILDEMEISTER Aktiengesellschaft.

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Remuneration report

Goals for the Composition of the Supervisory Board

Pursuant to Article 5.4.1 of the Corporate Governance Code, the Supervisory Board has decided by means of a self-imposed obligation to the effect that the nominations for the future composition of the Supervisory Board should continue to be aligned with the interests of the company and that the following goals should be adhered to in doing so:

- The composition of the Supervisory Board with members on the owners' side having experience of management or of monitoring internationally-operating companies should be maintained at the level as at present.
- Employees from significant areas within GILDEMEISTER should be taken into consideration on the employees' side.
- Knowledge of the group and of the markets especially important for GILDEMEISTER as well as of technical relations and of the management of technologies should be taken into account. The same applies to special knowledge and experience in the use of accounting principles as well as of internal monitoring procedures and compliance processes.
- The current female ratio should be increased from the current one female member to four female members by the date of new elections to the Supervisory Board in 2018, whereby every effort should be made to achieve equal female distribution on the owners' and employees' sides.
- The independence of more than 50% of the Supervisory Board members should be retained; conflicts of interest should be avoided and an upper age limit of 70 years at the time of election to the Supervisory Board should be observed.

Due to no pending new elections to the Supervisory Board so far, there has not yet been an opportunity to implement these targets.

Avoiding Conflicts of Interest

Members of the Executive Board and Supervisory Board are obliged to act in the interests of the company. In making decisions and in connection with their functions, the members of the Executive Board and of the Supervisory Board may not pursue any personal interests or take advantage of business opportunities that the company is entitled to, nor may they grant any unjustified benefits to any other person. Such transactions or secondary occupations as well as any other conflicts of interest must be immediately reported for approval or assessment, respectively, to the Supervisory Board. The Supervisory Board reports to the Annual General Meeting of Shareholders on any conflicts of interest and how they are dealt with.

GILDEMEISTER recognises preventive measures against the misuse of insider information and insider trading as part of good corporate governance. Firstly, when hiring employees who have access to sensitive material and data, we advise them in detail and in writing of the provisions of the German Securities Trading Act (Wertpapierhandelsgesetz – WPHG). Secondly, since 2010 a compliance guideline has been in force throughout the group, which regulates the handling of insider information and forbids insider trading.

Groupwide compliance guideline regulates blocking periods

GILDEMEISTER's guideline goes beyond the statutory requirements in that, amongst others, within the framework of a voluntary self-imposed obligation, it also sets out a blocking period for dealing in securities around the publication dates of quarterly and annual financial reports.

Shareholders and Annual General Meeting

Our shareholders exercise their rights at the general meeting of shareholders that takes place annually. The annual general meeting passes resolutions on the appropriation of profits, the discharge of the Supervisory Board and of the Executive Board, as well as on the nomination of the annual auditor or changes to the articles of association, amongst others. Shareholders may exercise their voting right in person. Shareholders who are unable to attend the annual general meeting personally are given the opportunity of either exercising their voting right by proxy through an authorised person of their choice or by transfer of proxy to a representative of the group, who will act as per their instructions.

In addition, it is possible to obtain information about the annual general meeting timely via the Internet. All documents and information are made available in good time to shareholders at our website.

Transparency

GILDEMEISTER aspires to ensure the greatest possible transparency in corporate communication as well as timely communication to all target groups such as shareholders, lenders of capital, business partners, employees and the general public.

Shareholders and potential investors can obtain information at any time from the Internet on the current situation of the company. Any interested party may subscribe to an electronic newsletter on our website, which reports on the latest news from the group. Press releases, business and quarterly reports, as well as a detailed financial calendar both in German and in English are published on our website. This information is likewise distributed via the group's publicly accessible Twitter channel.

TWITTER.COM
@GILDEMEISTERAG

Financial Accounting and Annual Audit

We have again agreed with the annual auditors, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, for this reporting year that the chairman of the Supervisory Board and the chairman of the Finance and Audit Committee be informed without delay during the audit of any reasons that might give rise to exclusion or reservation insofar as these cannot be resolved. In addition, the annual auditor also reports immediately on any findings and occurrences during the audit of the financial accounts and consolidated financial accounts that have a significant bearing on the duties of the Supervisory Board. Moreover, the auditor will inform the Supervisory Board or note in the audit report if, when conducting the audit, any facts are discovered that are inconsistent with the declaration of conformity issued by the Executive Board and Supervisory Board under the Corporate Governance Code.

Suggestions included in the German Corporate Governance Code

GILDEMEISTER also largely complies with the suggestions of the German Corporate Governance Code. Deviations from the Code currently exist in the following areas:

- Annual general meeting: The Code suggests that representatives who exercise shareholder voting rights and are bound by instructions should be contactable during the annual general meeting. As before, for organisational reasons, we have not provided for the complete transmission of the annual general meeting over the internet.
- Supervisory Board: In codetermined supervisory boards, the representatives of the shareholders and of the employees may each prepare the meetings of the supervisory board separately, as necessary with the members of the executive board. This procedure is only followed at GILDEMEISTER in exceptional cases.

Remuneration report

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

Remuneration of the Supervisory Board of GILDEMEISTER Aktiengesellschaft

The Supervisory Board's remuneration is set by the annual general meeting and governed by Article 12 of the Articles of Association of GILDEMEISTER Aktiengesellschaft. It includes non-performance related remuneration elements as well as a performance-based remuneration component. The remuneration components not dependent upon performance include the fixed remuneration that each member of the Supervisory Board receives, remuneration for committee work and meeting attendance fees. The performance-related component comprises a long-term performance incentive (LTI), which has the aim of promoting sustainable, value-based corporate management.

Performance-related components

In financial year 2012, the fixed remuneration for each individual member of the Supervisory Board was € 24,000; the chairman received 2.5-times that amount (€ 60,000) and the deputy chairman 1.5-times that amount (€ 36,000). The fixed remuneration therefore totalled € 333,836 (previous year: € 333,140).

Remuneration for work in committees

Remuneration for committee work amounted to € 217,869 (previous year: € 213,254) and took account of the work carried out by the Finance and Audit Committee, the Personnel, Nominations and Remuneration Committee, and by the Technology and Development Committee. No remuneration was paid for work on the Conciliation Committee or on the Nominations Committee, which are sub-committees of the Personnel, Nominations and Remuneration Committee. The individual committee members each received € 12,000. The chairperson of a committee also received an additional fixed remuneration of a further € 12,000 and the deputy chairperson a further € 6,000.

The members of the Supervisory Board and its committees receive an attendance fee of € 800 for each Supervisory Board and committee meeting that they participate in as a member. In total, attendance fees for financial year 2012 were € 84,800.

The LTI performance-related remuneration component is based on targets related to key figures. The earnings per share (EPS) is used as the performance-related key figure. The EPS is an established key figure by which performance is fulfilled taking into consideration the respective share capital. It is calculated by dividing the annual profit less the profit share of minority interests by the weighted average number of shares. The LTI is variable, which means that it is not a secure remuneration. Again the Supervisory Board chairman receives 2.5-times and the deputy chairman 1.5-times the remuneration of the other members. The LTI is capped at the level of the respective fixed remuneration.

18 April 2012

Prof. Dr.-Ing. Raimund Klinkner succeeded Dr. Jürgen Harnisch as member of the Supervisory Board of GILDEMEISTER Aktiengesellschaft.

The LTI takes account not only of the reporting year but also of the two preceding years. The key figure is the mean average of the EPS figures in the corresponding financial years. The LTI is only paid if the average EPS for the relevant three years amounts to at least € 0.15. For financial year 2012 and the two preceding years the corresponding EPS average was € 0.75 (previous year: € 0.35). The performance-related remuneration for the Supervisory Board calculated from the LTI totalled € 260,809 (previous year: € 121,458).

The Supervisory Board remuneration in 2012 breaks down as follows:

D . 06

REMUNERATION OF THE SUPERVISORY BOARD OF GILDEMEISTER AKTIENGESELLSCHAFT

	Fixed Remuneration in €	Committee remuneration Finance and Auditing (F&A) in €	Committee remuneration Personnel Nominations and Remuneration committee (PNR) € million	Committee remuneration Technology and Development committee (T&D) in €	Meeting attendance fees in €	LTI in €	Total in €
Hans Henning Offen chairman SB, chairman PNR	60,000	12,000	24,000	0	12,000	46,875	154,875
Ulrich Hocker	24,000	0	12,000	0	6,400	18,750	61,150
Prof. Dr. Edgar Ernst chairman F&A	24,000	24,000	0	0	8,000	18,750	74,750
Prof. Dr.-Ing. Raimund Klinkner member SB as of 18 April 2012 chairman T&D as of 18 May 2012	16,918	0	0	14,951	4,000	13,217	49,086
Dr.-Ing. Jürgen Harnisch member SB until 15 March 2012 chairman T&D as of 15 March 2012	4,918	0	0	4,918	1,600	3,842	15,278
Dr.-Ing. Masahiko Mori	24,000	12,000	0	0	5,600	18,750	60,350
Prof. Dr.-Ing. Walter Kunerth deputy chairman T&A	24,000	0	0	18,000	5,600	18,750	66,350
Mario Krainhöfner *	24,000	12,000	12,000	0	9,600	18,750	76,350
Oliver Grabe *	24,000	0	0	12,000	5,600	18,750	60,350
Dr. Constanze Kurz * deputy chairman PNR	24,000	0	18,000	0	4,800	18,750	65,550
Norbert Zweng deputy chairman F&A	24,000	18,000	0	0	8,000	18,750	68,750
Günther-Johann Schachner * deputy chairman SB	36,000	12,000	0	0	8,000	28,125	84,125
Matthias Pfuhl *	24,000	0	0	12,000	5,600	18,750	60,350
Total	**333,836**	**90,000**	**66,000**	**61,869**	**84,800**	**260,809**	**897,314**

* These employees representatives transfer the majority of their remuneration for Supervisory Board duties to the Hans-Böckler-Stiftung.

For financial year 2012, the total remuneration of the Supervisory Board was € 897.314 (previous year: € 667,852).

Remuneration of the Executive Board of GILDEMEISTER Aktiengesellschaft

Performance-related remuneration of Executive Board

The remuneration of the Executive Board is discussed and decided by the plenary meeting of the Supervisory Board. Members of the Executive board receive direct and indirect remuneration components, whereby the indirect components primarily consist of pension plan expenses. The direct remuneration of members of the Executive Board of GILDEMEISTER Aktiengesellschaft contains fixed and variable components. The variable components comprise a short-term incentive (STI), an individual and performance-based remuneration, and a long-term incentive (LTI). All variable components are designed in such a way that they represent a clear incentive for the Executive Board members to achieve the targets. In this way they support a sustainable and value-based corporate management. The criteria for the appropriateness of the remuneration include in particular the tasks rendered by each Executive Board member, his or her personal performance and the performance of the Executive Board, as well as the business situation, success and future prospects of the company within the framework of its comparative environment.

Direct remuneration of the members of the Executive Board amounted to € 9,005 K (previous year: € 7,644 K). Of this, € 2,410 K was allocated to the fixed remuneration (previous year: € 1,848 K), € 4,500 K to the STI (previous year: € 3,515 K) and € 1.000 K to the individual performance remuneration (previous year: € 900 K). The amount paid out as LTI totalled € 955 K (previous year: € 816 K). Benefits in kind accounted for € 140 K (previous year: € 115 K). In 2012 the direct remuneration of the Executive Board broke down as follows:

D . 07

DIRECT REMUNERATION OF THE EXECUTIVE BOARD

	Fixum € K	STI € K	LTI € K	Performance remuneration € K	Project remuneration € K	Total € K
Dr. Rüdiger Kapitza, chairman	800	1,350	409	300	42	2,901
Dr. Thorsten Schmidt, deputy chairman	500	900	273	200	30	1,903
Günter Bachmann	450	900	273	200	34	1,857
Kathrin Dahnke	390	900	–	200	21	1,511
Christian Thönes	270	450	–	100	13	833
Total	**2,410**	**4,500**	**955**	**1,000**	**140**	**9,005**

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

The STI is based on targets relating to key figures. In the reporting year the earnings after taxes (EAT) provided the reference value. The target figures are on a sliding scale and are re-defined annually. In addition, the STI includes a ceiling limit (cap) of € 900 K for 2012 for a full member of the Executive Board. The cap is likewise fixed anew every

Remuneration components until sustainability factor

year. As a pre-condition for the payment of the STI, the sustainability factor of the GILDEMEISTER group (total of expenses for R&D and corporate communications, as well as for vocational and further training in relation to total sales revenues) for the respective financial year must fall within a fixed range. This promotes a corporate management focused on sustainability.

As a remuneration component with long-term incentive effect, the LTI combines the achievement of fixed targets in relation to the EAT of the company with the performance of the GILDEMEISTER share. A cap has been set at 2-times the annual fixed salary of each Executive Board member per tranche for the year in which the award takes place. Should the EAT fall below a set minimum figure over a four-year average, the LTI payment is not made.

The LTI involves a **performance units plan**, which does not include any dividend payments or voting rights. In addition, the units may not be traded or sold to third parties. The tranches awarded at the beginning of each year have a term of three years, respectively four years since 2009. The LTI tranche 2009-2012, which was allocated on 31 December 2012 and will be paid out in 2013, results in a payment totalling € 955 K.

With respect to the provisions of the German Act on the Appropriateness of Management Board Remuneration (Gesetz zur Angemessenheit der Vorstandsvergütung – VorstAG) in 2009 the Supervisory Board passed a resolution extending the term of a tranche from three to four years and specifying the EAT (earnings after taxes) as the success factor. In order to continue the incentive effect of the LTI, in 2009 an additional tranche with a period of four years was awarded to each Executive Board member. This tranche was allocated in 2012 and will be payable in 2013.

The tranches awarded for financial year 2012 will be allocated on 31 December 2015 and will be paid out in 2016, taking into account the average EAT (earnings after taxes) achieved of the last four years and the respective share price. The following table presents the number of the performance units awarded in the years 2009, 2010, 2011 and 2012, as well as the fair value of the LTI at the date it was granted to each Executive Board member.

D . 08

TRANCHES OF THE LONG-TERM INCENTIVE	Tranche 2009 4-year term			Tranche 2010 4-year term		Tranche 2011 4-year term		Tranche 2012 4-year term	
	Number of performance units	Fair value when awarded € K	Allocation amount for 2012 € K	Number of performance units	Fair value when awarded € K	Number of performance units	Fair value when awarded € K	Number of performance units	Fair value when awarded € K
Dr. Rüdiger Kapitza, chairman	20,790	141	409	37,879	559	26,858	262	22,422	248
Dr. Thorsten Schmidt, deputy chairman	13,860	94	273	25,253	372	17,905	175	14,948	165
Günter Bachmann	13,860	94	273	25,253	372	17,905	175	14,948	165
Kathrin Dahnke	–	–	–	13,889	205	17,905	175	14,948	165
Christian Thönes	–	–	–	–	–	–	–	7,474	83
Total	**48,510**	**329**	**955**	**102,274**	**1,508**	**80,573**	**787**	**74,740**	**826**

The individual performance remuneration takes account of the level of success of the individual members of the Executive Board in reaching their individually set goals. The STI and the LTI, as well as the individual performance remuneration, are all variable, which means they are not a secure remuneration.

Remuneration in kind arises mainly from the use of company cars and these amounts are assessed in accordance with applicable tax regulations, and individual insurance contributions. Every member of the Executive Board is contractually entitled to remuneration in kind, which may vary depending on the personal situation and is subject to tax payable by each Executive Board member.

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

D . 09 **INDIRECT REMUNERATION FOR EXECUTIVE BOARD MEMBERS**

	€ K
Dr. Rüdiger Kapitza, chairman	318
Dr. Thorsten Schmidt, deputy chairman	120
Günter Bachmann	277
Kathrin Dahnke	50
Christian Thönes	50
Total	**815**

In financial year 2012, pursuant to the International Financial Reporting Standards (IFRS), a provisions expense of € 318 K arose for the defined benefit commitment (previous year: € 295 K), whereby the entire sum of provisions was € 8,616 K. This figure also takes account of the benefit for surviving dependants included in the award.

The special purpose payments to the defined contribution pension plan amounted in total to € 497 K (previous year: € 350 K). The entire provisions expense for the financial year just ended amounted to € 815 K (previous year: € 645 K). Advances in favour of members of the Executive Board – or for the rest also in favour of members of the Supervisory Board – were not granted. There was no share option plan or similar securities-based incentive system.

The companies of the GILDEMEISTER group did not pay any remuneration to any member of its corporate bodies for services that were personally rendered, in particular not for consultancy or agency services. Former members of the Executive Board and their surviving dependants were paid € 588 K in pensions (previous year: € 605 K). The amount of pension obligations (present value of vested pension rights or defined benefit obligation) for former members of the Executive Board and their dependants was € 9,788 K (previous year: € 8,499 K).

Directors´ Dealings

Pursuant to Section 15a of the German Securities Trading Act (WPHG – Wertpapierhandelsgesetz) members of the Supervisory Board and of the Executive Board, or other persons subject to reporting requirements, must disclose any purchase or disposal of shares, as well as any related rights of purchase or disposal, such as options or rights that are directly dependent upon the quoted share price of the company. In the reporting year there were no notifications of directors‘ dealings.

Mori Seiki Co. Ltd. (Nagoya), which is managed by a member of the Supervisory Board, holds a share of 20.1% of the total number of shares. The remaining members of the Supervisory Board together hold less than 1% of the total shares issued. The Executive Board member Christian Thönes owns 1,080 GILDEMEISTER shares. No other member of the Executive Board owns any GILDEMEISTER shares.

GILDEMEISTER Share

The Stock Market Year 2012

On the international capital markets the year 2012 was marked by uncertainty as a consequence of the euro debt crisis. For the most part investors continued to exercise restraint, in particular due to the precarious financial situation in Greece and Spain. Diminishing economic expectations in Germany held capital market participants back in the fourth quarter from making greater investments in shares and corporate bonds. Overall, the performance of the major international stock indices was mixed, despite this environment, however, the German DAX and MDAX performed positively over the course of the year – especially at year-end. The main leading indices demonstrated the following trends year-on-year: The DAX rose by 29.1% and the MDAX by 33.9%. In comparison our share rose in the same period by 56.4%. The European EURO STOXX 50 went up by 13.8%, the US DOW JONES by 7.3%, and the S&P 500 Index by 13.4%. The British FTSE-100 index was able to record a rise of 5.8%. The Japanese NIKKEI 225 index grew by 23.0%.

Stock market listing, trading volume and shareholder base

The GILDEMEISTER share is quoted in official trading on the stock exchanges in Frankfurt / Main, Berlin and Dusseldorf, as well as on the open market on the stock markets in Hamburg-Hanover, Munich and Stuttgart. GILDEMEISTER is listed on the MDAX and complies with the internationally applicable transparency requirements of the Deutsche Börse “Prime Standard”.

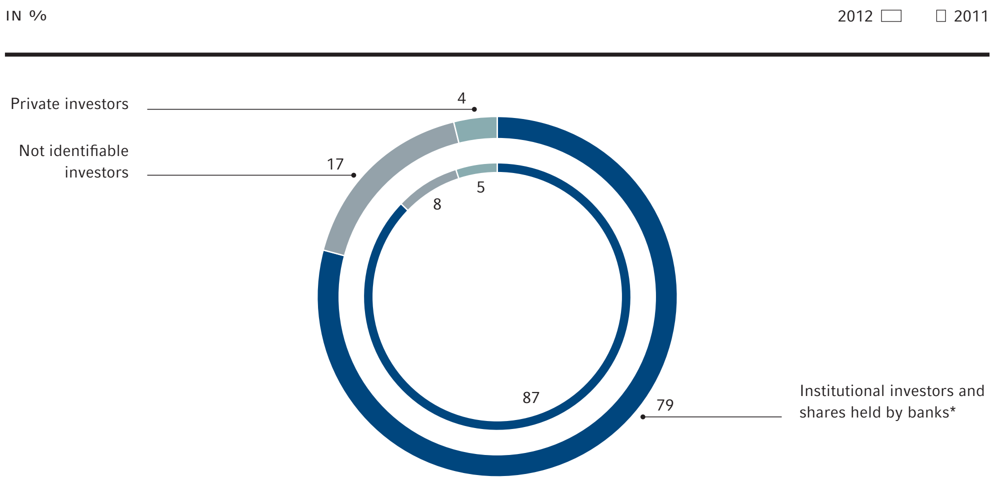
The volume of stocks traded at year-end was 80.1 million shares (previous year: 127.9 million shares); on the basis of 60.2 million shares, a weighted turnover of 1.3 times is calculated for the financial year (year-on-year: 2.3 times). The average **trading volume** decreased to about 315,000 shares per trading day (previous year: 498,000 shares).

Due to the overall positive performance of the share, GILDEMEISTER’s **market capitalisation** rose in the reporting year to about 56.4% or € 331.0 million to € 917.6 million.

In 2012 GILDEMEISTER shares continued to be held by a relatively broad range of investors (about **77% free float**). Mori Seiki Co. Ltd., Nagoya, Japan, continues to hold a voting share of 20.1% in GILDEMEISTER Aktiengesellschaft. BlackRock Inc., NY, USA, and subsidiaries held a voting share from 25 September 2012 until 30 November 2012 of 3.08%; thereafter less than 3%.

Due to the high free float, information on shareholders can only be roughly estimated. The following diagram shows the composition of the shareholder base:

D . 10 **SHAREHOLDER STRUCTURE OF THE GILDEMEISTER GROUP / BREAKDOWN BY INVESTOR GROUPS**
IN %



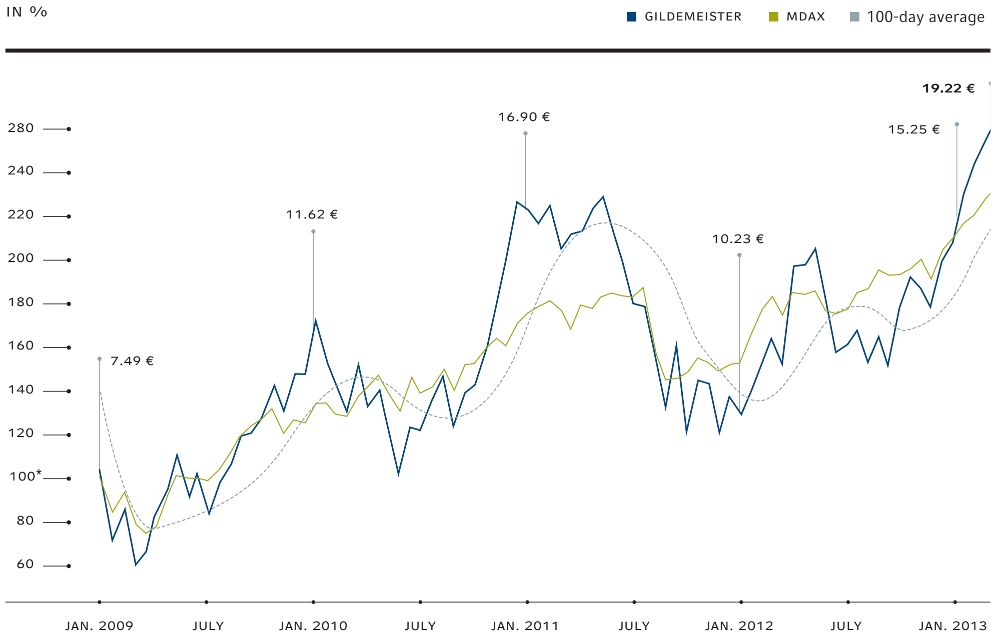
* 20.1% share Mori Seiki

Performance of the GILDEMEISTER share

The GILDEMEISTER share was able to record a clear positive performance in financial year 2012 despite the turbulence on the international capital markets as a consequence of the euro debt crisis. Since the start of the year, it gained 49%. In the stock market year 2012, the share was quoted at the start of the year at € 10.23 (2 Jan. 2012) and reached its highest value at € 16.11 on 18 December 2012. The lowest value of the year was € 9.74 (9 Jan. 2012). The share closed the year on 28 December 2012 at € 15.25. At the time of preparing the financial report on 8 March 2013, the share was quoted at € 19.22.

At the present time the company is being analysed by 14 banks, of whom five recommend the share as a buy and two banks rate the share as “overweighted”. One bank recommends “accumulating” the share and six analysts recommend holding the security.

D . 11 **THE GILDEMEISTER SHARE IN COMPARISON WITH THE MDAX®**
JANUARY 2009 TO MARCH 2013 **
IN %



* 2 January 2009 = 100, stock performances indexed, XETRA stock prices
Source: deutsche Börse Group
** An industry index has not been included due to a lack of comparability of the included shares in relation to GILDEMEISTER Aktiengesellschaft.

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Dividend

The Executive Board and Supervisory Board of GILDEMEISTER Aktiengesellschaft will propose to the Annual General Meeting on 17 May 2013 to distribute a dividend for financial year 2012 of € 0.35 per share, following the payment of a dividend of € 0.25 per share in the previous year. For the 58.4 million shares entitled to a dividend, the total distribution amounts to € 20.4 million. When taking the annual closing price 2012 as a basis, this results in a dividend yield of 2.3%.

D . 12

KEY FIGURES OF THE GILDEMEISTER SHARE

		2012	2011	2010	2009	2008	2007	2006
Registered capital	€ million	156.4	156.4	118.5	118.5	112.6	112.6	112.6
Number of shares	million shares	60.2	60.2	45.6	45.6	43.3	43.3	43.3
Closing price 1)	€	15.25	9.75	16.70	11.33	7.85	18.50	9.60
Annual high 1)	€	16.11	17.50	17.19	11.69	23.38	22.80	9.75
Annual low 1)	€	9.74	8.69	7.53	4.25	4.79	9.20	5.86
Market capitalisation	€ million	917.6	586.6	761.2	516.4	339.9	801.1	415.7
Dividend	€	0.35*	0.25	–	0.10	0.40	0.35	0.20
Dividend total	€ million	20.4	14.6	–	4.6	17.3	15.2	8.7
Dividend yield	%	2.3	2.6	–	0.9	5.1	1.9	2.1
Earnings per share 2)	€	1.32	0.85	0.09	0.10	1.87	1.16	0.63
Price-to-earnings ratio 3)		11.6	11.5	185.6	113.3	4.2	15.9	15.2
Cash flow per share 4)	€	2.8	2.7	1.7	– 1.7	2.5	2.9	2.5
Price-to-cash-flow ratio 5)		5.45	3.61	9.82	– 6.66	3.14	6.37	3.84

1) XETRA based closing price
2) Pursuant to IAS 33
3) Closing price / earnings per share
4) Cash flow from operating activity / number of shares
5) Closing price / cash flow per share
* Proposal for the Annual Meeting of Shareholders 2013

Own shares of the company

Within the framework of a share buyback plan 2011, GILDEMEISTER bought back a total of 1,805,048 of its own ordinary shares. This corresponds to 3.0% of the voting rights. The shares purchased may be used for all purposes stated in the authorisation granted by the Annual General Meeting.

Investor Relations and Corporate Public Relations

GILDEMEISTER places a high value on communication with institutional and private investors. Within the scope of our **investor relations work** we maintain a continuous and open exchange of information with all participants in the capital market. Through our transparent reporting we want to give capital market participants a clearer picture of our business model and its value drivers in order to attain a fair valuation of the GILDEMEISTER share. It is particularly in times of uncertainty on the international capital markets, as a consequence of public debt crises and growing economic worries, that we have continued to maintain close communication with institutional and private investors. At road shows and capital market conferences, both at home and abroad, in individual talks as well as in telephone conferences, GILDEMEISTER has presented its business development and corporate strategy. More than 1,200 shareholders attended our 110th Annual General Meeting in May 2012. We presented the chairman of the Executive Board's speech as a

GILDEMEISTER.COM
Annual meeting of shareholders

live stream on our website. The Internet has now become a firm part of our financial communications. Some 29,461 downloads of annual and quarterly reports – including 8,931 in English – have been made at www.gildemeister.com.

The work of the **Corporate Public Relations** department plays a significant role in maintaining and strengthening GILDEMEISTER's excellent reputation with the general public. We maintain a continuous dialogue with the national and international business press, as well as with the associations, institutions and decision-makers who are relevant for our business. We achieve this by always being competent, fast, open and reliable in providing information on the group's current position and that of its companies. The value that we ascribe to open communication is shown not least in our financial reports, which have been regarded as exemplary for years. They impress experts and jurors of renowned rankings time and again with their high standard of transparency, language quality and innovative design. Our 2011 annual financial report was once again recognised in the manager magazin awards. GILDEMEISTER's expenditure in the area of investor and public relations in the reporting year was € 2.5 million (previous year: € 3.1 million).

GILDEMEISTER.COM
Financial reports

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Corporate Communication

In the reporting year GILDEMEISTER focused on a dedicated corporate communication both externally and internally. Aligned with the general principle of a market and value-based corporate management, this enabled our group to be continuously in the public eye. A wide variety of tools played a part in this: trade fairs and exhibitions were included as were print information, advertising, our website and both public and investor relations activities. Innovations and the rounding off of our product lines again remained in the foreground in the reporting year. Our activities in the areas of corporate design, sales, pricing and innovations policy were closely linked to our marketing campaigns. The corporate communication overall contributed to enhancing the public image of the company. It was possible to exploit existing market potential even further and to tap into new buyer segments. Expenses in the area of corporate communication were € 47.6 million (previous year: € 45.4 million), of which one-off expenses in connection with industry events in 2012 accounted for 18%.

Trade fairs and exhibitions continue to play a decisive role for GILDEMEISTER as marketing instruments as this is where the advantages of our products can be experienced close-up and specialists are available to provide expert information. Our DMG and DMG / MORI SEIKI sales companies were represented at a total of 65 trade fairs and exhibitions, both nationally and abroad, during the reporting year. The trade fair highlight of the year was the AMB in Stuttgart. As the largest exhibitor, we displayed 40 exhibits including eight world premieres over an exhibition area of more than 2,000 square metres. During the AMB 321 machines were sold; the order intake was € 79.0 million. In total, 763 turning, milling and ultrasonic / laser machines were demonstrated in operation in the reporting year. The total display area at trade fairs amounted to 18,657 square metres; 64,904 visitors, representing 48,110 companies, ordered 2,819 machines at a total value of € 674.9 million. In the reporting year we spent € 27.4 million on trade fairs and exhibitions (previous year: € 27.0 million), which is 58% of the total marketing and corporate communication expense (previous year: 59%). The expenses were set off against income from the contributions of third parties to our events amounting to € 9.0 million.

DMGMORISEIKI.COM
Events

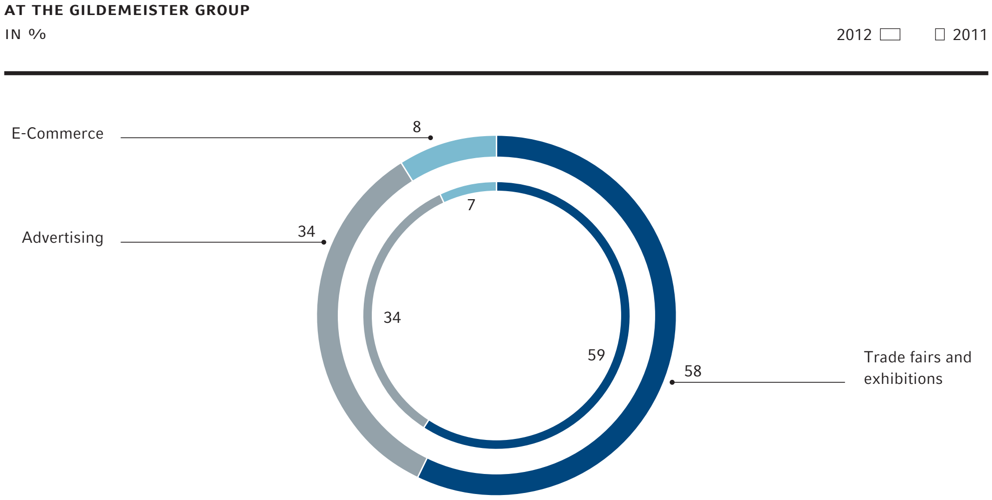
At GILDEMEISTER **advertising** is primarily a way of marketing our products. Of our journal, which is well-known in the industry, two editions were published in the reporting year in 45 versions and 22 languages; the total circulation was 541,000. For our brochures, which are published in 23 languages, we achieved a total quantity of 964,750 items. Direct marketing was also pushed in 2012 with innovative product and event mailings such as the "SunnyDays" – the turning and the ECOLINE mailing. Circulation worldwide reached about 2.0 million copies, broken down into 65 mailing campaigns there was a maximum of 22 different language versions for 76 countries. An additional

24 August 2012

manager magazin awards the GILDEMEISTER Annual Report 2011 once again a top position in its ranking of "The Best Annual Report". In one of the largest competitions worldwide, GILDEMEISTER achieved second position in the MDAX reports.

key focus was placed on specialist publications for the trade press: 326 advertisements, which appeared in 148 different trade magazines, provided information to potential customers in 33 countries about our products and services. The subsequent reports comprised more than 3,300 editorial pages. GILDEMEISTER invested a total of € 16.2 million in product marketing (previous year: € 15.0 million). This represents 34% of the expense for marketing and corporate communication (previous year: 34%).

D.13 **DISTRIBUTION OF CORPORATE COMMUNICATION COSTS AT THE GILDEMEISTER GROUP**
IN %



TOTAL
2012: € 47.6 MILLION // 2011: € 45.4 MILLION

Organisation and Legal Corporate Structure

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Segment Report

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Group structure

GILDEMEISTER Aktiengesellschaft manages the GILDEMEISTER Group centrally and across all areas as the management holding company; it comprises all cross-divisional key functions of the group. Further holding functions are assumed by GILDEMEISTER Beteiligungen GmbH as the parent company of all the production plants and by DMG Vertriebs und Service GmbH as the controlling company of all sales and service companies.

All GILDEMEISTER group companies are managed as profit centres and follow clear guidelines to ensure the best possible performance and results. A uniform IT infrastructure throughout the group standardises the main work processes and workflows and thus forms an integrative link for the group. The organisational costs of GILDEMEISTER Aktiengesellschaft in the reporting year amounted to € 20.6 million (previous year: € 16.2 million).

The material changes in the legal corporate structure of the GILDEMEISTER group in the reporting year arose primarily from extending the cooperation with Mori Seiki to Germany and Europe.

As a result, the German sales and service companies of GILDEMEISTER and Mori Seiki were brought together under the management of GILDEMEISTER. The European sales and service companies were combined in a joint European holding company, DMG MORI SEIKI Europe AG, with registered office in Dübendorf, Switzerland, in which GILDEMEISTER holds 60% and Mori Seiki 40% of the shares. Specifically, the following significant changes were made:

- Effective as of 1 January 2012, GILDEMEISTER and Mori Seiki brought their European sales companies together into the joint European holding, DMG MORI SEIKI Europe AG. The European Mori Seiki sales companies in Italy, France, Spain, Great Britain and Sweden have since been fully consolidated.
- In January 2012, DMG Vertriebs und Service GmbH founded DMG Benelux Holding B.V. and DMG Netherlands B.V., both with registered office in Veenendaal, The Netherlands. Both companies are to assume holding functions within the framework of the cooperation with Mori Seiki in Europe.
- In May 2012, GILDEMEISTER Beteiligungen GmbH founded Ulyanovsk Machine Tools OOO, Ulyanovsk, Russia. This new company is to produce ECOLINE series turning and milling machines for the Russian market.
- In the third and fourth quarters of 2012, the European Mori Seiki sales companies in Italy, France, Spain, Great Britain and Sweden were merged with the DMG sales companies in order to retain one company per country.
- In December 2012, DMG Holding AG founded DMG Europe Holding AG with registered office in Dübendorf. It is to serve as the holding company for the sales and service companies in Turkey and in Russia.
- Effective as of 31 December 2012, DMG Europe Holding GmbH disposed of 49% of the shares in DMG / MORI SEIKI Mexico to Mori Seiki.

The GILDEMEISTER structure is organised in such a way that all the companies contribute to building upon its position as a worldwide market and innovations leader in cutting machine tools. The group is mapped as a **matrix organisation** – with the production plants on one side and the DMG sales and service companies on the other. The production plants specialise in business areas and product series.

DMG or DMG / MORI SEIKI, respectively, is responsible for the direct sales of our products and for service. Additionally, our key accounting serves our major customers who operate internationally. a+f GmbH operates in the field of renewable energies. There is no intention of making a substantial change to the group structure at the current time.

P. 122 – 124
Equity investments / Consolidated Financial Statements

The GILDEMEISTER Group has **no other significant equity investments**. GILDEMEISTER holds 5.1% of Mori Seiki Co. Ltd., Nagoya.

DMG Vertriebs und Service GmbH, Bielefeld, is a 100% subsidiary of GILDEMEISTER Aktiengesellschaft. It controls the sales and service locations and sales offices, as well as branch offices abroad that do not constitute a separate legal entity.

The sales offices of DMG Technology Trading (Shanghai) Co. Ltd. in Beijing, Guandong, Chongqing, Shenyang and Xi'an are certified to market group products in China. Furthermore, the following companies also maintain branch offices that do not constitute a separate legal entity: DMG / MORI SEIKI Italia S.r.l., Bergamo, Italy, DMG / MORI SEIKI Austria GmbH, Klaus, Austria, DMG / MORI SEIKI Czech s.r.o., Brno, the Czech Republic, and DMG / MORI SEIKI South East Asia Pte. Ltd., Singapore.

Takeover Directive Implementation Act (Section 315 (4) German Commercial Code (HGB)

GILDEMEISTER must provide the following supplementary information:

- The registered capital of GILDEMEISTER Aktiengesellschaft amounts to € 156,437,431.80 and is distributed in 60,168,243 no par value bearer shares. Each share has a notional value of € 2.60 of the subscribed capital.
- Pursuant to Section 84 of the German Stock Corporation Act (Aktiengesetz – AktG), the Supervisory Board shall appoint and withdraw members of the Executive Board. This authorisation is specified in Article 7(2) of the Articles of Association of GILDEMEISTER Aktiengesellschaft to the effect that the Supervisory Board appoints the members of the Executive Board, determines their number and assigns their duties.
- Mori Seiki Co. Ltd. has undertaken not to exercise its voting right at the annual general meeting insofar as Mori Seiki Co. Ltd. would exercise the majority at the annual general meeting as a result of this.
- Mori Seiki Co. Ltd. holds 20.1% of the voting rights.
- Pursuant to Section 119(1)(5) of the German Stock Corporation Act (AktG), the Annual General Meeting passes resolutions on changes to the Articles of Association. The correspondingly defined rules of procedure are contained in Sections 179, 181 of the German Stock Corporation Act (AktG) in connection with Article 15(4) of the Articles of Association of GILDEMEISTER Aktiengesellschaft.
- Pursuant to Article 5(3) of the Articles of Association, the Executive Board is authorised to increase the registered capital of the company in the period until 17 May 2017 with the consent of the Supervisory Board through a single or through partial amounts by up to 30,084,121 new shares in exchange for cash or contributions in kind up to a nominal amount of € 78,218,714.60 **(authorised capital)**. At the same time the Executive Board is authorised to issue shares under exclusion of pre-emptive rights to a value of € 5,000,000.00 to employees of the company and of companies affiliated with the company.

- Moreover, by resolution of the Annual General Meeting of 18 May 2012, the company is authorised to purchase its **own shares** up to a pro rata amount of just under 10% of the registered capital, which corresponds to € 15,643,743.18. In the period from 26 August 2011 to 31 December 2011, the company made use of the authorisation existing at that time as to 3% (1,805,048 shares) so that the current authorisation is effectively limited to about 7% (4,211,776 shares). This authorisation is intended to place the company in a position of having its own shares available at short notice, without having recourse to the stock market, in order to offer these to a seller in return for the acquisition of companies or interests in other companies.
- In addition, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' statutory pre-emptive rights in certain cases that are stipulated in the articles of association (authorised capital) or in clearly defined cases in the authorisation resolution of the Annual General Meeting (own shares) on the use of own shares.
- Moreover there has been a contingent increase in the registered capital pursuant to Article 5(4) of the Articles of Association of up to a further € 37,500,000 through the issue of up to 14,423,076 no par value bearer shares **(contingent capital I)**. The conditional capital increase is to be effected only insofar as the options or conversion rights relating to warrant or convertible bonds, issued or guaranteed pursuant to the authorisation resolution of the Annual General Meeting of Shareholders of 15 May 2009, are exercised or any conversion obligation or obligation to exercise an option is fulfilled.
- The material financing agreements of GILDEMEISTER Aktiengesellschaft are subject to a **change of control condition** (that is to say, the acquisition of 30% or more of the voting rights) as a result of a takeover offer within the meaning of Section 315(4)(8) German Commercial Code (HGB).

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

- As of 31 December 2012, the registered capital of the company is € 156,437,431.80 and is distributed in 60,168,243 no par value bearer shares. Each share has a voting right and is the determining factor for the share of profits. The company may not exercise the voting right of its own shares and may not participate pro rata in the profits.
- The most recent amendment of the Articles of Association took place in May 2012 when Article 12 of the Articles of Association was revised.
- In the reporting year the Executive Board did not exercise the above-referred authorisation.
- The conditions for a change of control comply with customary agreements. They do not lead to an automatic termination of the above-referred agreements but, in the event of a change of control, merely grant our contractual partners the possibility of terminating these.

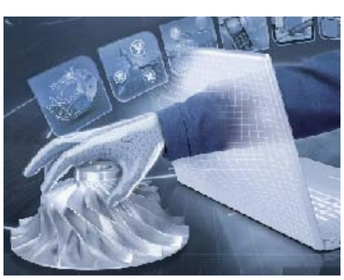
Research & Development

Research and development has traditionally enjoyed the high value placed on it at GILDEMEISTER. Innovations, by which we distinguish ourselves from our competitors, lie at the core of our work. We develop complex high-tech products, which are considered worldwide to be the drivers of technology in the machine tools industry. Through our decades of experience in the research and development of machine tools and in industrial services, we offer our customers competitive advantages worldwide. The aim of our research and development activities is to increase the added value of our products for our customers even further. In the reporting year, individual projects that were carried out in cooperation with Mori Seiki contributed to aligning our research and development even more closely with the requirements of the international market. The overriding priorities of our research and development were:

- increasing customer benefits through local production of cooperation machines,
- expanding technological integration through the adaptation of the milling/turning technology in the 5-axis product lines,
- stronger positioning of the production turning with the SPRINT 50 and GMC 35,
- broad market introduction of the MILLTAP 700 cooperation machine in the ECOLINE business area;
- extending the functionality of the DMG process chain,
- expanding our range in technology cycles in turning and milling for increased user-friendliness,
- development of ULTRASONIC solutions for composite machining,
- increasing the range of products in ENERGY SOLUTIONS.

A further goal of our research and development was, and will remain in the future, to develop our products with an eye to future trends and to conserving resources. In particular, we will continue to set the benchmarks in the energy efficiency of machine tools. In addition, we were able to further build upon and reinforce our position on the international markets with our entry level machines.

19 January 2012



Within the “it’s OWL“ top cluster, GILDEMEISTER is coordinating the lead project “InVorMa“. GILDEMEISTER thereby stands for top technological performance as part of the German federal government’s high-tech strategy.

Expense for R&D of € 55.9 million were slightly about the previous year's figure (€ 54.6 million). In the "Machine Tools" segment, the **rate of innovations** was 4.8%. Investments in new developments are listed in the segment reports as capitalised development costs. The research and development activities made a clear contribution to the group results, however it is not possible to quantify the contribution of individual measures.

D.14

RESEARCH AND DEVELOPMENT AT GILDEMEISTER GROUP IN A YEAR BY YEAR VIEW

		2012	2011	2010	2009	2008	2007	2006
R&D employees	number	502	485	451	435	471	467	421
Proportion of R&D employees [1]	in %	15	15	15	15	13	13	12
R&D expense	€ million	55.9	54.6	48.1	47.9	57.3	49.5	43.9
Innovation ratio [2]	in %	4.8	5.0	6.3	6.3	4.8	4.6	4.8
New developments	number	17	20	17	15	17	19	13

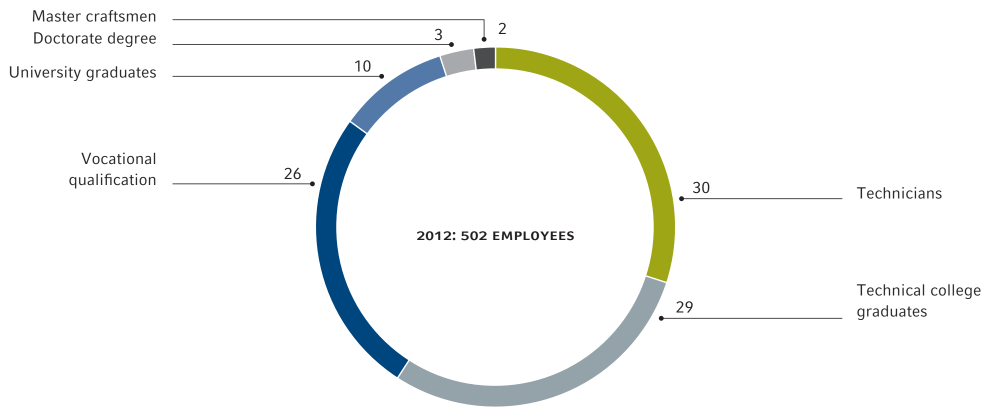
1) R&D employees in relation to the number of employees in the "Machine Tools" segment
2) R&D expenses in relation to sales revenues in the "Machine Tools" segment

GILDEMEISTER presents 17 new developments

The success of our research and development is reflected in the high product quality of our innovations and in the demand we enjoy from our customers. In addition, 50% of all order intake in the reporting year was accounted for by machines that were developed within the last three years. GILDEMEISTER presented 17 new developments at 65 national and international trade fairs and open house exhibitions. At the industry highlight in the reporting year in Germany, the AMB in Stuttgart, added together, DMG and its sales and service partner, Mori Seiki, presented 40 high-tech exhibits – including eight world premieres. In the USA, at the IMTS in Chicago, 45 cutting edge high-tech products with the latest software and automation solutions were displayed. Moreover, in the reporting year we were able to register a total of 45 patents, utility models and designs, as well as brand names and trademarks (previous year: 65 industrial property rights). In total, the value of our portfolio of protected rights, measured by the market value method, amounts to about € 439 million (previous year: € 357 million). This includes the trademarks of GILDEMEISTER of about € 300 million.

A total of 502 employees work on developing our products (previous year: 485 employees); this corresponds to 15% of the total workforce at the plants (previous year: 15%).

D.15 **GROUPWIDE QUALIFICATION STRUCTURE IN THE AREA OF DEVELOPMENT / CONSTRUCTION**
IN %



The research and development activities at the sites are decentralised; all activities are coordinated through product development discussions throughout the group. Our development activities are supplemented by individual cooperation projects with Mori Seiki as well as through collaboration with our system suppliers. Other than this, we do not purchase any third party **development expertise**. We use the services of third parties primarily in the area of industrial design. By maintaining close links with national and international universities and research institutes, we benefit additionally from the latest scientific findings, which we use for developing our products and technical services.

Product lines of DMG Electronics newly organised

DMG Electronics is responsible for developing electronics, software and control solutions. This business area of Powertools, which allows us to set ourselves apart from the competition, is of great importance. With its three product lines – **job preparation**, job assistance and job monitoring – DMG Electronics opens up enormous potential for customers to enhance their value added chain. Products from the area of job preparation assist our customers in the run-up to their production process, starting from vocational and further training through to programming and simulation. Through this, set-up times and the time needed for production start-up of the machines can be clearly reduced. With intelligent software products from the **job assistance**, energy that is used in the machine can be reduced while maintaining the same or greater production efficiency (DMG Energy Saving) or faster immediate online assistance can be made use of (DMG NetService). The comprehensive **job monitoring** enables our customers to retrieve a machine‘s status at any time and from anywhere and to analyse it (DMG Messenger). Pending maintenance work can be planned and carried out with software support (DMG Service Agent). The

DMG **process chain** is a programming and simulation solution that is unique worldwide and that supports our customers from the idea to the finished workpiece: from the CAD drawing to the CAM programming, the patented 1:1 simulation of the DMG Virtual Machine perfects everything right through to production on a DMG machine. In the reporting year we extended our range of machine-specific installations for milling and turning machines; in particular, we were able to integrate special machine options in production virtualisation. Through these developments we have improved the duration and quality of simulations.

Within the **Milling Association** we presented eight new developments. DECKEL MAHO Pfronten GmbH extended its range of high productivity milling with automatic pallet feed with the DMC 65 monoBLOCK and the DMC 85 monoBLOCK. The new generation of the monoBLOCK series has been extended by three additional models: the DMU 85 FD monoBLOCK, the DMU 105 FD monoBLOCK with milling-turning application and the DMU 125 monoBLOCK. Since the reporting year, the horizontal milling machines produce range has been supplemented by the DMC 60 H *linear* as well as by the cooperation machines, the NHX 4000 with MAPPS control and the NHX 5000 with Siemens control. With our extended range of linear drive engineering, we are especially able to assist both our existing and new customers in renewing their machinery in order to increase productivity. For example, with the DMC 60 H *linear* 25% higher productivity is achieved as well as long-term precision through feed drives on the basis of linear motors. Within the **Milling and Processing Association**, DECKEL MAHO Seebach GmbH presented four new machines: the DMU 40 eVo *linear* FD and the DMU 100 eVo *linear* FD with milling-turning table as well as the DMU 40 eVo linear and the DMU 80 eVo *linear* – each with a pallet changer. A further priority was placed on expanding the eVolution series for 5-axis machining. The **Turning Association** presented five new developments: The CTX BETA 800 4A extends the product range of 4-axis turning machines. The SPRINT series with

24 September 2012

The important autumn trade fairs of 2012, the IMTS in Chicago and the AMB in Stuttgart, are successful with order intake of € 93.7 million and 377 machines sold.

patented TWIN concept was specially developed for efficient use in the mass production of components. The TRIFIX interface for fast, precise tool change reduces set-up times by up to 35%. The SPRINT 50 2T enhances parallelised bar turning with two tool turrets – the SPRINT 50 3T even works with three tool turrets. The SPRINT 50 3T-B-axis with three magazines completes the range for 6-sided complete machining with negative angles. The multi-spindle automatic turning machine GMC 35 reduces costs per piece markedly through short tooling times; optimum chip flow is also made possible through the laterally cased spindles.

DMG technology cycles automise programmes

We are pushing ahead the integration of our new technologies, for example we use the ULTRASONIC technology for the machining of fibre-reinforced plastics. The **DMG technology cycles** contain our decades of experience from DMG application development. We make our expertise accessible in a user-friendly manner to our customers by means of simple, parameterised input fields for shop floor programming. Thus complex machining can be entered very simply, directly into the controls, the machine program is automatically generated.

Our **"Industrial Services"** segment range was also extended in the reporting year. With **DMG / MORI SEIKI LifeCycle services**, we offer our customers a unique service portfolio to maximise the productivity of their machines. The solutions cover the entire life cycle: from commissioning to training and innovative software products, as well as competent and fast service on site, through to trade-in as a used machine. **DMG Automation** offers an extensive range of work piece and pallet handling systems for the automatic loading and unloading of our machine tools. The devices for tool pre-setting from **DMG Microset** facilitate clear gains in productivity as the tools can be adjusted during the machining operation. With technical expertise and state-of-the-art logistics, **DMG Spare Parts** ensures the reliable and fast supply of original spare parts to the customer.

In the **Energy Solutions** division, GILDEMEISTER introduced in the reporting year the flexible, scalable SunCarrier 22 with about 30% more yield in comparison with fixed stationary systems. At the Intersolar trade fairs in Munich and Mumbai, we presented for the first time in the area of storage technology the big battery CellCube 30-130. The modular design concept of the vanadium redox flow storage device makes it possible to adapt the performance and energy content to the customer's requirements perfectly; if necessary, upgrading can be carried out at a later date without any problem. In September we opened the new Energy Solutions Park at the Bielefeld site. With this major project extending over 20,000 square metres GILDEMEISTER is demonstrating for the first time a complete solution for the production, storage and use of renewable energies for self-consumption by industrial enterprises.

P. 64 – 69
Sustainability

Purchasing and Procurement

High raw material volatility, which increased the cost pressure on the part of our supply partners, characterised the reporting year with respect to **purchasing and procurement**. In particular, the first half of the year was marked by the increasingly short supply of rare earths. Through our close communication with our mostly long-standing supply partners, by placing orders in good time and by the use of alternative raw materials, we were able to offset this. We worked with our supply partners in the reporting year on sustainable cost improvements over the entire supply chain, amongst others, in order to counteract the effects of increases in raw material prices and, at the same time, to ensure the necessary flexibility. We have achieved **cost reductions** of 0.6%.

Expenditure on materials and purchased services amounted to € 1,129.3 million (previous year € 952.7 million), of which raw materials and consumables accounted for € 982.1 million (previous year: € 800.8 million). The **materials ratio** rose to 55.0% (previous year: 54.6%). Our **depth of added value** was 28.2% (previous year: 29.5%); the decrease resulted mainly from the rise in sales volume with Mori Seiki products.

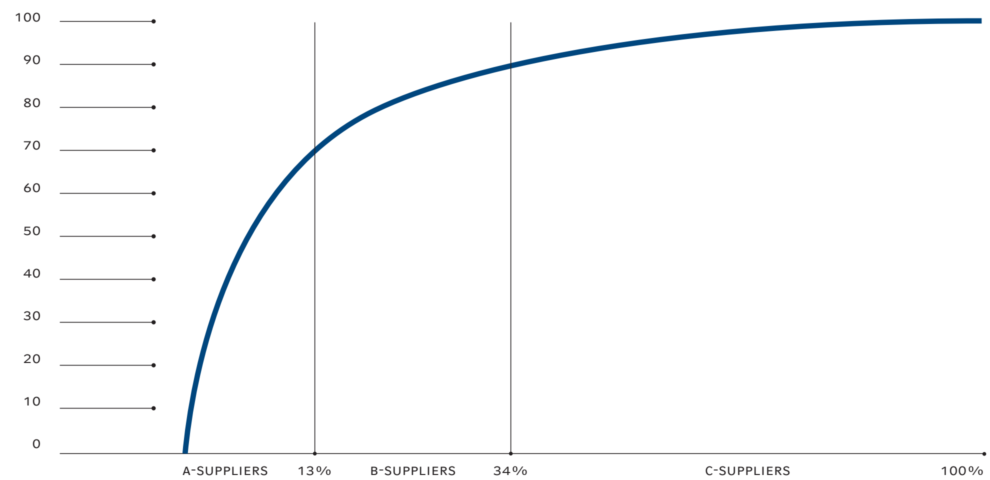
Within the scope of our supplier-capital-policy, we have also persistently expanded **our global supply partnerships** in the reporting year in order to overcome the effects of progressive globalisation, which has led to growing market dynamics. We have developed and intensified our global supply relations in order to make use of regional location advantages with respect to quality and cost.

Successful 12th Supplier Day

The changes were also apparent within the scope of our 12th GILDEMEISTER Supplier Day in February in Pfronten. More than 200 international representatives from the top 60 suppliers accepted an invitation. The Executive Board of GILDEMEISTER Aktiengesellschaft welcomed the attendees and highlighted the enormous significance of close collaboration, not least in maintaining a joint competitive position but most especially with regards to issues such as product quality, flexible response times and technological innovations. The share of our top 50 suppliers in the purchasing volume was 70% (previous year: 73%). Through the constantly rising share of local procurement **(local content)**, especially in China, India and Taiwan, we reduce our currency exchange risk from sales revenues in foreign currencies **(natural hedge)**.

Our supplier structure is illustrated in the following diagram:

D.16 **STRUCTURE ANALYSIS OF SUPPLIERS 2012**
SHARE OF SUPPLIERS IN PURCHASING VOLUME IN %



The structure analysis shows that 13% of our suppliers cover 70% of the total purchasing volume. We refer to these as our A-suppliers. A further 21% of our suppliers have a share of 18% of the purchasing volume (B-suppliers); 34% of our suppliers thus cover 88% of the entire purchasing volume. The remaining 12% share of materials purchased is spread among the remaining 66% of our suppliers, the so-called C-suppliers.

In the reporting year the replacement times for important components became significantly longer, so that **security of supply** constituted a priority in our purchasing activities. To safeguard materials supply, we have been able to fall back on our proven "Front Office" workflow system. The supplier cockpit – a major element of Front Office – provides our suppliers with a long-term preview of delivery needs. Through a close and timely exchange of information on requirements, both sides were able to respond flexibly to the rise in orders from our end-customers.

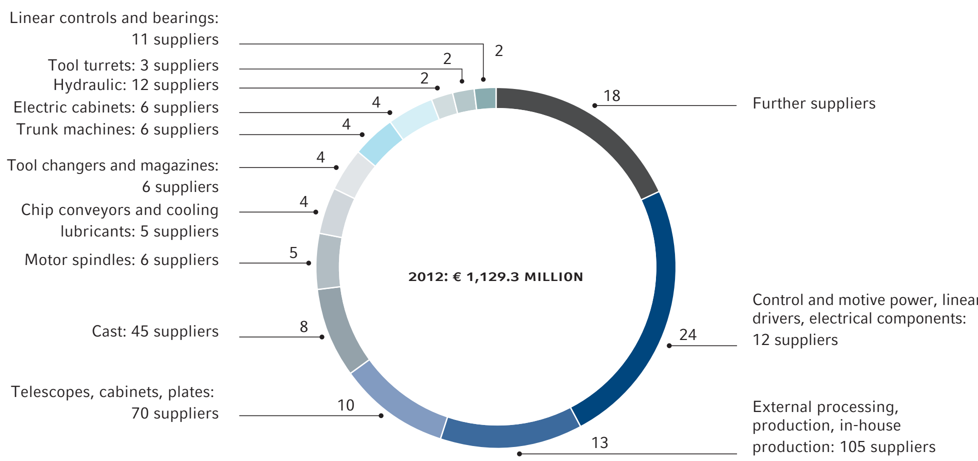
We are working on establishing permanent, reliable supply partnerships. In this way we can best use the expertise of our supply partners and, at the same time, increase our innovative capacity long-term. The www.coSupply.de communications platform is an important component of **supplier management** and is constantly being enhanced.

GILDEMEISTER.COM
coSupply®

In addition to information about the GILDEMEISTER group purchasing, the open evaluation system serves as a basis for talks with our suppliers and especially for developing supplier relations.

Alongside the global sourcing activities and an intense supply management, the **material groups management** forms an important pillar of purchasing activities. Divided into 30 materials groups, it brings together the cooperation between purchasing and technology throughout the group. At regular workshops, the competent materials groups managers meet with counterparts from the sites and in individual projects implement the strategies that have been set by the purchasing committee. In this way, for example, our purchasing prices in the area of linear bearings and ball screws remained constant in the reporting year and terms and conditions were improved. The share of the individual materials groups in the purchasing volume can be seen in the following diagram:

D.17 **SHARE OF MATERIALS GROUP IN PURCHASING VOLUME**
IN %



In the area of non-production materials and services, the subjects of energy purchasing, facility management and IT purchasing, in particular, were the focus of attention in the reporting year. In consideration of the use of our own Energy Solutions products at the Bielefeld site, it was possible to further improve electricity terms with our suppliers. Any purchasing in connection with the extensions in Seebach and Bielefeld was closely coordinated with the competent departments and, as well as IT projects, approved centrally.

Production, Technology and Logistics

In **production, technology and logistics** we were able to further increase the efficiency of our processes, in doing so we have especially benefited from the results of the "GILDEMEISTER 2015" project involving all the plants. In the project, the different GILDEMEISTER sites worked together on identifying potential improvement, finding solutions and ultimately implementing them. In the reporting period it was possible to complete significant part-projects. As an example, the takt timed assembly has been extended both for machine tools as well as for upstream subassemblies. GILDEMEISTER was able to increase transparency considerably in the most significant production key figures by revising the key figure report throughout the group. Furthermore, essential assembly information is made available on modern touchscreen terminals in the assembly area, which further streamlines operational procedures.

Positive effects from project "GILDEMEISTER 2015"

The extent of the order backlog and thus the average delivery time of GILDEMEISTER was about six months in the financial year just ended. The industry average of the German machine tools industry is calculated at 8.5 months by the German Machine Tool Builders' Association; as this comparative figure includes a considerably larger number of special and project machines that typically involve longer throughput times, it is correspondingly somewhat higher.

Together with the Japanese machine tool builder, Mori Seiki, the production start-up was carried out for the MILLTAP 700, a machine that has been jointly developed for the first time. DECKEL MAHO Seebach GmbH is building this machine in a newly-created flow assembly line. For the production of the MILLTAP series, we are also using green energy from the newly-constructed solar park and are thus setting the benchmarks in the supply of industrial production with renewable energies.

MILLTAP 700 built in assembly line

We have acquired further licences to produce some Mori Seiki machine types. We have adapted their control technology and drive engineering to suit the needs of our customers.

Within the GILDEMEISTER **value added system PULLplus**, the ideas management also achieved excellent figures last year. GILDEMEISTER employees are continuously contributing to improvements and enhancements at the company through the suggestions scheme. We encourage ideas from our employees and increase our innovative capacity, which makes a decisive contribution to the long-term success of the group; through special incentives, GILDEMEISTER promotes steady improvement in the **process capital**.

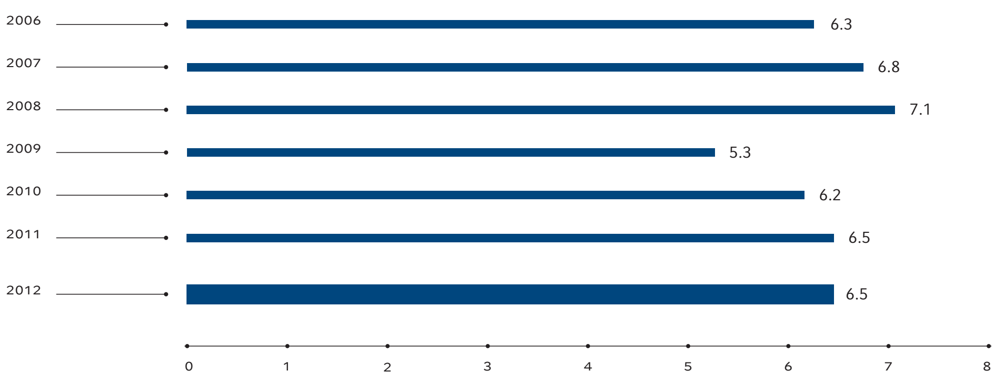
In 2012, the number of **suggestions for improvement** of 22,489 (previous year: 21,346) was 5% above the previous year's figure. In relative terms of 6.5 suggestions per employee, all the production plants were at the same high level as the previous year (6.5).

The use of all suggestions assessed less the costs of implementation – the accumulated net use – has once again risen to € 3.1 million (previous year: € 2.8 million).

GILDEMEISTER takes leading position in industry ranking of idea management

It has already become a tradition for the GILDEMEISTER group to take the top places in the industry ranking of idea management schemes of the Deutsche Institut für Betriebswirtschaftslehre e.V. (German Institute of Business Administration). In the reporting year, the DECKEL MAHO Pfronten, GILDEMEISTER Drehmaschinen and DECKEL MAHO Seebach plants took the first three places in the ranking.

D.18 **SUGGESTIONS FOR IMPROVEMENT AT PRODUCTION PLANTS**
NUMBER PER EMPLOYEE



Positive effects have been achieved at GILDEMEISTER by organising our plants into **production associations** across locations. The close networking of co-operation between the associations creates mutual advantages. For example, our plants have an opportunity through fast, flexible production shifts to manage available capacity utilisation optimally.

The **Milling Association** brings together DECKEL MAHO Pfronten GmbH and SAUER GmbH under uniform management. Through the central management and the geographical consolidation of both companies, we have realised potential synergies.

Pfronten converts to motor spindle production

To coincide with the open house exhibition at the start of February, motor spindle production at DECKEL MAHO Pfronten was converted from fixed assembly to flow assembly. At the same time, the two main components (rotor and stator) were initially pre-assembled on two parallel lines before the finished assembly subsequently took place and was completed on the main line. The advantages of flow assembly are obvious: By introducing standard workflows we increased process stability and output quantity, productivity rose by 20% and throughput time was reduced by 50% with an improvement in quality. The one-piece flow principle realised on the flow line assembly also makes it possible to assemble new spindles and spare part spindles in the model mix.

The **Milling and Processing Association** comprises DECKEL MAHO Seebach and FAMOT Pleszew; assembly and production expertise are combined, capacity can be used optimally by each supplementing the other.

Cluster assembly starts in Seebach

In our Seebach plant we extended the capacity. Assembly of the eVolution series has started up in the new production hall. In the newly-introduced cluster assembly each fixed team of four employees and one springer builds several machines; the employees assume responsibility for the entire assembly procedure. By means of the “digital workbench”, data specific to the machine is supplied and the progress of the assembly is clearly visible on the screens. The optimum design of the work places and the new style of assembly has made production more efficient, has increased quality once again and reduced throughput times considerably. The new logistics centre with integrated high racks, long parts and large parts store further enhances the materials supply to assembly. Considerably improved conditions have been created with the new technology centre for the construction of prototypes as well as the test operation of our machines and subassemblies. More in-depth tests can be carried out as the soundproofed and the temperature-controlled areas have been split into separate rooms.

FAMOT in Pleszew, Poland, introduced a flow line assembly for the production of the ECOLINE series in the reporting year. This assembly line makes it possible to build two machine types of the DMC V ECO series in a model mix. With the aid of simplified production control and logistics in the line assembly, productivity has been increased. Furthermore, transparency in production has been improved by enhancements in the production controlling system. In mechanical production, we have unified the existing machinery with three new machines from DECKEL MAHO Pfronten. The site now has the latest technology for machining subassemblies for group production.

The **turning association** brings together GILDEMEISTER Drehmaschinen GmbH, GRAZIANO Tortona and GILDEMEISTER Italiana. The core turning expertise is thus consolidated under joint management, which creates synergies in the areas of assembly, production, development and in the administrative areas, too.

At GILDEMEISTER Drehmaschinen GmbH we commissioned one line assembly, on which the CTX and NEF machines are produced in a model mix. Over a surface area of about 600 square metres, the assembly line production with 14 takt stations ensures a steady production flow with capacity for 480 machines per year. The majority of the

Drehmaschinen GmbH reduces production time

turning machines in Bielefeld are now built in takt operation; the production time for the machines has fallen as a result of this measure by 30%. Up-to-date touchscreen terminals at all 14 takt stations display the important assembly information and ensure an uninterrupted assembly process. The direct linking of our ERP system to work and delivery schedules enables the transparent control of the entire assembly process.
In addition to the assembly process, logistics processes, such as material availability, have also been enhanced. In the reporting year, GRAZIANO Tortona took over the entire production of the CTX BETA 1250 TC; previously production responsibility was shared with Bielefeld. The production volume has practically doubled.

GILDEMEISTER Italiana optimised the assembly and logistics for the SPRINT 42-10 and the SPRINT 20-8 turning machines in the reporting year. By a change in assembly processes and standardising tools and other aids, the assembly times have been cut by up to 38%.

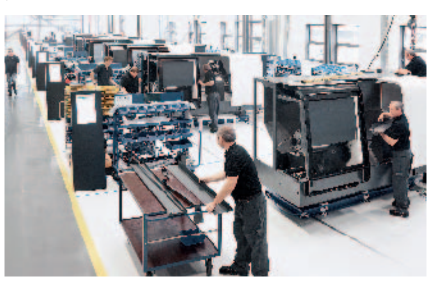
The **ECOLINE Association** includes DMG ECOLINE GmbH, DMG Shanghai Machine Tools Co. Ltd. Production of the MILLTAP 700 also started in the reporting year in Shanghai in order to better serve the growing Asian market and the first machines have already been put into operation by customers.

The **Energy Solutions** division offers efficient energy management through solutions for the production, storage and use of green energy. The innovative energy concept offers industrial customers, in particular, intelligent solutions for sustainability and reducing costs. This has been implemented and demonstrated through the opening of the GILDEMEISTER Energy Solutions Parks in Bielefeld and Seebach.

P P. 64 – 69
p = Sustainability

At a+f GmbH a uniform storage concept has been created in order to achieve shorter delivery times, more streamlined delivery processes and optimum availability; at the same time it has been possible to reduce the inventory considerably. In the reporting year, we standardised the procurement, logistics and billing processes with the foreign companies in Spain and Italy. At Cellstrom GmbH in Wiener Neudorf, production quality was enhanced by the introduction of new clean room cells.

16 September 2012



The new line assembly at GILDEMEISTER Drehmaschinen GmbH is put into operation. CTX and NEF machines can now be assembled in takt operation. Large assembly monitors at each takt station display the progress.

As a leader in technology, the **quality** of our products is of paramount importance for GILDEMEISTER. All production plants of the group are certified according to DIN Standard ISO 9001, which specifies the quality management framework. In the reporting year we were once again able to achieve clear improvements along the entire process chain.

Quality standards extended

In the area of development, binding and clearly defined milestones ensure that any new products introduced conform to the high GILDEMEISTER quality standards. This is of particular importance given the high speed at which we produce innovations. In the reporting year, existing procedures were further improved. In addition to safeguarding the quality of our series start-ups, the close cooperation with our suppliers also has a high level of importance. We continue to integrate our suppliers in the development process and enjoy a continuous exchange of information.

During the assembly of our products, extensive test runs ensure that quality demands are met. To maintain these quality standards and further improve upon them, the test runs are subject to continuous optimisation.

In the reporting year an extensive reporting system for our worldwide service companies was also set up. In this way, quality issues are identified in real time and can be dealt with at short notice by means of appropriate counter measures.

Supplementary Report

The global economy grew overall at a relatively steady pace in the first few months of the year. The crisis in the eurozone and the fiscal policy in the USA are determining factors for the economic trend in 2013. The demand in the German machine tool industry was declining overall at the start of the year.

Economic Development 2013

Overall economic development remained steady in the first months of the current year. Uncertainty is clouding the outlook, especially relating to the government debt crises in the eurozone and the future trend in fiscal policy in the USA. The Institute for the World Economy (IfW) expects worldwide production to grow by 3.4% in 2013.

Whilst emerging countries are exhibiting greater room for fiscal manoeuvre in overcoming the weak economic cycle and in acting as growth drivers worldwide, economic opportunities in industrial countries appear to be limited. The ifo business climate index has risen in Germany for the fourth time in a row. The current business situation is once again being assessed more positively. In addition, the outlook has improved for the coming business development.

Sources: Institute for the World Economy (IfW), Institute for Economic Research (Ifo)

Demand in the **German machine tool industry** was declining overall at the start of the year – compared to the high figures in the corresponding period of the previous year. The German machine tool builders' association (VDW) estimates order backlog to be about 8.5 months.

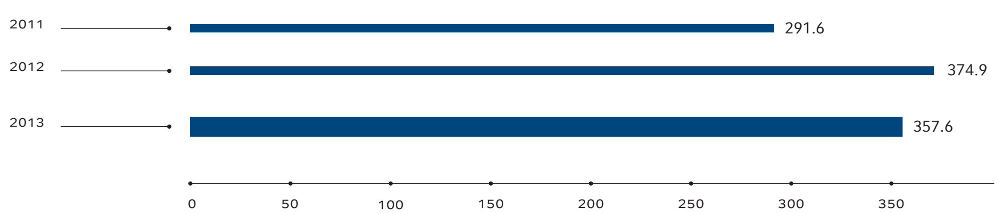
Source: VDW (German Machine Tool Builders' Association)

Corporate situation after the end of the reporting year

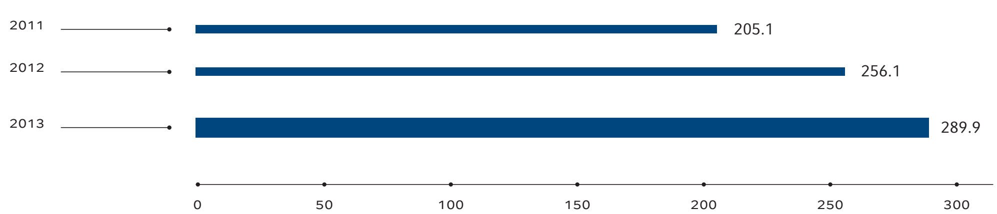
P. 120 – 129
Forecast report

GILDEMEISTER started the **financial year 2013** according to plan. **Order intake** in January and February amounted to € 357.6 million (previous year: € 374.9 million). **Sales revenues** in January and February rose above the level of the comparable previous year's months and totalled € 289.9 million (previous year: € 256.1 million). The order backlog increased in the period from 31 December 2012 to 28 February 2013 by € 67.7 million to € 1,071.2 million. Due to the long time to market in the machine tool business the increased order backlog will only be reflected in sales revenues with a delay of time. The earnings (EBT) in January and February were at previous year's level. A more detailed statement is premature at present time.

E . 01 **ORDER INTAKE AT THE GILDEMEISTER GROUP IN JANUARY AND FEBRUARY 2013**
IN € MILLION



E . 02 **SALES REVENUES OF THE GILDEMEISTER GROUP IN JANUARY AND FEBRUARY 2013**
IN € MILLION



Trade fairs and exhibitions are an essential tool in our **marketing campaigns**. We started off the new year at the IMTEX in Bangalore, India. From 24 to 30 January, DMG / MORI SEIKI exhibited nine machines and industry solutions over approximately 400 square metres at the largest trade fair for machine tools and industrial solutions in southeast Asia. With order intake of € 150.5 million and 574 machines sold, we took positive stock of the annual kick-off event at DECKEL MAHO in Pfronten. From 29 January to 2 February 2013, 6,078 international trade visitors gathered information on our trend-setting technologies, including six world premieres. At the INTEC in Leipzig GILDEMEISTER displayed 14 exhibits over an exhibition square of 400 square metres to a local audience from 26 February to 1 March.

The 13th **GILDEMEISTER Suppliers' Day** took place on 29 January 2013 during the open house exhibition in Pfronten. The "Supplier of the Year Award" was presented before the invited TOP suppliers in the categories quality, supply performance, innovation and overall winner.

The main focus of **investments** in the first two months of the year was placed on making production and operating materials available.

At the start of the year we increased **sales prices** for "Machine Tools" by about 2% depending on market and product. Due to the average calculated order backlog of six months in this segment the positive effect on sales revenues and results will be evident only by the middle of the year. In the first two months there were no changes to the **legal corporate structure** or to the organisational structure. We have raised the share in MG Finance GmbH from 33.0% to 42.55%. No other **equity investments** were purchased.

Current

In its meeting of 12 March 2013 the Supervisory Board appointed Dr. Maurice Eschweiler as deputy member of the Executive Board of GILDEMEISTER Aktiengesellschaft. As of 1 April he will be responsible for the newly established Executive department Industrial Services, which comprises the divisions Services and Energy Solutions.

Opportunities and Risk Report

Our systematic opportunities and risk management system is an essential part of our corporate management. GILDEMEISTER compiles and uses opportunities timely without losing sight of risks. This enables us to take appropriate action and initiate any measures necessary in good time.

In its business activities, GILDEMEISTER is exposed to various opportunities and risks. Our opportunities and risk management assists us in identifying and assessing these timely. The Executive Board and the Supervisory Board are informed regularly about the current risk situation of the group and that of the individual business units. Our opportunities and risk management system comprises five elements:

1. the company-specific Risk Management Manual, in which the system is defined,
2. a central risk management representative, who is supported by a local risk representative in each group company and who maintains the risk management system (including software),
3. area-specific risk tables, in which individual risks are assessed quantitatively and are prioritised on the basis of the value-at-risk measure,
4. the general internal reporting and cross divisional reporting structure of the group, which is controlled by threshold values and is also supported by ad hoc reports on significant risks,
5. the risk reporting system at the group level and at the individual company level.

Opportunities Management System (CMS)

Opportunities are identified and analysed within the opportunities and risk management system, amongst other means by simulating positive deviations from plan assumptions. With our marketing information system (MIS) we identify significant individual opportunities. We collect customer data worldwide and evaluate market and competitor data; on this basis we measure, assess and check all sales and service activities and other measures for their effectiveness and cost-efficiency. We constantly monitor our markets and in this way we are able to identify any market opportunities that arise. In addition, we evaluate trade fair data in detail in order to detect trends and developments in good time. This allows us to draw up short-term and medium-term forecasts for customer orders that are to be expected per machine type and sales region.

General economic opportunities open up to GILDEMEISTER primarily because we consistently work the growth markets. The Asian markets, America and Russia continue to develop positively. We intend to share in these markets' growth and increase our market share. At the same time, we are consolidating our position as a market leader in the machine tools business in established markets. As the basis for this, we are consistently strengthening our innovative power as well as our technological position and are placing our main focus on the growth markets and sectors. We are further expanding our sales and service activities. In Ulyanovsk, Russia, we are building an up-to-date production and assembly plant with a training and technology centre, where we will produce machines from the ECOLINE series. Among the advantages of the planned, new production site are shorter delivery times, more needs-based customer care and faster availability of spare parts for our customers in south-west Russia and neighbouring countries.

Industry-specific opportunities arise for us through the Energy Solutions, amongst others. GILDEMEISTER is participating on the market for renewable energies with its innovative products for producing energy and energy storage; its solutions combine environmentally-friendly and CO_2-neutral energy production with energy storage and use, for example for supplying own production needs for industrial operations. Such solutions to optimise energy management are offered to our industrial customers in particular. We take advantage of market opportunities in the world markets with our ECOLINE series, with which we serve the demand for low-priced machines with innovative technology.

Corporate strategy opportunities present themselves to GILDEMEISTER through a sustained leadership in innovations and technology, as well as through market-leading product quality. We plan to continue to bring innovative products and services in all business areas to the market regularly. In the technology fields of turning and milling in the Machine Tools segment we will offer innovative or refined high-quality products. We intend to increase the efficiency of the systems that we offer in Energy Solutions continuously through new products. This gives rise to opportunities to further strengthen our position in numerous markets. To make use of these opportunities, we are rigorously active in research and development, while striving, in particular, to increase customer benefits through innovative software concepts, to extend our technological leadership in the machining of complex component geometries as well as to reinforce our market position in the ECOLINE area.

P. 95 – 99
Research and development

In addition, we ensure the quality of our production processes and products by means of our quality management system. The MIS provides numerous **operational leading indicators** such as market potential or order intake, which we make particular use of to manage sales activities. As a full-liner we are constantly expanding our services. Furthermore, we also see opportunities in the automation of machine tools.

MG Finance offers our customers tailor-made financing solutions. We have continued cooperation projects with Mori Seiki, which, in addition to the jointly developed MILLTAP 700, also include production licences. Producing machines in this way in the corresponding target markets has made it possible to reduce transport and logistics costs by some 15% as well as making delivery times much shorter. Additionally it is planned to extend the combining of our sales and service activities with those of Mori Seiki to the Chinese market.

Performance-related opportunities arise, for example, as a result of involving our suppliers actively in the value added process and thereby strengthening their supply loyalty. At the same time, we are actively working to counteract price increases, especially for materials in the machine tools business. Furthermore, as a matter of principle, we appoint at least two suppliers for all essential components, subassemblies and modules. With our direct sales and service network we are able to serve our customers worldwide. This means that we are in close proximity to our customers in 39 countries of the world; our customers benefit from this and place a high value on the fact that we can be reached directly. Thanks to our extensive research and development activities we are in a position to offer our innovations and new products to our customers in quick succession. We likewise take advantage of **other opportunities**: We are working persistently on enhancing our processes in the areas of production, technology, quality and logistics. As just one example, we are reducing lead times. We invest throughout the group in improved building insulation, automatic lighting systems, energy-efficient ventilation installations as well as projects on environmentally-friendly energy production, and in this way we will reduce our energy consumption noticeably. We will generate a considerable part of our energy requirement ourselves. Under DMG ENERGY SAVING we bring together our activities intended to increase the energy efficiency of our machine tools. GILDEMEISTER is setting the benchmarks in this area for the industry.

Risk Management System (RMS)

The risk management system at GILDEMEISTER is structured in such a way that significant risks must be systematically identified, assessed, aggregated, monitored and notified. The risks in the individual company areas are identified in this way every quarter and any potential risks that are determined are analysed and evaluated using quantitative measures; in doing so, measures to reduce risks are taken into account. Any risks that jeopardize the company as a going concern are reported ad hoc outside the regular reporting schedule. We determine the individual local and central risks as well as the effect on the group in order to present the overall risk situation of the group:

- Local risks are individual risks that the group companies are exposed to and that we can assess locally.
- Central risks are risks that can only be assessed centrally – at least in part. These include, for example, risks arising out of the group's financing.
- Group effects usually arise from consolidation requirements; this includes, for example, the double counting of risks, which have then to be adjusted correspondingly.

The **accounting-related internal control system** is part of the entire internal control system (IKS) of the GILDEMEISTER group, which is embedded in the risk management system throughout the company. It comprises organisational, control and monitoring structures to ensure the legally compliant collection, preparation and assessment of business facts and their subsequent inclusion in the IFRS consolidated financial statements. The analyses carried out by the risk management contribute to identifying risks with an impact on financial reporting and to initiate measures to minimise risks. The accounting-related internal control system comprises basic principles, procedures and measures to ensure the correctness of the group accounting. For this purpose we analyse new legislation, accounting standards and other communiques with respect to their effect on the consolidated financial statements. Throughout the group, we have codified relevant regulations in guidelines, such as those in the accounting handbook. These guidelines and the financial statements calendar, which is applicable throughout the group, form the basis for preparing the financial statements. The local companies are responsible for compliance with the relevant regulations and in this respect are supported and monitored by the group accounting department. In addition, there are local regulations that each have to be harmonised with the group accounting. This also includes compliance with local accounting regulations. The internal audit department checks the effectiveness of the accounting-related internal controls. Consolidation is carried out centrally by the group accounting department. As required, GILDEMEISTER avails itself of external service providers, for example for measuring pension obligations. Employees who are entrusted with drawing up the financial reports undergo regular training. The control system comprises control activities aimed at both prevention and discovery, which include plausibility checks, the separation of functions and the "four-eyes" principle (dual control). Additionally, the analyses conducted by risk management contribute to identifying risks with an impact on financial reporting and to introducing measures to minimise such risks. The effectiveness of the system is judged on the basis of self-evaluation of the group companies and areas responsible; in addition, the effectiveness is checked and assessed on a random basis by the internal audit department. The results of the effectiveness checks are reported regularly to the Executive Board and Supervisory Board.

General economic risks arise for GILDEMEISTER from cyclical developments. As such, economic growth is particularly restrained in Europe. The economy is negatively affected overall by the euro debt crisis. Should there be a devaluation of the euro against the US dollar as a result of the euro debt crisis, this would lead to a significant rise in the prices of raw materials and could result in higher inflation. If interest rates are raised as a means of fighting inflation, our financing would become more expensive. Further prospects for growth depend essentially on when and how the crisis will be resolved. Should the rescue packages prove to be ineffective and it is not possible to contain the crisis, this could have a considerable negative impact on cyclical development. Machine tool building is dependent on economic cycles to a great extent; any slump in the economy therefore would lead to a reduction in sales volume or in the margins achievable. Furthermore, changes in foreign exchange rates could have an effect on our future competitive position (economic currency risk): In particular, a possible devaluation of the US dollar or Chinese renminbi could lead to GILDEMEISTER products becoming more expensive in the countries concerned as well as in the markets dependent on the dollar and thus adversely impact GILDEMEISTER's competitive position. We counteract this risk through international sourcing as well as through increasing regionalised manufacturing. We consider the probability of occurrence of losses from general economic risks at the present time to be slight.

Industry-specific risks for GILDEMEISTER come in particular from the development of the worldwide market for machine tools and more specifically from the trend in consumption. We counteract this risk by maintaining a technological advance, by focussing clearly on our customers and markets and, in this way, we reinforce our position. In the area of Energy Solutions we are exposed to customary project risks. Moreover, we operate solar parks for some customers and therefore bear the operational risks. Overall we consider the probability of occurrence of losses from industry-specific risks as slight.

Corporate strategic risks arise in particular from the risk of false estimations of future market development. In order to avoid false estimations of the market, we monitor the market and the competition very closely. Regular strategic talks with customers and suppliers additionally help to avoid false market estimations. We analyse our extensive trade fair presence in all the major markets and are constantly enhancing our MIS early warning system. We consider the probability of occurrence of losses from corporate strategic risks to be slight.

Procurement and purchasing risks are those that we are primarily exposed to because of the possibility of a rise in prices for materials in the machine tools business. Further risks exist due to possible supplier shortfalls and quality problems. We counteract these through the standardisation of structural parts and components and through international sourcing. In addition, as a matter of principle, we appoint a minimum of two suppliers in each case for the essential components, subassemblies and modules. We have calculated potential losses from the purchasing and procurement risk at about € 13 million; the probability of occurrence is slight.

Production risks are subject to permanent control by GILDEMEISTER by means of key performance indicators, especially with respect to assembly and manufacturing progress, lead times and throughput continuity. In the area of research and development, risks exist due to possible budget excesses, misguided developments, increased start-up costs for new products and delayed market launches of innovations. We counteract this risk through development partnerships with customers, suppliers and universities. In principle, we avoid incalculable projects so that we consider these risks to be manageable and controllable. Moreover, GILDEMEISTER uses numerous quality and product-related indicators to monitor possible potential risks, for example the contribution margin per type of machine and the turnover rate of raw materials and consumables, as well as of other inventories. We strive to counteract plagiarism with our innovations-focused product strategy, which safeguards our technological lead by a fast pace of development. GILDEMEISTER bears the standard project business risks in the construction of solar plants. We estimate any possible losses arising out of production risks at about € 18 million with a low probability of occurrence.

Personnel risks are limited by GILDEMEISTER through intensive further training and junior staff programmes. To secure our future success, we need highly qualified management staff and employees. If it is not possible to hire and retain employees in sufficient numbers, this would have a profound effect on the group's development. By increasing employee skills and qualifications as well as through appropriate remuneration packages with performance-based incentive systems, through deputising arrangements that cushion the loss of key personnel and through early successor planning, we view the probability of occurrence of any estimated losses of about € 6 million as slight.

IT risks exist due to the increasing networking of our systems, parts of which are highly complex. IT risks may arise from network failure or from data being falsified or destroyed through user and program errors or through external influences. We counteract these information technology risks through regular investment in hardware and software, by the use of virus scanning programs, firewall systems, and by controlling access and authorisations. Possible losses arising out of this area amount to about € 2 million at the current time and are manageable. We consider the probability of occurrence as slight.

Risks from operations-related activities result from the fact that our products are subject to constant price competition on international markets. We counteract this risk through cost reductions, improved manufacturing and procurement processes, and by optimising product start-ups. We consider the probability of occurrence of losses from the above risks to be slight.

Financial risks arise, amongst others, from our international activities. We safeguard against currency-related risks through our currency strategy. The essential components of the GILDEMEISTER financing are: a syndicated loan, which comprises a cash and an aval tranche and is firmly agreed until 2016, and a factoring programme. At the present time, an interest rate hedge exists with a term until 2013, respectively 2015. GILDEMEISTER's liquidity is sufficiently calculated. A risk exists with respect to payment dates in the project business. The agreed financing framework can absorb any time delays that are identifiable today. In principle, GILDEMEISTER bears the risk of bad debt which may result in value adjustments or, in individual cases, even in default. Possible losses from financial risks amount in total to € 16 million. The probability of occurrence of any loss is low.

Other risks arise out of operating activities. Legal risks grow in particular out of possible warranty claims due to customer complaints from the sale of machine tools and services as well as from the project business. Through effective quality management, GILDEMEISTER tries to monitor the corresponding risks, nevertheless pertinent claims of our customers cannot always be completely avoided. To maintain the existing risks at a manageable and calculable level, GILDEMEISTER limits warranty and liability obligations both in terms of scope and in time. We have an up-to-date contract management system and, in addition, regularly train our employees in the area of effective contractual terms and minimising risks. Insofar as deferred tax assets have not been impaired on loss carryforwards or interest carry forwards, GILDEMEISTER assumes the usability of this potential tax reduction on taxable income. We assume that the tax and social insurance declarations we submit are complete and correct. Nevertheless, due to differing assessments of the facts, additional charges may arise within the scope of an audit. Overall, we have calculated any possible losses arising out of tax risks at € 11 million with a low probability of occurrence.

SWOT Analysis

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

F. 01

SWOT ANALYSIS OF THE GILDEMEISTER GROUP

Company-specific	
Strengths	**Weaknesses**
• high innovative strength, • customised range of services over the entire life cycle of the machine (full service supplier), • worldwide direct sales and services network to gain market shares, • presence in the Asian, American and Russian growth markets, • extensive analyses of the market and competition data through the Marketing Information System (MIS), • independent production company in the Chinese growth market, • long-term sound financial framework and sound equity base, • offer of individual financing solutions for customers through MG Finance, • consistent market and customer focus through highly-integrated multi-channel marketing, • large and diverse customer base; • modern product range focused on customer needs; • full range of products for turning and milling, • global sourcing through tapping into new procurement markets; • profitable service business, • modular products/standard parts concept, • high production flexibility, • highly-integrated control and software products to provide the customer with comprehensive process support.	• global presence requires extensive management resources, • high readiness costs through reserved capacity in the production area, • low margin products as part of the productmix, • high star-up costs for a number of innovations, • logistics and quality demands through global purchasing activities, • funds tied up in inventories through long throughput times in part for innovative machines.

Market-specific	
Opportunities	**Threats**
• Increased customer benefits through extending the product portfolio and improved regional availability through the cooperation with Mori Seiki, • On-going process of concentration in the industry, for which GILDEMEISTER is well positioned, • Planned expansion of production capacity in Russia, • focusing on growth industries, such as automotive, aerospace and medical technology, • promising future market of energy storage which GILDEMEISTER is serving with the vanadium redox flow "CellCube" big battery, • fast use of local market opportunities through global presence.	• cyclical risks due to the financial and debt crisis in Europe • project risks in "Energy Solutions" area, • dependency on volatile machine tools market, • instability of national economy in crisis regions

Overall Statement of the Executive Board on the Risk Situation

The total risk is determined by a risk simulation procedure, a so-called Monte Carlo simulation. This allows the reciprocal effect between risks to be taken into account. The simulation encompasses both individual risks of group companies as well as possible deviances from planning measures of a positive and negative nature. Risks associated with special purpose entities in the "Energy Solutions" area are centrally included under a+f GmbH and are entered in the simulation in this way. Once the overall risk position has been determined, the equity requirement is calculated that can bear any possible risk-related losses based on a pre-defined probability, that is to say, the confidence level. The GILDEMEISTER equity exceeds the overall risk position determined at a probability level of 97.5%. We therefore consider the risks to be manageable and from today's point of the view these risks do not jeopardise the continued existence of the GILDEMEISTER group as a going concern. Compared to the last report as of the third quarter 2012, the risks have slightly increased overall.

Forecast Report

Economic experts are forecasting growth in global gross domestic product of 3.4% for 2013 and thus the economic momentum will remain unchanged compared to the reporting year. The German Machine Tool Builders' Association (VDW) expects consumption worldwide to rise overall by 7.6%; for Germany a slight rise of 0.2% is forecast.

Future business environment

Overall economic development will probably continue in 2013 with the same level of dynamism. For the current year the Institut für Weltwirtschaft (IfW – Kiel Institute for the World Economy) is forecasting a growth in the global gross domestic product of 3.4%; for 2014, it is assuming a gain of 3.9%. In the forecast period, the further development in the eurozone will be a deciding factor for the economic cycle. Overall the German Council of Economic Experts is expecting that the measures taken by the European Central Bank will prevent any further rise in uncertainty in Europe. In the USA the fiscal policy might well have a decisive impact on the economy. According to the IfW estimates, the gross domestic product in the **USA** will initially grow by 1.5%; growth of 2.5% is expected for 2014. A slight slowing down – from a high rate – is expected for **Asia. China** will maintain its role as the strongest driver of the world economy: A rise is predicted in gross domestic product of 8.0% for 2013 and of 7.5% for 2014. Growth in the Japanese economy will pick up according to provisional calculations by 0.5% in 2013 and by 1.0% in 2014. In **Europe** stagnation is imminent in the current year. Economic researchers anticipate that the gross domestic product of the euro countries will fall by 0.2% in 2013 and only in 2014 will it grow again by 0.9%.

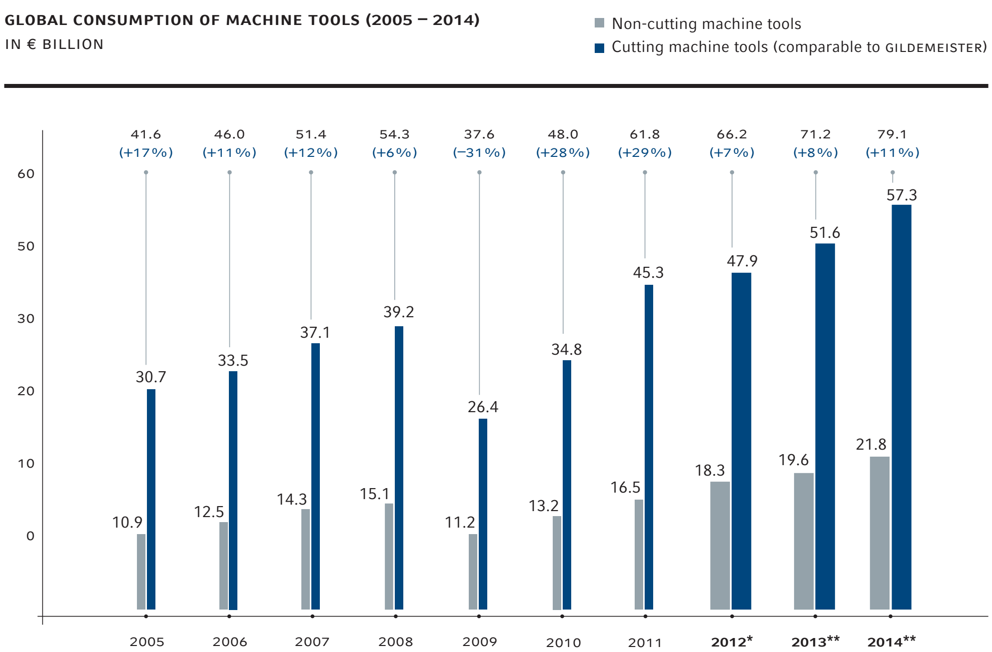
In view of the difficult foreign economic environment, the prospects for economic development in **Germany** are relatively robust, however individual predictions vary. The current IfW forecast is 0.3% for the current year and 1.4% for the coming year. By contrast, in its autumn report for 2012/2013 the German Council of Economic Experts considers growth of 0.8% in the current year to be likely. The ifo Institut estimates growth of 0.7% for 2013. Unanimously it is assumed that the labour market trend will carry on from 2012. Following a probable small surplus in 2012, the government deficit / surplus for the overall budget in 2013 may well be slightly negative again; this would put the deficit ratio at 0.1%.

Sources: Institute for the World Economy (IfW), Kiel, ifo Institute, Munich; German Council of Economic Experts on the Assessment of Economic Trends, Berlin; Federal Economic Ministry, Berlin ;

The **worldwide market for machine tools** will likely continue to grow overall in 2013. The current forecast of the German Machine Tool Builders' Association and the British economic research institute, Oxford Economics, expect worldwide **production capacity** and **market volume** to grow in value terms by 7.6% each. According to our estimates, worldwide consumption could be less than is currently expected. For 2014, the German Machine Tool Builders' Association expects a rise in consumption of 11.3% (as at October 2012).

The statistics available from the major national machine tool associations, however, indicate a decline in order intake; in addition, the regional differences within the machine tool market may well become more pronounced. Current statements on the development of the **industry's profitability** and of **prices and wages** are not available. The **world machine tool consumption** and the **market potential** are reflected in the following diagram:

G . 01 **GLOBAL CONSUMPTION OF MACHINE TOOLS (2005 – 2014)**
IN € BILLION



* Figures provisional
** Estimate of the VDW and Oxford Economics
Source: World machine tools statistics of the VDW (without parts and accessories)

The **German machine tool industry** started the year 2013 with moderate expectations of the **industry's economic** cycle: The association is expecting a slight rise in production and in consumption of 0.8% and 0.2%, respectively. For the year 2014, forecasts are anticipating a growth in consumption of 7.3%; risk factors that could have a negative impact on this growth are the crisis in the eurozone, the fiscal policy in the USA, the development of prices for raw materials and energy, changes in exchange rates and the political framework.

Source: "Global Machine Tool Outlook", Oxford Economics

The **mergers and acquisitions process** in the machine tool industry **will continue** in 2013. As a consequence of increasing consolidation and structural shifts towards Asia, there will be fewer but stronger globally active producers with a worldwide presence in the future. In part, some new competitors are attempting to increase the standard of their technology and their market presence in Europe through acquisitions. **GILDEMEISTER** is well prepared for these pending challenges through its innovative products and services as well as through its global market presence. The introduction of fundamentally **new replacement products and services** is not expected.

Future Development of the GILDEMEISTER group

GILDEMEISTER intends to expand its global market presence, especially in fast-growing markets of China and Russia. Extending the sales and service cooperation with Mori Seiki onto these markets will play a central role in this. With local production sites, we will reinforce our local presence. The consistent strengthening of our innovative capacity forms the basis for building upon our leading international market position as a manufacturer of cutting machine tools. By constantly remaining service-oriented, we create the basis for strengthening our profitability and thus the future security of the company. In the energy solutions division GILDEMEISTER will focus even more strongly on products and services to optimise the energy management of industrial customers; an essential component of this will be a comprehensive energy efficiency advisory service for this customer group.

Future sales markets with growth potential, we believe, are to be found primarily in the growth markets of Russia and China but also in the USA, where a trend towards re-industrialisation is becoming apparent. The current forecast of the German Machine

Tool Builders' Association (VDW) expects a growth rate of 9.5% for the BRIC countries (share in global consumption of about 45%) and for the USA growth of 7.6% (share in global consumption about 10%) in 2013. To share in this growth at a higher than average rate, with the aid of our centres of expertise we will focus specifically on growing industries such as aerospace, automotive, medical technology and renewable energies.

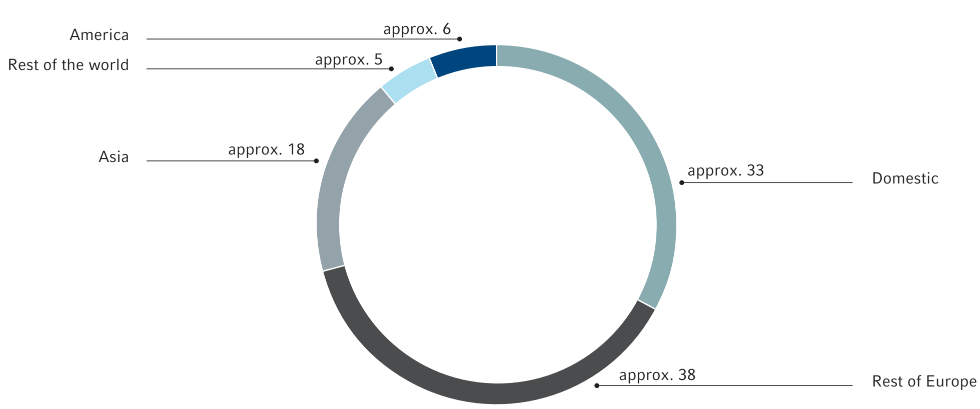
At the start of 2013, **order intake** developed according to plan. For the first quarter 2013, we expect order intake of more than € 500 million. The comparable previous year's quarter was marked in particular by a few major orders and was thus at a record level of € 605.1 million. Following the highest order intake in the company's history in 2012, for the current year we are planning order intake of about € 2 billion. We expect a volatile market trend. We see potential in our innovations as well as in cooperation projects with Mori Seiki. We also expect growth in "Industrial Services".

Leading trade fair EMO in 2013

The forthcoming leading trade fair for the machine tools industry, the **EMO in Hanover**, will be a core element of our worldwide sales activities. Together with our cooperation partner, Mori Seiki, as the largest exhibitor we will present 14 world premieres to a broad trade public.

The **order backlog** will increase by 31 March 2013 (31 Dec. 2012: € 1,003.5 million).

G . 02 **EXPECTED DISTRIBUTION OF SALES REVENUES 2013 OF THE GILDEMEISTER GROUP BY REGIONS**
IN %



For the first quarter 2013 we are planning **sales revenues** at the level of the previous year (first quarter 2012: € 451.8 million). For financial year 2013 we are planning sales revenues of about € 2 billion. In the “Industrial Services” segment we are expecting growth in sales revenues.

In the first quarter of 2013, **earnings** will be slightly below the previous year’s quarter. The reason for this was an exceptionally high status of employee’s illness in January and February that was due to the serious wave of influenza at the German production sites. Over the whole year we are planning an EBT of about € 120 million and resulting from this an annual profit for the year of about € 82 million.

For the year 2013, we expect a steady **materials ratio** in the group. In the current year, we will commence with important investment projects and in this way build up production capacity in strategically important markets, which will impact cash flow. For the whole year 2013, we are assuming a positive **free cash flow** of more than € 75 million. The **financing structure** should remain unchanged for the most part and we are again aiming for a net financing balance by year-end. Our aim is to improve the turnover level of net working capital.

Our financing framework is sound and according to our planning will ensure the necessary **liquidity** in 2013; we expect a sufficient good scope to manoeuvre in the financing lines. Interest income and capital costs should remain unchanged as we do not expect any rise in market interest rates at the present time. Our **Value Reporting** will continue to form an essential part of our value-based corporate management. The ROCE will decline slightly with the course of business currently planned. Due to the current interest rate level we are expecting a constant development of capital costs (WACC).

For financial year 2013, we are planning **investments** in property, plant and equipment and in intangible assets of about € 80 million – a volume that is above the level of the likely depreciation. The focus of investments is placed in particular on expanding and optimising our production capacity throughout the group. In Ulyanovsk, Russia, an industrial region on the Volga, we will construct a modern production and assembly plant with a training and technology centre. At the Pfronten site we are planning the extension of big machine production. In Pleszew, Poland, we will extend the progressive line assembly. Furthermore, we will purposefully pursue the successful concept for the production, storage and usage of green energy at the Bielefeld site.

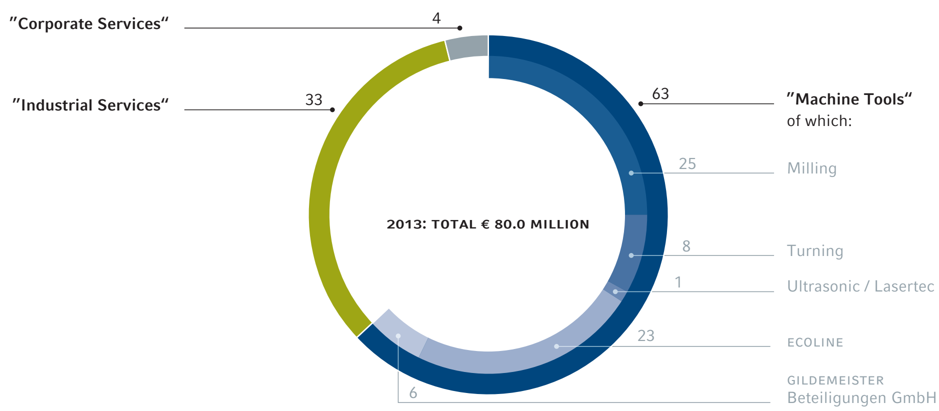
In the **"Machine Tools"** we intend to invest about € 51 million. In Russia we will construct a state-of-the-art GILDEMEISTER production plant in the current year. There we will produce milling and turning machines from the ECOLINE series for the Russian market. In Pfronten, we will further extend the system business with a new concept for the site. We start with the construction of the XXL centre and thus create additional production space for the assembly of our big machines. In addition, we want to expand our logistics capacity. At the Pleszew, Poland, site we will extend the successfully introduced progressive assembly system to the DMU 50 eco. At our production plant in Shanghai we will introduce modernisation measures. Moreover, the development of innovative products will also be an important part of our investment activity in the future.

In the **"Industrial Services"** segment investments of about € 26 million are planned. The new spare parts centre in Geretsried will open in the second quarter 2013 and thus further enhance the central, worldwide spare parts supply. Our customers will enjoy even greater spare parts availability as a result of this. On the European market we will further expand our sales and service activities together with our cooperation partner, Mori Seiki, and will specifically drive the integration and expansion of sites. To ensure our service quality we will equip our service employees with the most up-to-date tools and measuring devices also in the future. In Energy Solutions we will continue to invest in developing innovative products for the production and storage of renewable energies.

For the **"Corporate Services"** segment we are planning an investment volume of about € 3 million. At our site in Bielefeld we will nearly finalise the new integrated energy concept. The emphasis will be placed on measures to increase energy efficiency as for example the use of geothermal energy and the targeted renewal of the lighting and climate concept.

The investment structure remains well-balanced. All the segments have been taken into account with respect to investments. There are no identifiable risks arising out of planned investments according to current estimates.

G . 03 **SHARE OF THE INDIVIDUAL SEGMENTS / BUSINESS AREAS IN PLANNED INVESTMENTS IN TANGIBLE ASSETS AND IN INTANGIBLE ASSETS**
IN %



As a certified member of the German Machine Tool Builders' Association Blue Competence Initiative, GILDEMEISTER pursues the aim of sustainability in its business dealings and in reducing the **energy requirement** of our high-tech machines by up to 30%. We have carved out high savings potential during the "NC+" research project as well as in the cooling aggregate and in the cooling lubricant pump of the machines. It is our claim to achieve savings potential of 30% mid-term as standard for our machines. We also want to gradually reduce energy consumption at the GILDEMEISTER sites; for this purpose we are consistently implementing energy concepts specific to each site, which should reduce **energy consumption** at all production sites by at least 10%.

At the current time we are planning an increase in the number of **employees** in financial year 2013. The reason for this planned increase in staff takes especially account of the implementation of our sales and service joint venture with Mori Seiki on the Chinese market. Moreover, we will adapt our personnel resources according to business development. Especially due to wage and salary increases as well as to raises in tariffs personnel expenditure will rise.

In **research and development** we will continue to pursue our innovations-focused policy of increasing customer benefits during the current financial year. We will present the success of our cooperation with Mori Seiki primarily within the scope of the leading trade fair, the EMO, in September. The fact that we are constantly adding to and developing our product range, and as a result are increasing customer satisfaction, forms the basis for our long-term corporate development. The volume of expenses for research and development will probably be about € 52 million in the current financial year. In the area of research and development about 15% of the workforce at the plants in total will be working on further extending our technological lead.

GILDEMEISTER plans 20 new developments

In the **"Machine Tools" segment** we are planning 20 new developments for the current financial year. In the Milling Association the updating of our range of milling machines and machining centres is the focus of our activities. The Milling and Processing Association is concentrating on new developments in vertical milling machines. In the Turning Association we will augment our universal and production turning machines with novel concepts. In the ECOLINE area we intend to start our innovations campaign in the second half of the year.

In the **"Industrial Services" segment** we will work on enlarging and optimising our extensive range of LifeCycle products. Our activities are aimed, amongst others, at developing our products for integrated system solutions in automation technology and a modular design in tool management.

Energy Solutions expands product programme

In the Energy Solutions division we are pushing ahead with the technological development of solar systems as well as of energy storage technology. Emphasis will be placed on cost optimisation and standardising the existing photovoltaic systems. The modular CellCube product family will be enlarged. At the same time, production optimisation will be carried out for series production. In the current year we will place the focus on project development of Energy Solutions applications, in particular for the construction of integrated large-scale plants. We follow an integrated approach to energy efficiency advisory services and to the optimisation of energy supply at industrial sites, and are developing new software applications and tools. By focusing on integrated energy solutions, we are able to address the intelligent real-time control of site supply for industrial customers.

In **purchasing and procurement** the emphasis will be placed on expanding global sourcing activities in 2013 – especially given the investment in Russia. Furthermore we will extend the materials groups management in other operating expenses and implement sustainability concepts with our suppliers.

Extent supplier partnerships in Asia

By strengthening the purchasing team in Asia, the cooperation with local suppliers shall be improved so that constant high product quality is guaranteed. In the current year we plan to purchase further components from this region.

Parallel to this we establish detailed value analases to obtain an improvement of the materials cost situation. Furthermore, in 2013 the structures within the materials groups management will be reinforced and, in particular, extended to other operating expenses. In future the goals and measures in the respective materials groups should ultimately be agreed by a central committee and their implementation carried out effectively. Against the background of the planned investments and expansions at the plants and sales companies, concepts for the viable use of these products will be drawn up and implemented.

Within the framework of the value added chain, we will further drive sustainability. "Green Purchasing" within the meaning of reduced energy and water consumption, CO_2 emissions and also with respect to minimum wages and human needs in workplace design, will also be scrutinised in the cooperation with our suppliers and will attract more focus.

In the current financial year we will continue with consistently optimising production and logistics processes in the areas of **production, technology and logistics**. Priority will be given to the measures in the GILDEMEISTER 2015 project, which were already pushed ahead with in the reporting year. Additionally, we want to push ahead with other cooperation projects in the area of research and development.

Pfronten optimises motor spindle production

Within our **Production Associations** we will continue the measures for the new assembly line in motor spindle construction in the **Milling Association** in 2013. As a next step, it is intended to optimise the area for the test runs and to set up a flow line for the diagnosis of motor spindles. Additionally, we are extending our automated storage capacity in Pfronten in order to increase the productivity of our logistics even more. In this way we create the conditions for future enhanced performance.

In the **Milling and Processing Association** we are completing the redesign of the new cluster assembly for the eVolution series at DECKEL MAHO Seebach GmbH. Furthermore, we will carry out more in-depth trials of machines and subassemblies in our state-of-the-art technology centre. At FAMOT in Pleszew, Poland, we will extend the successful flow principle to the DMU 50 eco. Through this throughput times will be further reduced. Moreover, we will increase efficiency in mechanical production even more.

Cluster assembly planned in Bielefeld

In the **Turning Association** we will further improve our production at the Bielefeld site through the additional installation of a cluster assembly, thereby increasing quality in the assembly process through a clear workplace design as well as significantly reducing throughput times. Additionally we are constantly working on improving flexibility in managing available capacity. Part of this includes the efficiency measures at GILDEMEISTER Italiana S.p.A. in order to improve the production of machine components required. To meet the high requirements demanded by the market, GILDEMEISTER will place its focus more strongly on improving **product quality**. To achieve this goal, we will make additional financial and personnel resources available.

In the financial year 2013, the **legal corporate structure** of the group is not expected to change significantly.

Overall statement of the Executive Board on future business development 2013 and 2014

For the **financial year 2013** we expect an increasingly volatile economic environment. For the current year, the German Machine Tool Builders' Association (VDW) and Oxford Economics are forecasting growth in worldwide consumption of machine tools of 7.6%. We consider the VDW forecast to be too high at the current moment in time; in addition, we assume that the individual markets will differ even more strongly in their development.

With our increasing global presence we are planning growth to occur predominantly in the "Industrial Services" segment. A prolonged stagnation in European business could be compensated, according to our current assessment, by development in the Asian and American growth markets as well as in Russia. The extension of our production sites in growth markets should play a positive role in this. For the whole year we are planning order intake of about € 2 billion.

Due to these expectations and based on the solid order backlog we are planning sales revenues of about € 2 billion for 2013. We are planning with extensively stable material and personnel ratios.

On these conditions and based on the assumption that the market continues to develop in line with our expectations, we are planning to reach an EBT of about € 120 million. We anticipate positive free cash flow of more than € 75 million.

The general conditions for 2014 are still difficult to predict at the current time. Should the world economy develop along the lines of the current forecasts we anticipate achieving moderate growth in **financial year 2014**. We are constantly working on making our cost structure and production processes more flexible and on being able to respond to any possible economic downturns.

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GLOBAL.

Consolidated Financial Statements

Consolidated Financial Statements

Further Information

◄ Business Report

Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft

Consolidated Income Statement for the period 1 January to 31 December 2012 of GILDEMEISTER Aktiengesellschaft

H . 01

	Notes	2012 € K	2011 € K
Sales revenues	6	2,037,362	1,687,657
Changes in finished goods and work in progress		8,020	44,766
Own work capitalised	7	9,683	11,133
Total work done		**2,055,065**	**1,743,556**
Other operating revenues	8	62,825	68,859
Operating performance		**2,117,890**	**1,812,415**
Cost of materials	9		
Cost of raw materials, consumables and goods for resale		982,057	800,791
Cost of purchased services		147,266	151,902
		1,129,323	952,693
Personnel costs	10		
Wages and salaries		372,025	326,326
Social security contributions, pensions and other benefits		68,383	58,378
		440,408	384,704
Depreciation	11	40,913	33,605
Other operating expenses	12	374,331	328,916
Operating result		**132,915**	**112,497**
Financial income	13		
Interest receivable		1,710	1,905
Other income		1,419	1,209
		3,129	3,114
Financial expenses	14		
Interest payable		14,133	27,925
Interest expense from pension provisions		1,551	1,914
Other financial expenses		1,185	19,351
		16,869	49,190
Financial result		– 13,740	– 46,076
Share of profits and losses of at equity-accounted investments	15	922	472
Earnings before taxes		120,097	66,893
Income taxes	16	37,738	21,354
Annual profit		**82,359**	**45,539**
Profit share of shareholders of GILDEMEISTER Aktiengesellschaft		77,294	46,846
Profit share attributed to minority interests	17	5,065	– 1,307
Earnings per share pursuant to IAS 33 in €	18		
Undiluted		1.32	0.85
Diluted		1.32	0.84

Reconciliation to comprehensive Income of the GILDEMEISTER Group for the period from 1 January to 31 December 2012

H . 02

	Notes	2012 € K	2011 € K
Annual profit		**82,359**	**45,539**
Remaining result			
Differences from currency translation		– 854	3,787
Changes in market value of hedging instruments	37	4,118	13,396
Change in the fair value measurement of available-for-sale assets	21	– 1,337	– 12,729
Income tax expense on other comprehensive income	28	– 1,211	– 3,838
Remaining result for the period after taxes		**716**	**616**
Total comprehensive income for the period		**83,075**	**46,155**
Profit share of shareholders of GILDEMEISTER Aktiengesellschaft		77,591	47,386
Profit share attributed to minority interests		5,484	– 1,231

Consolidated Balance Sheet as at 31 December 2012 of GILDEMEISTER Aktiengesellschaft

H . 03

ASSETS	Notes	31 Dec. 2012 € K	31 Dec. 2011 € K
Long-term assets			
Goodwill	19	119,521	83,017
Other intangible assets	19	65,077	49,337
Tangible assets	20	263,174	218,025
Equity-accounted investments	22	7,625	6,686
Other equity investments	21	45,300	46,860
Trade debtors	23	447	6,294
Other long-term assets	23	13,928	11,711
Deferred taxes	28	44,174	41,342
		559,246	**463,272**
Short-term assets			
Inventories	24	486,259	451,986
Trade debtors	25	228,118	208,908
Other short-term assets	25	112,566	98,873
Cash and cash equivalents	26	173,328	105,151
Long-term assets held for sale	27	55,780	43,618
		1,056,051	**908,536**
		1,615,297	**1,371,808**

EQUITY AND LIABILITIES	Notes	31 Dec. 2012 € K	31 Dec. 2011 € K
Equity			
Subscribed capital	29	151,744	151,744
Capital provision	29	257,177	257,177
Revenue provisions	29	294,351	234,137
Total equity of shareholders of GILDEMEISTER Aktiengesellschaft		**703,272**	**643,058**
Minority interests' share of equity	29	84,609	12,100
Total equity		**787,881**	**655,158**
Long-term liabilities			
Long-term financial debts	32	3,174	14,506
Pension provisions	30	21,663	21,636
Other long-term provisions	31	20,216	16,658
Trade creditors	33	237	682
Other long-term liabilities	33	10,931	19,018
Deferred taxes	28	7,548	7,727
		63,769	**80,227**
Short-term liabilities			
Short-term financial debts	32	9,095	19,492
Tax provisions	31	34,501	13,367
Other short-term provisions	31	162,366	145,042
Payments received on account		155,793	127,775
Trade creditors	34	329,391	267,472
Other short-term liabilities	34	61,591	51,336
Liabilities in connection with assets held for sale	35	10,910	11,939
		763,647	**636,423**
		1,615,297	**1,371,808**

Consolidated Cash Flow Statement of GILDEMEISTER Aktiengesellschaft from 1 January to 31 December 2012

H . 04

CASH FLOW FROM OPERATING ACTIVITIES	Notes	2012 € K	2011 € K
Earnings before taxes (EBT)		120,097	66,893
Depreciation		40,913	33,605
Financial result	14	13,740	46,076
Change in long-term provisions		2,655	– 7,878
Other expense not affecting payments		– 5,378	– 10
Change in short-term provisions	31	15,721	22,788
Income from the disposal of fixed assets		– 358	958
Income tax refunds		2,128	228
Income taxes paid		– 24,423	– 19,020
Interest received		1,342	1,060
Interest paid		– 17,836	– 27,095
Dividends received	13	1,181	959
Changes in asset and liabilities items			
Inventories	24	– 14,587	– 40,986
Trade debtors	23, 25	28,884	90,499
Other assets not from investments or financing activity		– 19,698	– 34,606
Trade creditors		– 5,432	– 2,550
Other liabilities not from investments or financing activity		29,798	30,077
	39	**168,747**	**160,998**
CASH FLOW FROM INVESTMENT ACTIVITY			
Amounts received from the disposal of tangible assets and intangible assets		2,237	3,755
Amounts paid out for investments in tangible assets		– 56,297	– 44,117
Amounts paid out for investments in intangible assets		– 15,545	– 25,514
Cashflow from the takeover of control of subsidiaries		6,646	0
Amounts paid out for the disposal of financial assets		0	– 14,806
		– 62,959	**– 80,682**
CASH FLOW FROM FINANCING ACTIVITY			
Proceeds from capital increase	29	0	220,047
Payments for the costs of the capital increase	29	0	– 6,352
Payments made for repaying the return of the borrowers' notes	32	0	– 201,500
Payments made for repaying of financial debts		– 19,907	– 86,083
Payments for the purchase of own shares	29	0	– 20,686
Payments / Payments received from changes in interests in subsidiaries		– 4,740	7,919
Dividends paid		– 14,591	0
	39	**– 39,238**	**– 86,655**
Changes affecting payments		66,550	– 6,339
Effects of changes in the group of consolidated companies on financial securities		281	0
Effects of exchange rate on financial securities		1,346	– 279
Cash and cash equivalents as at 1 January	26	105,151	111,769
Cash and cash equivalents as at 31 December	26	**173,328**	**105,151**

Development of Group Equity of GILDEMEISTER Aktiengesellschaft for the period 1 January 2012 to 31 December 2012

H . 05

	Subscribed capital	Capital provison	Revenue provisions	Difference from currency translation	Changes in the value of available-for-sale-assets	Market valuation of financial derivates	Shareholders equity of GILDEMEISTER Aktiengesellschaft	Minority interest share of equity	**Total**
	€ K	€ K	€ K	€ K	€ K	€ K	€ K	€ K	**€ K**
As at 01 Jan. 2011	118,513	80,113	204,609	6,414	8,586	– 11,905	406,330	6,563	412,893
Total comprehensive income									
Annual profit			46,846				46,846	– 1,307	45,539
Other comprehensive income									
Differences from currency translation				3,711			3,711	76	3,787
Change in fair value of derivative financial instruments (after taxes)						9,558	9,558		9,558
Change in fair value of available-for-sale-assets					– 12,729		– 12,729		– 12,729
Other comprehensive income for the period after taxes				**3,711**	**– 12,729**	**9,558**	**540**	**76**	**616**
Total comprehensive income for the period			**46,846**	**3,711**	**– 12,729**	**9,558**	**47,386**	**– 1,231**	**46,155**
Transactions with owners									
Capital increase from authorised capital	37,924	177,064					214,988		214,988
Changes in capital interest of subsidiaries			– 4,959				– 4,959	6,439	1,480
Capital invested								329	329
Buyback of own shares	– 4,693		– 15,994				– 20,687		– 20,687
Sum of transactions with owners	**33,231**	**177,064**	**– 20,953**				**189,342**	**6,768**	**196,110**
As at 31 Dec. 2011	**151,744**	**257,177**	**230,502**	**10,125**	**– 4,143**	**– 2,347**	**643,058**	**12,100**	**655,158**

See accompanying explanations regarding equity and miniority interest share of equity in the Consolidated Financial Statements on page page 191 et seq.

	Subscribed capital € K	Capital provison € K	Revenue provisions € K	Difference from currency translation € K	Changes in the value of available-for-sale-assets € K	Market valuation of financial derivates € K	Shareholders equity of GILDEMEISTER Aktiengesellschaft € K	Minority interest share of equity € K	**Total € K**
As at 01 Jan. 2012	151,744	257,177	230,502	10,125	– 4,143	– 2,347	643,058	12,100	655,158
Total comprehensive income									
Annual profit			77,294				77,294	5,065	82,359
Other comprehensive income									
Differences from currency translation				– 1,273			– 1,273	419	– 854
Change in fair value of derivative financial instruments (after taxes)						2,907	2,907		2,907
Change in fair value of available-for-sale-assets					– 1,337		– 1,337		– 1,337
Other comprehensive income for the period after taxes				**– 1,273**	**– 1,337**	**2,907**	**297**	**419**	**716**
Total comprehensive income for the period			**77,294**	**– 1,273**	**– 1,337**	**2,907**	**77,591**	**5,484**	**83,075**
Transactions with owners									
Total capital inflow / outflow by minorities								1,470	1,470
Changes in capital interest of subsidiaries			– 2,786				– 2,786	65,555	62,769
Dividend for the financial year 2011			– 14,591				– 14,591		– 14,591
Sum of transactions with owners			**– 17,377**				**– 17,377**	**67,025**	**49,648**
As at 31 Dec. 2012	**151,744**	**257,177**	**290,419**	**8,852**	**– 5,480**	**560**	**703,272**	**84,609**	**787,881**

See accompanying explanations regarding equity and miniority interest share of equity in the Consolidated Financial Statements on page page 191 et seq.

Fixed Asset Movement Schedule
as at 31 December 2012 of GILDEMEISTER Aktiengesellschaft
(Part of the notes)

H . 06 **ACQUISITION AND PRODUCTION COSTS**

Intangible assets	
Goodwill	
Assets arising from development	
Industrial property and similar rights	
Tangible assets	
Land and buildings	
Technical equipment and machinery	
Other equipment, factory and office equipment	
Construction in progress	
Financial assets	
Investments in associates accounted for at equity	
Other equity investments	
Securities	
Total fixed assets	

DEPRECIATION

	As at 1 Jan. 2012 € K	Other changes € K T€
Intangible assets		
Goodwill	0	0
Assets arising from development	62,079	– 728
Industrial property and similar rights	53,072	– 457
	115,151	**– 1,185**
Tangible assets		
Land and buildings	90,339	270
Technical equipment and machinery	50,806	398
Other equipment, factory and office equipment	113,126	– 1,315
Construction in progress	0	0
	254,271	**– 647**
Financial assets		
Investments in associates accounted for at equity	– 69	– 922
Other equity investments	3,046	0
Securities	0	1
	2,977	**– 921**
Total fixed assets	**372,399**	**– 2,753**

As at 1 Jan. 2012 € K	Other changes € K	Change in the group of consolidated companies € K	Additions € K	Disposals € K	Book transfers € K	**As at 31 Dec. 2012 € K**
83,017	– 688	36,372	0	0	0	119,521
92,570	– 513	0	9,166	– 193	867	101,077
71,918	– 1,055	12,772	9,022	– 453	– 760	91,444
247,505	**– 2,256**	**49,144**	**18,188**	**– 646**	**107**	**312,042**
233,238	2,207	12,816	12,839	– 575	7,431	267,956
69,253	– 102	1,099	4,094	– 4,072	2,013	72,285
150,749	– 717	1,597	24,260	– 4,521	3,599	174,967
19,056	245	0	15,104	– 401	– 13,150	20,854
472,296	**1,633**	**15,512**	**56,297**	**– 9,569**	**– 107**	**536,062**
6,617	17	0	0	0	0	6,634
49,905	– 1,562	0	0	0	0	48,343
1	3	0	0	0	0	4
56,523	**– 1,542**	**0**	**0**	**0**	**0**	**54,981**
776,324	**– 2,165**	**64,656**	**74,485**	**– 10,215**	**0**	**903,085**

Change in the group of consolidated companies € K	Additions € K	Disposals € K	Book transfers € K	**As at 31 Dec. 2012 € K**	NET BOOK VALUE **As at 31 Dec. 2012 € K**	As at 31 Dec. 2011 € K
0	0	0	0	0	119,521	83,017
0	8,681	0	0	70,032	31,045	30,491
1	5,033	– 249	12	57,412	34,032	18,846
1	**13,714**	**– 249**	**12**	**127,444**	**184,598**	**132,354**
58	8,311	– 572	489	98,895	169,061	142,899
0	4,355	– 3,818	– 509	51,232	21,053	18,447
106	14,533	– 3,697	8	122,761	52,206	37,623
0	0	0	0	0	20,854	19,056
164	**27,199**	**– 8,087**	**– 12**	**272,888**	**263,174**	**218,025**
0	0	0	0	– 991	7,625	6,686
0	0	0	0	3,046	45,297	46,859
0	0	0	0	1	3	1
0	**0**	**0**	**0**	**2,056**	**52,925**	**53,546**
165	**40,913**	**– 8,336**	**0**	**402,388**	**500,697**	**403,925**

Fixed Asset Movement Schedule
as at 31 December 2011 of GILDEMEISTER Aktiengesellschaft
(Part of the notes)

H . 06 **ACQUISITION AND PRODUCTION COSTS**

Intangible assets	
Goodwill	
Assets arising from development	
Industrial property and similar rights	
Tangible assets	
Land and buildings	
Technical equipment and machinery	
Other equipment, factory and office equipment	
Construction in progress	
Financial assets	
Investments in associates accounted for at equity	
Other equity investments	
Securities	
Total fixed assets	

DEPRECIATION

	As at 1 Jan. 2011 € K	Other changes € K
Intangible assets		
Goodwill	0	0
Assets arising from development	55,260	– 12
Industrial property and similar rights	49,992	193
	105,252	**181**
Tangible assets		
Land and buildings	84,450	– 65
Technical equipment and machinery	49,254	– 1,099
Other equipment, factory and office equipment	104,961	5
Construction in progress	4	0
	238,669	**– 1,159**
Financial assets		
Investments in associates accounted for at equity	403	– 472
Other equity investments	– 8,468	11,514
Securities	0	0
	– 8,065	**11,042**
Total fixed assets	**335,856**	**10,064**

As at 1 Jan. 2011 € K	Other changes € K	Change in the group of consolidated companies € K	Additions € K	Disposals € K	Book transfers € K	As at 31 Dec. 2011 € K
81,451	– 20	0	1,586	0	0	83,017
81,698	152	0	10,603	– 25	142	92,570
54,860	191	0	17,225	– 503	145	71,918
218,009	**323**	**0**	**29,414**	**– 528**	**287**	**247,505**
225,517	– 1,079	0	7,327	– 4,349	5,822	233,238
68,030	– 1,689	0	3,101	– 1,401	1,212	69,253
137,761	124	0	16,062	– 4,601	1,403	150,479
9,168	– 290	0	19,027	– 125	– 8,724	19,056
440,476	**– 2,934**	**0**	**45,517**	**– 10,476**	**– 287**	**472,296**
6,617	0	0	0	0	0	6,617
36,092	– 989	0	14,806	– 4	0	49,905
1	0	0	0	0	0	1
42,710	**– 989**	**0**	**14,806**	**– 4**	**0**	**56,523**
701,195	**– 3,600**	**0**	**89,737**	**– 11,008**	**0**	**776,324**

					NET BOOK VALUE	
Change in the group of consolidated companies € K	Additions € K	Disposals € K	Book transfers € K	As at 31 Dec. 2011 € K	As at 31 Dec. 2011 € K	As at 31 Dec. 2010 € K
0	0	0	0	0	83,017	81,451
0	6,831	0	0	62,079	30,491	26,438
0	3,159	– 261	– 11	53,072	18,846	4,868
0	**9,990**	**– 261**	**– 11**	**115,151**	**132,354**	**112,757**
0	7,251	– 1,297	0	90,339	142,899	141,067
0	3,897	– 1,238	– 8	50,806	18,447	18,776
0	12,467	– 4,326	19	113,126	37,623	32,800
0	0	– 4	0	0	19,056	9,164
0	**23,615**	**– 6,865**	**11**	**254,271**	**218,025**	**201,807**
0	0	0	0	– 69	6,686	6,214
0	0	0	0	3,046	46,859	44,560
0	0	0	0	0	1	1
0	**0**	**0**	**0**	**2,977**	**53,546**	**50,775**
0	**33,605**	**– 7,126**	**0**	**372,399**	**403,925**	**365,339**

Segmental Reporting in the Consolidated Financial Statements 2012 of GILDEMEISTER Aktiengesellschaft
(Part of the notes)

H . 07 **SEGMENTATION BY BUSINESS SEGMENTS**

	"Machine Tools" 2012	2011	Changes against previous year		"Industrial Services" 2012	2011	Changes against previous year	
	€ K	€ K	€ K	%	€ K	€ K	€ K	%
Sales revenues with other segments	745,869	676,183	69,686	10.3	101,442	81,356	20,086	24.7
Sales revenues with third parties	1,174,984	1,088,019	86,965	8.0	862,172	599,432	262,740	43.8
EBIT	69,318	73,347	– 4,029	– 5.5	88,446	56,920	31,526	55.4
Financial result	– 11,909	– 13,673	1,764	12.9	– 5,017	– 17,464	12,447	71.3
thereof interest receivable	1,460	2,075	– 615	– 29.6	13,499	8,087	5,412	66.9
thereof interest payable	– 13,408	– 15,282	1,874	12.3	– 18,519	– 24,851	6,332	25.5
Share of profit for the period of at equity-accounted investments	0	0	0	0	450	130	320	246.2
EBT	57,409	59,674	– 2,265	– 3.8	83,879	39,586	44,293	111.9
Carrying amount of at equity-accounted investments	0	0	0	0	1,584	1,133	451	39.8
Segment assets	819,418	760,651	58,767	7.7	1,256,061	980,442	275,619	28.1
Investments	47,575	47,903	– 328	– 0.7	17,603	24,226	– 6,623	– 27.3
Scheduled depreciation	26,575	23,906	2,669	11.2	12,222	7,871	4,351	55.3
Employees	3,514	3,397	117	3.4	2,902	2,564	338	13.2

H . 07 **INFORMATIONS ON GEOGRAPHICAL AREAS**

	Germany 2012	2011	Changes against previous year		Rest of Europe 2012	2011	Changes against previous year		North America 2012	2011	Changes against previous year	
	€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	%
Sales revenues with third parties	919,212	826,377	92,835	11.2	728,101	493,539	234,562	47.5	90,599	82,087	8,512	10.4
Long-term assets	237,931	202,140	35,791	17.7	182,749	121,441	61,308	50.5	1,049	1,112	– 63	– 5.7

"Corporate Services" 2012	"Corporate Services" 2011	Changes against previous year	Changes against previous year	Transition 2012	Transition 2011	Group 2012	Group 2011	Changes against previous year	Changes against previous year
€ K	€ K	€ K	%	€ K	€ K	€ K	€ K	€ K	%
13,567	11,222	2,345	20.9	– 860,878	– 768,761	0	0	0	0.0
206	206	0	0.0	0	0	2,037,362	1,687,657	349,705	20.7
– 25,467	– 17,510	– 7,957	– 45.4	618	– 260	132,915	112,497	20,418	18.1
3,186	– 14,939	18,125	121.3	0	0	– 13,740	– 46,076	32,336	70.2
23,709	29,685	– 5,976	– 20.1	– 36,934	37,867	1,734	1,980	– 246	– 12.4
– 21,705	– 27,616	5,911	21.4	37,706	37,592	– 15,926	– 30,157	14,231	47.2
472	342	130	38.0	0	0	922	472	450	– 95.3
– 21,809	– 32,107	10,298	32.1	618	– 260	120,097	66,893	53,204	79.5
6,041	5,553	488	8.8	0	0	7,625	6,686	939	14.0
1,031,533	893,128	138,405	15.5	– 1,544,584	– 1,314,047	1,562,428	1,320,174	242,254	18.4
9,307	17,608	– 8,301	– 47.1	0	0	74,485	89,737	– 15,252	– 17.0
2,116	1,828	288	15.8	0	0	40,913	33,605	7,308	21.7
80	71	9	12.7	0	0	6,496	6,032	464	7.7

Asia 2012	Asia 2011	Changes against previous year	Changes against previous year	Other 2012	Other 2011	Changes against previous year	Changes against previous year	Transition 2012	Transition 2011	Group 2012	Group 2011	Changes against previous year	Changes against previous year
€ K	€ K	€ K	%	€ K	€ K	€ K	%	€ K	€ K	€ K	€ K	€ K	%
265,073	261,545	3,528	1.3	34,377	24,109	10,268	42.6	0	0	2,037,362	1,687,657	349,705	20.7
21,534	24,009	– 2,475	– 10.3	3,105	458	2,647	577.9	1,404	1,219	447,772	350,379	97,393	27.8

Notes to the Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft

Accounting policies of the financial statements

1 APPLICATION OF REGULATIONS

The group consolidated financial statements of GILDEMEISTER Aktiengesellschaft for the fiscal year 1 January 2012 to 31 December, 2012 were prepared at the end of the reporting period with mandatory use of the International Financial Reporting Standards (IFRS), as adopted by the European Union and their interpretation by the International Accounting Standards Board (IASB), London, Great Britain, applicable on the reporting date. The Consolidated Financial Statements include further explanations pursuant to Section 315a of the German Commercial Code (HGB).

The following disclosures include statements and comments that, pursuant to the IFRS, must be included as notes to the consolidated financial statements along with the income statement, the reconciliation to total comprehensive income for the reporting period, the balance sheet, the development of group equity and the statement of cash flows.

To enable a clearer and more comprehensible presentation, individual items have been combined in the income statement and in the statement of comprehensive income; these are shown separately in the notes to the financial statements with further disclosures.

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

GILDEMEISTER Aktiengesellschaft, with its registered place of business in Bielefeld, Gildemeisterstrasse 60, is the parent company of the GILDEMEISTER group and is a listed company under German law. As a leading manufacturer of cutting machine tools worldwide, GILDEMEISTER offers innovative machine technologies, expert services, needsbased software products and energy solutions. The Consolidated Financial Statements and the Group Management Report of GILDEMEISTER Aktiengesellschaft for the close of the reporting period as at 31 December 2012, will be available through the electronic Federal Gazette (Bundesanzeiger) and the Commercial Register, and are also available from our website www.gildemeister.com.

GILDEMEISTER.COM

The Executive Board of GILDEMEISTER Aktiengesellschaft released the Consolidated Financial Statements and the Group Management Report on 25 February 2013 for submission to the Supervisory Board. The Supervisory Board is responsible for inspecting the Consolidated Financial Statements and for stating its approval of the Consolidated Financial Statements.

2 CONSOLIDATION PRINCIPLES

Accounting for subsidiaries purchased is carried out in accordance with the acquisition method. The acquisition costs correspond to the fair value of the assets surrendered, the equity instruments issued and the liabilities incurred or assumed at the date of the transaction. Furthermore, they include the fair value of any assets or liabilities recognised, which arise out of a contingent consideration agreement. Costs related to the acquisition are recognised as an expense when they accrue. Within the scope of a merger, identifiable assets, liabilities and contingent liabilities will be measured at fair value at the time of acquisition at initial consolidation. The group decides on an individual basis with respect to each company acquisition as to whether the minority interests in the company acquired are recognised at fair value or by means of a pro rata interest in the net assets of the company acquired. Goodwill is recognised at the value that arises from the surplus of the acquisition costs, from the amount of the minority interests in the company acquired as well as from the fair value of any previously held equity interests as of the acquisition date above the equity interest of the group in the net assets measured at fair value. Should the acquisition costs be less than the net asset value measured at fair value of the subsidiary acquired, the difference in amount shall be recognised directly in the income statement.

IFRS 3 “Business Combinations“ and IAS 36 “Impairment of Assets“ provide for amortisation of goodwill only if a valuation adjustment requirement was determined. Any shares in the equity of the subsidiaries that the parent company is not entitled to are shown as shares of minority interests within equity.

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

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

3 ACCOUNTING AND EVALUATION PRINCIPLES

All annual financial statements of the companies that were included in the Consolidated Financial Statements were prepared at the close of the reporting period of the Consolidated Financial Statements and in accordance with group uniform accounting and valuation principles. For this purpose, those accounts that were prepared in accordance with local regulations were adjusted to the group standardised accounting and valuation principles of GILDEMEISTER Aktiengesellschaft to the extent that they do not comply with IFRS and the deviations in the valuation are significant. The accounting and measurement principles applied correspond to those principles applied in the previous year.

Changes in accounting and valuation methods due to new standards

In the financial year 2012, the following new and revised standards, as well as IASB / IFRIC interpretations, had to be applied for the first time:

Amendments to IFRS 7	Disclosures – Transfers of Financial Assets

GILDEMEISTER has applied the following new and revised IFRS as of 1 January 2012 that are relevant to the consolidated financial statements:

Amendments to IFRS 7 – Disclosures – Transfers of Financial Assets

The amendments made to IFRS 7 apply to disclosure requirements for the transfer of financial assets. The purpose of this is to make the relationship between financial assets which cannot be completely closed out and the corresponding financial liabilities more comprehensible. Moreover, the type and especially the risks of continuing involvement can be better evaluated in the case of closed out financial assets. The changes demand additional disclosures, when a disproportionate number of transfers with continuing involvement, e.g. near the close of the reporting period.

The changes have no significant effects on the Consolidated Financial Statements of GILDEMEISTER Aktiengesellschaft.

Changes in accounting policies

For the following new and revised standards, the use of which are mandatory in future financial years, are not planned to be applied early by the GILDEMEISTER Group. Unless otherwise specified, the effects on the GILDEMEISTER Consolidated Financial Statements are currently being reviewed.

Amendments to IFRS 1	High inflation and replacement of the fixed conversion date for the first users of IFRS
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
Amendments to IAS 12	Realisation of underlying assets
IAS 19 (REV. 2011)	Employee Benefits
Amendments to IAS 27	Separate Financial Statements
Amendments to IAS 28	Investments in Associates and Other Joint Ventures
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine

a) These have already received EU endorsement

Amendments to IFRS 1 – High inflation and replacement of the fixed conversion date for the first users of IFRS

By this amendment of IFRS 1 the former reference to the date of 1 January 2004 as the fixed transition date has been replaced by "date of transition to IFRS".

Moreover, from now on IFRS 1 contains provisions for cases in which an entity was unable to comply with IFRS for a period of time as its functional currency was subject to hyperinflation.

Amendments to IAS 1 – Presentation of Items of Other Comprehensive Income

This amendment has changed the presentation of other comprehensive income in the statement of comprehensive income. In the future, other comprehensive income items, which are recycled in the income statement at a later date, must be presented separately from other comprehensive income items, which are never recycled. Provided the items are disclosed as gross items, i.e. without netting with deferred tax consequences, the deferred taxes no longer need to be disclosed in a single sum, but should be allocated to both item groups.

The amendment must first be applied in financial years, which start on or after 1 July 2012.

Amendments to IAS 12 – Realisation of underlying assets

For real estate that is held as investment property it is often difficult to judge whether existing temporary tax differences within the scope of continuing use or as a consequence of disposal are reversed. Through the amendment to IAS 12 it is now clearly specified that measurement of deferred tax assets takes place on the basis of rebuttable presumption, that the reversal takes place through sale.

The amendments do not have any significant effect on the consolidated financial statements of GILDEMEISTER AG.

IAS 19 – Employee Benefits

In addition to more extensive disclosure requirements for employee benefits, the following amendments, in particular, have resulted from the revised standard:

There is currently an option on how unexpected changes in pension obligations, the socalled actuarial gains and losses, can be presented in the consolidated financial statement. These can either (a) be recognised in the income statement, (b) in other comprehensive income (OCI) or (c) be entered with deferred recognition in accordance with the socalled corridor approach. The new version of IAS 19 means that this option will be eliminated to gain a more transparent and comparable representation, so that in the future, gains and losses will only be allowed to be recognised immediately in other comprehensive income. Furthermore, the retroactive service cost should henceforth be directly entered as profit or loss in the year of its occurrence.

At present, the expected return on plan assets will be determined based on the subjective expectations of management regarding the performance of the investment portfolio. The application of IAS 19 (revised 2011) means that only a defined return on plan assets to the amount of the current discount rate of pension obligations is allowed at the beginning of the period.

Due to the changes, administrative costs for the plan assets had been taken into account in the interest results. According to the amendments, the administrative costs for plan assets are to be included as a part of the reevaluation components in other comprehensive income, and the other administrative costs are to be included as operating profits.

The amendments to IAS 19 will on the whole produce the following significant effects: As the GILDEMEISTER Group currently uses the corridor approach, the amendment – if applied under the conditions as of 31 December 2012 – would result in an increase in provisions by € 16.4 million and a reduction in equity. The changeover from the corridor approach to the amended approach means that in the future, the income statement will not be affected by actuarial gains and losses (e.g. due to interest rate fluctuations), as these must then be recognised in other comprehensive income.

The amended definition of termination benefits will affect the balance of the additional compensation agreed to as part of partial retirement agreements. Until now, the additional compensation was categorised as termination benefits and thus deferred the entire amount to the point in time when a partial retirement agreement began. Because of the amendment to the definition of termination benefits, additional compensation no longer fulfils the requirements for the existence of termination benefits when using IAS 19 (revised 2011). The amendment basically covers other long-term benefits to employees which accumulate pro rata during the time of the employee's service.

The amendment first needs to be applied to financial years which start on or after 1 January 2013.

Amendments to IAS 27 – Separate Financial Statements

As part of the adoption of IFRS 10 "Consolidated Financial Statements", the regulations for the principle of control and requirements for preparing consolidated financial statements have been removed from IAS 27 and ultimately dealt with in IFRS 10 (see statements on IFRS 10). As a result, in the future, IAS 27 will only contain regulations regarding the accounting of subsidiaries, joint ventures and associates in IFRS separate financial statements.

The amendment must first be applied in financial years which start on or after 1 January 2014.

Amendments to IAS 28 – Investments in Associates and Other Joint Ventures

During the adoption of IFRS 11 "Joint Arrangements", amendments to IAS 28 were also made. IAS 28 regulates – as before – the use of the equity method. However, the area of application was considerably expanded through the approval of IFRS 11, since in future not only equity investments in associated companies have to be appraised using the equity method, joint companies (see IFRS 11) do as well. The use of proportional consolidation for joint companies no longer applies. In future, potential voting rights and other derivative financial instruments also have to be taken into account when evaluating whether a company has significant influence.

A further amendment affects accounting according to IFRS 5, if only a part of a share of an associated company or a joint venture is intended to be sold. IFRS 5 is to be used in part, if only a share or part of a share of an associated company (or a joint venture) fulfils the criterion "held for sale".

The amendment must first be applied in financial years which start on or after 1 January 2014.

Amendments to IAS 32 and IFRS 7 – Offsetting Financial Assets and Financial Liabilities

This amendment to IAS 32 clarifies which requirements exist for offsetting financial instruments. In this amendment, the meaning of the current right to offset is explained; it is also clarified as to which procedures with gross settlement as net settlement can be considered in terms of the Standard. In conjunction with these clarifications, the regulations concerning disclosures in the notes to the financial statement have also been expanded in IFRS 7.

The amendment of IAS 32 first needs to be applied in financial years which start on or after 1 January 2014.

The amendment of IFRS 7 first needs to be applied in financial years which start on or after 1 January 2013.

IFRS 10 – Consolidated Financial Statements

In this standard, the term "control" is newly and comprehensively defined. If a company controls another company, then the parent company has to consolidate the subsidiary. According to the new concept, control exists if the potential parent company has the power to make decisions for the potential subsidiary because of voting rights or other rights, and it participates in positive or negative variable returns from the subsidiary and these returns can be influenced through its power of decision making.

This new standard can affect the scope of consolidation, among other things for special purpose entities.

The amendment must first be applied in financial years, which start on or after 1 January 2014. If there is a deviation between IAS 27 / SIC-12 and IFRS 10 as to whether an investment qualifies as being a subsidiary, then IFRS 10 is to be applied retroactively. A premature application is only allowed concurrently with IFRS 11 and IFRS 12 as well as the versions of IAS 27 and IAS 28, which were amended in 2011.

IFRS 11 – Joint Arrangements

IFRS 11 contains new regulations for joint arrangements. According to the new concept, a decision has to be made as to whether a joint operation or a joint venture exists. A joint operation exists if the parties to the jointly directed arrangement have direct rights to the assets and obligations for the liabilities. The individual rights and obligations are balanced pro rata in the consolidated financial statement. A joint venture, in contrast, gives the parties rights to the net assets of the arrangement. Joint ventures are accounted for using the equity method in the consolidated financial statement; the option to proportionally include shares in consolidated financial statement thus no longer applies.

The amendment must first be applied in financial years, which start on or after 1 January 2014. There are specific regulations regarding the transition, e.g. from proportional consolidation to the equity method. A premature application is only allowed concurrently with IFRS 10 and IFRS 12 as well as the versions of IAS 27 and IAS 28, which were amended in 2011.

IFRS 12 – Disclosure of Interests in Other Entities

This standard regulates the disclosure obligations regarding interests in other entities. The required disclosures are much more comprehensive than the disclosures mandated by IAS 27, IAS 28 and IAS 31.

The amendment must first be applied in financial years, which start on or after 1 January 2014.

IFRS 13 – Fair Value Measurement

This standard uniformly regulates the fair value measurement in IFRS financial statements. All required fair value measurements according to other standards must in future follow the uniform guidelines of IRFS 13; separate regulations remain only for IAS 17 and IFRS 2.

Fair value according to IFRS 13 is defined as an exit price, i.e. the price that would be received to sell an asset or paid to transfer a liability. As previously known from fair value measurement of financial assets, a three stage hierarchy system will be introduced which will categorise the degree of dependency on the quoted active market prices. The new fair value measurement values can deviate from the previous regulations.

The amendment must first be applied in financial years, which start on or after 1 January 2013.

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 must first be applied in financial years, which start on or after 1 January 2013. Presumables by this standard is not relevant for GILDEMEISTER.

b) EU Endorsements are still pending

Furthermore, the following standards and interpretations were issued by IASB in 2012 and not yet recognised by the European Union:

Miscellaneous	Improvements to IFRS 2009-2011
Amendments to IFRS 1	Government Loans
IFRS 9	Financial Instruments
Amendments to IFRS 9 und IFRS 7	Mandatory Effective Date of Use and Transition Disclosures
Amendments to IFRS 10, IFRS 11 und IFRS 12	Transition Guidance
Amendments to IFRS 10, IFRS 12 und IFRS 27	Investment Entities

Miscellaneous – Improvements to IFRS 2009 – 2011

As part of the *"annual improvement project"*, changes to five standards were made. The adjustment of wordings in individual IFRS standards is meant to clarify existing regulations. Moreover, there are amendments which affect accounting, the approach, valuation and notes disclosure requirements. The standards IAS 1, IAS 16, IAS 32, IAS 34 and IFRS 1 are affected.

The amendments – subject to adoption into EU law, which is still pending – first need to be applied to financial years which start on or after 1 January 2013.

Amendments to IFRS 1 – Government Loans

The amendments affect accounting for government loans with a belowmarket rate of interest for firsttime adoption of IFRS. The valuation can remain according to prior accounting for existing government loans at the date of transition. The valuation regulations according to IAS 20.10a in connection with IAS 39 are valid for those government loans which were made after the date of transition.

The amendments – subject to adoption into EU law, which is still pending – first need to be applied to financial years which start on or after 1 January 2013.

IFRS 9 – Financial Instruments

The accounting and valuation of financial instruments according to IFRS 9 are to replace IAS 39.

Financial assets will in future only be categorised and valuated in two groups: those measured at amortised cost and those at fair value. The group of financial assets measured at amortised cost are those financial assets which give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding and which are held within a business model whose objective is to hold assets. All other financial assets are categorised as fair value. Under certain conditions, financial assets in the first category can – as previously – be designated as being fair value (“Fair Value Option”).

Changes in value of fair value financial assets are as a rule to be measured in the income statement. For certain share capital instruments, however, there is the option of recognising changes in value in other comprehensive income; dividend claims from these assets are however to be recognised in the income statement.

The regulations for financial liabilities are primarily taken from IAS 39. The most important difference is in regard to the recognition of value changes of fair value financial liabilities. In the future, these are to be divided: the part which is the company’s own credit risk is to be recognised in other comprehensive income, the remaining part of change in value is to be recognised in the income statement.

IFRS 9 – subject to adoption into EU law, which is still pending – first needs to be applied to financial years which start on or after 1 January 2015.

Amendments to IFRS 9 and IFRS 7 – Mandatory Effective Date of Use and Transition Disclosures

The amendments enable waiving the adjusted figures of the previous year for first-time adoption of IFRS 9. Originally, this relief was only possible by applying IFRS 9 early, before 1 January 2012.

The relief requires additional notes disclosures according to IFRS 7 during the time of transition.

These amendments, analogous to the regulations of IFRS 9 – subject to adoption into EU law, which is still pending – first need to be applied to financial years which start on or after 1 January 2015.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – transition guidance

The amendments include clarification and additional relief during the transition to IFRS 10, IFRS 11 and IFRS 12. This means that adjusted comparatives require only for the previous comparative period to be restated. Moreover, mandatory notes disclosures of comparatives for periods before the first-time adoption of IFRS 12 relating to unconsolidated structured entities are no longer required.

The amendments to IFRS 10, IFRS 11 and IFRS 12 – subject to adoption into EU law, which is still pending – first need to be applied to financial years which start on or after 1 January 2014.

The other aforementioned revised standards and interpretations – subject to pending changes in EU law – have no relevance for GILDEMEISTER and thus are not further discussed.

Use of estimates and assumptions

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

When using accounting and valuation methods, the following estimates are required from the Executive Board, which significantly influence the amounts in the financial statement:

Impairment of goodwill

The group reviews goodwill at least once a year for impairment and whenever there is an indication to do so. This requires an allocation of goodwill to the cashgenerating units as well as the higher of the two values of fair value less purchase costs and the value in use of the cash-generating units, to which the goodwill is allocated. To assess the value in use, the company management must assess the foreseeable future cash flow of the cash generating unit and, moreover, select an appropriate discount rate in order to determine the cash value of this cash flow. As of 31 December 2012, the carrying amount of **goodwill** totalled € 119,521 K (previous year: € 83,017 K).

P. 180
Goodwill

Pension provisions

Expenses from benefit oriented pension plans are determined on the basis of actuarial calculations. The actuarial calculations take place on the basis of assumptions with respect to discount rates, expected returns on plan assets, future wage and salary increases, the mortality rate and future pension increases. Corresponding to the long-term focus of these plans, such assessments are subject to significant uncertainties. As of 31 December 2012, provisions for pension obligations amounted to € 21,663 K (previous year: € 21,636 K).

P. 196 – 199
Provisions for pension obligations

Intangible assets arising from development

P. 155 – 156
Intangible assets

Intangible assets arising from development are capitalised according to the accounting and valuation method presented on page 155 et seq. To determine the amounts to be capitalised, the company management must make assumptions as to the amount of expected future cash flow from intangible assets, the interest rates to be applied, and the period of accrual of expected future cash flow that the intangible assets generate. As of 31 December 2012, intangible assets arising from development had a carrying amount according to the best possible assessment of € 31,045 K (previous year: € 30,491 K).

Assumptions and estimates are additionally required for value adjustments for doubtful debts (Notes Disclosure 25) as well as for contingent liabilities and other provisions (Notes Disclosure 31); moreover, they are required for determining the fair value of long-lasting fixed assets (Notes Disclosure 20) and intangible assets (Notes Disclosure 19), determining the net disposal value of inventories (Notes Disclosure 24), as well as for the assessment of deferred taxes on tax losses carried forward (Notes Disclosure 28).

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

In individual cases the actual values may differ from the assumptions and estimates made, requiring a significant adjustment in the carrying amount of the assets or liabilities concerned. Pursuant to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors“, changes will be taken into account at the time of their discovery and recognised in the income statement. The previous year’s amounts need not be adjusted and are comparable accounting and valuation principles.

Accounting and valuation methods

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

Intangible and tangible assets

USEFUL ECONOMIC LIFE OF ASSETS	
Software and other intangible assets	1 to 5 years
Intangible assets arising from development	3 to 10 years
Office and factory buildings	10 to 50 years
Technical equipment and machines	2 to 30 years
Factory and office equipment	1 to 23 years

Development costs that are directly attributable to the development of identifiable individual machine tools, services or software solutions, which lie within the group’s power of disposition, are recognised pursuant to IAS 38 “Intangible Assets” if it is probable that the use of the asset is associated with a future economic benefit, the production is technically feasible and the cost of the asset can be reliably measured. They were accounted for at cost and amortised on a straightline basis corresponding to their useful life, plus borrowing costs, as long as they are for qualified assets. Production costs include all costs that can be directly and indirectly attributed to the development process and necessary portions of development related overheads. Capitalised development costs are depreciated on a straightline basis from the start of production over the expected product life cycle. Research costs are recognised as expense in the period in which they accrue.

Pursuant to IFRS 3 “Business Combinations”, depreciation is not applied to goodwill with an indefinite useful economic life, rather it is tested for impairment annually and whenever there is any indication to test for impairment. If a value adjustment requirement is determined, goodwill is amortised.

Tangible assets were measured at cost, reduced by regular depreciation over the useful life of the asset. Borrowing costs are recognised as part of the cost of the asset, as the preconditions of IAS 23 are met. Depreciation was carried out using the straightline method in accordance with useful life. A remeasurement of tangible assets pursuant to IAS 16 “Property, Plant and Equipment” was not carried out. No property was held as a financial investment pursuant to IAS 40 “Investment Property”.

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Borrowing costs

The production costs of internally generated assets include all costs that can be directly attributed to the manufacturing process and the necessary portions of product-related overheads. This includes production related depreciation, prorated administration costs and prorated costs of social contributions. Borrowing costs are recognised as part of the cost of the asset, if the requirements of IAS 23 are fulfilled. Costs of repair are immediately recognised as expense.

Lease agreements, for which a significant share of the risks and opportunities that are associated with the lease object remain with the lessor, are classified as operating leases. In connection with an operating lease, payments (net after taking incentive payments into account that have been made by the lessor) are recognised on a straightline basis for the period of the lease agreement in profit and loss.

The group leases certain property, plant and equipment (lease objects). Lease agreements for property, plant and equipment for which the group bears the significant risks and the benefits from the ownership in the lease object are classified as finance leases. Assets under finance leases are recognised at the start of the term of the lease agreement at the lower of fair value of the lease object and cash value of the minimum lease payments. A lease liability of the same amount is recognised as a liability under long-term liabilities. Each lease payment is divided into an interest portion and a repayment portion, so interest is continuously paid on the lease liability. Property, plant and equipment held under a finance lease are depreciated over the shorter of the two following periods: the economic useful life of the asset or the term of the lease agreement.

Impairment

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

Pursuant to IAS 36 "Impairment of Assets", goodwill has to be tested for impairment at least once a year and whenever criteria are met for an impairment test. GILDEMEISTER Aktiengesellschaft carried out an impairment test on 31 December 2012. In the impairment test, the carrying amount of a cash-generating unit is compared with the recoverable amount. The recoverable amount of the cash-generating unit is the higher of the asset's fair value less costs to sell and its value in use.

In the GILDEMEISTER Group, the recoverable amount equals the value in use and was determined as the present value of future cash flows. The future cash flows were derived from the planning of the GILDEMEISTER Group. The calculation of cash values for estimated future cash flow is based primarily on assumptions as to future sales prices or volume and costs. Planning is based on a detailed planning period, counting on increasing cash flows, extending up to the financial year 2015. 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.

For purposes of impairment testing, the cash-generating unit, "Machine Tools" was allocated goodwill in an amount of € 39,072 K (previous year: € 39,072 K) and the cash-generating unit "Industrial Services" was allocated goodwill in an amount of € 80,449 K (previous year: € 43,945 K). The increase in the „Industrial Services" cash-generating unit resulted from the merger of the European Sales and Service companies of GILDEMEISTER with Mori Seiki Co. Ltd, Nagoya.

The cash flows determined were discounted at a pretax weighted average cost of capital rate (WACC) of 11.8% (previous year: 12.9%) for the cash-generating units "Machine Tools" and 11.5% (previous year: 12.2%) for "Industrial Services". If the recoverable amount of a cash-generating unit is lower than its carrying amount, the value of goodwill allocated to the cash-generating unit will, initially, be reduced at an amount equal to the remaining balance. In financial year 2012 there was no need for impairment.

In the cash-generating units "Machine Tools" and "Industrial services", the sensitivity of a long-term reduction in the EBIT margin of 1%, a reduction in the long-term growth rate of 1% or a rise in the weighted average cost of capital (WACC) before tax of 1% would not lead to a need for impairment on the goodwill allocated to the cash-generating units.

Associates

Associates are entities over which the group can exercise significant influence but cannot exercise any control. Significant influence is basically assumed to be if GILDEMEISTER has a share of at least 20% to 50% of the voting rights either directly or indirectly. Interests in associates are accounted for using the equity method of accounting and at cost upon acquisition.

The interest of the group in the profit and loss of associates is recognised from the acquisition date in the income statement. Accumulated changes after acquisition are offset against the carrying amount. If the share in losses of the group in an associate corresponds to the group's interest in the associate, including other unsecured receivables, or exceeds the interest, the group does not recognise any other losses unless it has entered into obligations on behalf of the associate or has made payments on behalf of the associate.

Unrealised profits from transactions between group companies and associated companies are eliminated to the extent of the group's share in the associated company.

Unrealised losses are likewise eliminated, unless the transaction provides evidence of an impairment of the asset transferred. The accounting and measurement methods of associates were – insofar as necessary – changed in order to ensure uniform accounting throughout the group.

Jointly-controlled entities (joint ventures) are likewise accounted for at equity pursuant to IAS 31.38. Unrealised gains or losses from transactions with joint ventures are eliminated proportionately within the scope of consolidation insofar as the underlying assets are significant.

Equity Investments

Equity investments recognise interests in enterprises, over which GILDEMEISTER does not exercise any significant influence.

Equity investments for which a quoted price is available are classified as "available for sale" and are measured at this value. Equity investments for which there is no active market are classified as "available for sale" and recognised at the cost of acquisition (see page 162 "Financial Instruments"). There is no active market for these enterprises; therefore it is assumed that the carrying amount corresponds to the fair value.

Inventories

Valuation of inventories was carried out at the acquisition or production costs or the lower net selling price. Pursuant to IAS 2 "Inventories", elements of the production costs include production material, manufacturing labour, prorated materials and production overheads. Expenses for administration and expenses arising in the social contribution area are included insofar as these are allocated to production. The proportion of overheads is evaluated on the basis of ordinary employment. Borrowing costs are recognised as part of the acquisition or production costs, provided the preconditions of IAS 23 are met. When determining the net realisable value, inventory risks arising from the period of storage and reduced usability were recognised through appropriate reductions in values. If the causes that led to a reduction in value no longer exist, the original value will be reinstated.

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Borrowing costs

Lower values at the close of the reporting period, arising from a reduction in prices on the sales market, were recognised. Raw materials and consumables as well as merchandise were primarily assessed by the average cost method.

There were no orders at the close of the reporting period that would have required accounting in accordance with IAS 11 (Construction Contracts).

Receivables and other assets

Receivables and other assets were shown in the statement of financial position at their amortised acquisition cost by reduced impairments. Long-term noninterest bearing or lowinterest bearing receivables have been discounted. Impairments in the form of individual value adjustments make adequate allowance for the expected risk of default. Specific cases of default lead to derecognition of the respective receivables. Within the scope of individual impairments, receivables, for which there is a potential devaluation requirement, will be tested for impairment and, if necessary, impaired. The calculation of impairment for doubtful receivables is based to a large extent on estimates and assessments of individual receivables, which, in addition to credit worthiness and late payment of the respective customer, also take into account the current cyclical trend and previous cases of deficit. Impairments of trade receivables are recognised in some cases using value adjustment accounts. The decision to account for deficit risks using an allowance account or by directly reducing the receivable will depend on the reliability of the risk assessment. Reclassification among the individual categories of financial assets was not carried out either in financial year 2012 or in the previous year.

Within the scope of factoring agreements, selected trade receivables are sold on a revolving basis to banks. Factoring is commonly used in the industry as a financing instrument and an essential part of the financing mix. A total volume of € 176.5 million as of 31 December 2012 (previous year: € 157.2 million) has been agreed for factoring. At the close of the reporting period, receivables amounting to € 162.8 million (previous year: € 124.2 million) had been sold. Trade receivables sold under these arrangements are excluded from accounts receivable at the time of sale insofar as all risks and rewards have been substantially transferred to the acquirer and the transmission of the cash flows to the bank related to those receivables is assured.

Long-term assets held for sale

As defined in IFRS 5, long-term assets or groups of assets and liabilities must be classified as held for sale, if their carrying amounts are recovered principally through a sale transaction rather than through continuing use. These assets are measured at the lower of their carrying amount and fair value less costs of sale and recognised separately in the balance sheet under current assets or liabilities.

Income and expenditure relating to long-term assets held for sale are recognised in the income statement under other operational income or other operational expenses.

Cash and cash equivalents

Cash and cash equivalents include, in addition to liquid funds in the narrowest sense, cheques, cash in hand and money on account at banks, as well as short-term financial investments that can be converted to cash amounts at any time and are only subject to immaterial fluctuations in value. Cash and cash equivalents are measured at amortised cost.

Deferred taxes

Pursuant to IAS 12 “Income Taxes“, deferred taxes are assessed in accordance with the statement of financial position oriented liability method. For this purpose, deferred tax assets and liabilities were basically recognised for all temporary accounting and valuation differences between the IFRS statement of financial position 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 carry forwards were also reported in the statement of financial position. However, deferred tax assets for all deductible temporary differences and for taxloss carry forwards were only recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or unused tax losses can be utilised. The deferred taxes were calculated on the basis of income tax rates that, pursuant to IAS 12 "Income Taxes", apply on the evaluation date or have been enacted in the individual countries in accordance with the legal status on that date. Deferred tax assets and liabilities were balanced out only to the extent that an offset is legally permissible. Deferred tax assets and liabilities were not discounted in accordance with the provisions contained in IAS 12, "Income Taxes".

Provisions and liabilities

Provisions for pensions are determined according to 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 close of the reporting period 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 statement of the financial position emanate from actuarial gains and losses from inventory changes and deviations between assumptions made and actual development. Actuarial gains and losses are only recognised as income or expense if they exceed a 10% margin of the defined benefit obligation. Distribution is carried out over the participating employees' expected average remaining period of service. The option pursuant to IAS 19.93a to fully recognise actuarial gains and losses and to set these off against revenue provisions was not used. The service cost is reported under employee expenses and the interest component in appropriation to pension provisions is reported in the financial result.

Pursuant to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", other provisions were only recognised in the case of an existing present obligation to third parties arising from an event in the past, the use of which is probable and if the anticipated amount of the required provision can be reliably estimated. In this case, the probability of occurrence must exceed 50%. In each case the most probable amount of performance was recognised. The calculation is carried out using the best estimate of the amount required to settle the obligation at the close of the reporting period. The amount of performance also included future cost increases. Provisions with a remaining term of more than one year were discounted before taxes, at a rate which reflects the specific risks of the obligation.

The provision for the long-term incentive (LTI) as a variable remuneration component for members of the Executive Board is determined initially at fair value at the date of granting and is remeasured at the close of the reporting period. Any expense / revenue resulting from this is recognised in profit or loss as employee expense and is spread over the term of the program and booked as provisions.

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

Liabilities were recognised at their amortised costs. Liabilities from finance leases were recognised in other liabilities at the present value of the future lease payments. Customer prepayments were recognised under liabilities with the amount received.

Selected suppliers of the GILDEMEISTER Group finance trade receivables against individual subsidiaries in advance on the basis of reverse factoring agreements concluded with individual subsidiaries and factoring companies. Through these agreements, the subsidiaries involved are basically guaranteed longer payment periods. The reverse factoring agreements lead neither under civil law nor pursuant to the provisions of IFRS to a reclassification of the trade liabilities to another type of liability, as due to the contractual arrangement, no novations exist under the law of obligations. As of 31 December 2012, a total of € 16,591 K (previous year: € 23,539 K) trade liabilities had been purchased through the respective factor.

Financial instruments

A financial instrument is an agreement, which at the same time constitutes a financial asset for one company and a financial liability or equity instrument for another company. Financial assets include in particular cash and cash equivalents, trade receivables and other originated loans and receivables as well as derivative and non-derivative financial instruments held for trading. Financial liabilities generally substantiate claims for repayment in cash or other financial liabilities. This includes, in particular, borrowers' notes and other securitised liabilities, liabilities to banks, trade payables, liabilities from financial leasing arrangements and other original financial instruments.

The accounting of financial instruments takes place pursuant to IAS 39 ("Financial Instruments: Recognition and Measurement"). Financial instruments are assessed in principle as soon as GILDEMEISTER becomes a contractual partner in the financial instrument arrangement. Within the group, all dealings for cash are accounted for at the settlement date irrespective of their classification. The settlement date is the date on which an asset is delivered to or through the enterprise. The trading day, on the other hand, is the date on which the company has already entered into the obligation to purchase or sell an asset. Derivative financial instruments are accounted for at the trading date. Financial instruments entered as financial assets and financial liabilities are, as a rule, reported as unbalanced, they are only balanced insofar as a offset claim exists and it is intended to bring about settlement on a net basis.

Financial assets are measured at fair value on initial recognition. At the same time, the directly attributable transaction costs must be taken into account for financial assets, which, as a result of measurement at fair value, do not affect net income. The fair values recognised in the balance sheet generally correspond to the market prices of the financial assets. If these are not directly available through recourse to an active market, they are calculated by applying recognised valuation models and on the basis of standard market interest rates. In financial year 2012 and in the previous year, financial asset conditions were not renegotiated.

In accounting, IAS 39 differentiates between financial assets in the categories “loans and receivables”, “available for sale”, “held to maturity”, and “at fair value through profit and loss”. The latter, pursuant to the Standard, is once again assigned to the subcategories “held for trading” and “for initial recognition to be measured at fair value in the statement of the financial position” (the so-called “fair value option”). Use has not been made of this option neither for financial assets nor for financial liabilities.

Assigned to the category “held to maturity” are non-derivative financial assets with a fixed or defined payment and a fixed term, which GILDEMEISTER intends to and may hold until maturity.

The “available for sale“ category represents for GILDEMEISTER the residual amount of original financial assets, which fall under the application of IAS 39 and have not been assigned to any other category. Measurement takes place in principle at fair value. Any gains or losses from measuring at fair value are recognised in equity in other comprehensive income. This does not apply if it involves a permanent or significant impairment, which is recognised in profit or loss. Only upon the divestiture of the financial assets are the accumulated profits and losses in equity recognised from the measurement at fair value in the income statement. The fair value of nonlisted equity instruments is assessed in principle according to the discounted cash flow method. If the fair value cannot be sufficiently and reliably measured, the shares are measured at purchase price (if necessary, less impairment). In the financial year 2012, changes in the value of financial assets held for sale in an amount of € –1,337 K (previous year: € –12,729 K), were recognised directly in equity and no changes in value arose that were recognised in the income statement.

The "loans and receivables" category of the GILDEMEISTER Group contains trade receivables, other original financial assets, and cash and cash equivalents. In principle, assets in this category are measured applying the effective interest method at amortised cost. Non-interest bearing loans and non-interest bearing receivables are discounted unaccrued interest on their cash value.

Assets "held for trading" are measured at fair value. This includes, in addition to securities in current assets for which there is an active market, derivative financial instruments, which are not included in an effective hedging arrangement according to IAS 39 ("Financial instruments: Recognition and Measurement") and thus have to be compulsorily classified as "held for trading". Any profit or loss resulting from subsequent measurement is recognised in the income statement.

Conversion of financial instruments to other measurement categories did not occur either in the financial year 2012 or in the previous year.

Financial liabilities are measured at fair value on initial recognition. For all financial assets not subsequently measured at fair value, the transaction costs directly attributable to the acquisition are also assessed and amortised over the term. Within the scope of subsequent measurement, IAS 39 differentiates between the category "financial liabilities at amortised cost" and the category "held for trading".

Derivative financial instruments

The hedging of risk items from currency and interest rate fluctuations is carried out through the use of derivative financial instruments such as foreign exchange future contracts, options and interest rate swaps. The hedging covers financial risks from underlying transactions entered in the books, for interest rate swaps risks out of future interest rate changes and, in the case of currency risks, also risks from pending supply and service transactions.

Pursuant to IAS 39 "Financial Instruments: Recognition and Measurement", all derivative financial instruments are recognised at fair value at their initial measurement. Fair value is also relevant for subsequent measurements. Fair value of traded derivative financial instruments corresponds to market value. This value may be positive or negative. If no market values are available, the fair value must be calculated using an accepted economic method. The fair value of derivatives corresponds to the cash value of estimated future cash flows. The fair value of foreign exchange future contracts is calculated on the basis of the foreign exchange reference rate applicable at the close of the reporting period, taking into account the forward discounts and mark-ups for the respective residual term of the contract compared to the contracted forward exchange rate. Interest swaps are measured at fair value through the discounting of future expected cash flows. In doing so, the market interest rates applicable for the remaining term of the contract are taken as a basis.

Changes in the value of financial instruments, which are not intended as hedging instruments within hedge accounting, are immediately recognised in the income statement. Provided a hedging instrument meets the requirements for hedge accounting, depending on the hedge type – it is valuated as follows:

Fair Value Hedge

Changes in the fair value of hedging instruments that hedge risk arising from changes in the fair value of recognised assets or liabilities are recognised together with the change in fair value of the hedged underlying transaction in the income statement. Fair value hedges were not made in the reporting year.

Cash Flow Hedge

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

The risk of rising expenditure on interest for refinancing is limited by concluding interest rate swaps. In 2008, GILDEMEISTER concluded interest rate swaps, in order to limit the impact of future interest rate changes on the financing costs of the variable interest rate borrowers' notes taken out at that time. In this way, GILDEMEISTER receives a variable interest rate and pays a fixed interest rate (payer interest rate swap). As a result of the redemption of borrowers' notes in financial year 2011, the hedged item ceased to exist for the interest rate swaps. The cash flow hedge relationship thus needed to be dissolved due to its ineffectiveness. GILDEMEISTER intends to keep the interest rate swaps until their maturity date, in order to avoid one-off payments for the dissolution. The residual term of these interest rate swaps is up to two and a half years.

Foreign exchange future contracts and currency options are used to hedge future cash flows from expected incoming payments on the basis of present order intake. Payment is expected within a period of up to one year. Derivative financial instruments are neither held nor issued for speculative or trading purposes. However, derivatives are measured as for held for trading if the pre-conditions for a cash flow hedge are not fulfilled.

Government grants

Government grants are recognised at fair value, if it can be assumed with reasonable certainty that the grant will be made and the group fulfils the necessary conditions to receive the grant. Government grants for costs are recognised in the period in which the related costs, which the grants are intended to compensate, were incurred. Government grants for investments are recognised as deferred income within other liabilities. They are amortised on a straight line basis over the expected useful life of the related asset in the income statement under other operating income.

Borrowing costs

According to IAS 23.5, borrowing costs are to be capitalised for so-called qualified assets, i.e. those that take a substantial period of time to get ready for their intended use or sale. At GILDEMEISTER, a period of more than twelve months is considered a substantial period of time. Borrowing costs in financial year 2012 that arose from the development assets amounted to € 91 K (previous year € 151 K); those which can be directly attributed to the acquisition, construction or production of a qualifying asset amounted to € 347 K (previous year: € 0 K). The borrowing cost rate amounted to 4% as in the previous year. Other borrowing costs were therefore directly recognised as expense in the period.

Sales Revenues

Pursuant to the criteria laid down in IAS 18 “Revenues”, sales revenues arising from the sale of goods are recognised at the time of transfer of the relevant risks and rewards, if a price has been agreed or can be determined and it can be assumed that such a price will be paid. In the sale of goods this is regularly the time when the delivery takes place and the risk has been transferred to the customer. Moreover, GILDEMEISTER must reliably determine the amount of the sales revenues and be able to assume the collectability of the receivables. Sales revenues from services are recognised when the services are rendered.

Recognition in accordance with the percentage of completion method is not carried out, since the requirements of IAS 11 are not met. Interest income is recognised on a specific period of time basis taking into account the effective interest rate. Dividends are recognized at the point in time when the right to receive payment occurs. Interest and dividends are itemised in the financial result.

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

4 CONSOLIDATION GROUP

NUMBER OF FULLY CONSOLIDATED COMPANIES

	31 Dec. 2012	31 Dec. 2011
National	29	29
International	73	85
Total	**102**	**114**

At the close of the reporting period, the GILDEMEISTER Group, including the GILDEMEISTER Aktiengesellschaft, comprised 105 (previous year: 117) companies, 102 (previous year: 114) of which are subsidiaries and were included in the Consolidated Financial Statements as part of the full consolidation process. Three entities accounted for at equity were included in the consolidated financial statements. The GILDEMEISTER Aktiengesellschaft is directly or indirectly entitled to a majority of voting rights of the fully consolidated companies or has controlling influence over them in some other way. The group of consolidated companies has changed compared to the end of financial year 2011, due to the first-time inclusion of the following companies:

- Ulyanovsk Machine Tools OOO, Ulyanovsk, Russia,
- DMG Europe Holding AG, Dübendorf, Switzerland,
- DMG Netherlands B.V., Veenendaal, Netherlands,
- DMG / MORI SEIKI Austria International GmbH, Klaus, Austria,
- Alpenhotel Krone GmbH & Co. KG, Pfronten,
- Alpenhotel Krone Beteiligungsgesellschaft mbH, Pfronten.

The following companies were fully consolidated at the time of their founding or at the time of acquisition:

On 12 January 2012, DMG Vertriebs und Service GmbH, Bielefeld founded DMG Netherlands B.V., Veenendaal, Netherlands, as a 100% subsidiary. The share capital of € 18 K was fully paid up. The entity is to perform as a holding company as part of the cooperation with Mori Seiki in Europe. With the same date DMG Benelux Holding B.V., Veenendaal, Netherlands was founded as a 100% subsidiary of DMG Vertriebs und Service GmbH, Bielefeld. The share capital amounting to € 18 K was fully paid up. Effective 12 December 2012 this company was merged to DMG Netherlands B.V..

On 7 March 2012, DMG Mori Seiki Europe AG, Dübendorf founded DMG Mori Seiki Austria International. Share capital amounts to € 35,000 K and is fully paid-up.

On 3 May 2012, GILDEMEISTER Beteiligungen GmbH founded Ulyanovsk Machine Tools OOO, with registered office in Ulyanovsk, Russia, as a 100% subsidiary. This new production facility is to produce ECOLINE series turning and milling machines for the Russian market. The share capital amounts to RUB 4,000 K (€ 99 K) and was fully paid up.

On 20 December 2012, DMG Holding AG, Dübendorf founded DMG Europe Holding AG with registered office in Dübendorf, Switzerland. It holds 100% of the shares. The share capital amounts to CHF 100 K (€ 83 K) and was fully paid up. This entity is to serve as a holding company for sales and service companies in Turkey and Russia.

Alpenhotel Krone GmbH & Co. KG and Alpenhotel Krone Beteiligungsgesellschaft mbH were newly consolidated.

During the reporting period, a+f GmbH, Würzburg, has acquired the residual 49.99% of shares in Cellstrom GmbH, Vienna. The purchase price amounted to € 6,500 K. Partial payment amounting to € 4,740 K was already rendered; payment of the rest, amounting to € 1,760 K is due upon fulfillment of condition precedent. As a result, a+f GmbH is the sole shareholder of Cellstrom GmbH.

In the reporting year a major part of DMG sales and services companies in the cooperation markets with Mori Seiki has been renamed to "DMG MORI SEIKI".

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List of group companies

As of 31 December 2012, compared to the previous year, the following companies were no longer included in the group of consolidated companies:

The American companies, DMG Charlotte LLC, Charlotte, DMG Chicago Inc., Chicago, DMG Houston Inc., Houston, DMG Boston LLC, Burlington, SunCarrier LLC, Wilmington, as well as DMG Australia Pty. Ltd, Clayton, Australia, a+f France S.a.r.l and GILDEMEISTER Finance S.a.r.l., Luxembourg were dissolved in the course of the financial year.

Moreover, the two leasing project companies Bil Leasing GmbH & Co 736 KG and Bil Leasing GmbH & Co 748 KG have not been part of the consolidated group since December 2012, as the properties in question were purchased by DMG Mori Seiki Stuttgart Vertriebs und Service GmbH and DMG Mori Seiki Frankfurt Vertriebs und Service GmbH.

Seven special purpose entities belonging to a+f Italia S.r.l., which were set up for the installation and sale of solar parks on the Italian market, were dissolved in the financial year.

In addition, in June 2012, 100% of the shares in an Italian subsidiary of a+f GmbH was sold to investors. The shares of this company had been acquired in the previous year and were fully consolidated at the time of their acquisition. As a result of the sale of equity interests in these companies, all assets and liabilities were also deconsolidated from the group.

In total all liquidations as well as the sale of companies resulted in a disposal loss for the group of € 187 K, which is shown in the other operating expense.

The following named companies were classified pursuant to IAS 31 as joint ventures. Pursuant to the option under IAS 31.38, the equity interests are accounted for "at equity" in the consolidated financial statements from the date of their formation or purchase. The acquisition of equity interests took place in fiscal year 2010:

- DMG / Mori Seiki Australia Pty. Ltd., Clayton Victoria, Australia,
- SUN CARRIER OMEGA PVt. Ltd., Bhopal, India.

In addition, MG Finance GmbH was classified as an associated company and was also included in the consolidated financial statements at equity from the date of the purchase of the investment in 2010.

Business Combinations in 2012

GILDEMEISTER and Mori Seiki have bundled their European sales and service companies into their joint Europe holding company, DMG Mori Seiki Europe AG with registered office in Dübendorf, Switzerland, in order to expand their cooperation on the European market. DMG Mori Seiki Europe AG was already founded in 2011; their shareholders are DMG Holding AG, Dübendorf, Switzerland (60%) and Mori Seiki Co. Ltd, Nagoya (40%). The voting rights of both shareholders correspond to the ratio of shareholding.

Effective January 1, 2012, GILDEMEISTER and Mori Seiki have brought shares from their European sales and service companies to DMG Mori Seiki Europe AG as a contribution in kind as part of a capital increase. GILDEMEISTER thus has acquired 60% of the shares and voting rights of the Mori Seiki companies and transferred 40% of shareholdings in its European sales and service companies in return to Mori Seiki. The transaction occurred without the payment of a purchase price; the equivalent of the 40% stake of the shares in the European sales and service companies which GILDEMEISTER transferred to Mori Seiki Ltd. corresponds to the fair value and amounted to € 53,813 K.

The European Mori Seiki sales and service companies

- Mori Seiki Italiana S.r.l., Milan, Italy,
- MORI SEIKI ESPANA S.A., Sant Cugat del Valles, Spain,
- Mori Seiki (UK) Limited, Slough, Great Britain,
- MORI SEIKI FRANCE SAS, Roissy, France,
- MORI SEIKI FRANCE SUD-EST S.A.S, Saint-Priest, France,
- Mori Seiki Sweden AB, Gothenburg, Sweden,

were fully consolidated as of 1 January 2012 until the time of the merger.

The assets and liabilities which were accounted for the first time in the Consolidated Financial Statements were recognised at the following fair values (in € K):

	Fair value at the point of initial consolidation € K
Intangible assets	12,763
Tangible assets	10,794
Inventories	18,752
Trade debtors	41,876
Other short-term assets	12,190
Cash	5,656
Deferred taxes	6,646
Pension provisions	– 830
Other provisions	– 5,748
Financial liabilities	– 38
Trade creditors	– 60,970
Other short-term liabilities	– 9,717
Deferred tax liabilities	– 2,306
Net assets	**29,068**
Minority interests (40 %)	– 11,627
Net assets acquired	**17,441**
Consideration transferred	53,813
Goodwill	**36,372**

The resulting positive difference amounting to € 36,372 K was recognised as goodwill and occurs from synergy effects expected from the integration of the operating business into the GILDEMEISTER Group. The recognised amount of the minority interest at the date of acquisition of the Mori Seiki companies purchased amounted to € 11,627 K.

In valuating the minority interests, the option of IFRS 3.19 was used to valuate the minority stake with the corresponding share of net assets which leads to a lower appropriation.

Merger-related costs amounting to € 2,287 K were recognised as expenses for the period. The acquired receivables do not include receivables which are considered uncollectable. The acquisition of intangible and tangible assets are shown in the schedule of fixed assets in the "Change in the Group of the Consolidated Companies" column.

Since 1 January 2012, the European Mori sales companies contributed an additional € 173,718 K to the sales revenues of the group. The share of the annual result for the same period amounted to € 5,641 K.

In the reporting year, the European Mori Seiki sales companies in Italy, Spain, France, Sweden and Great Britain were retroactively merged with DMG sales and service companies in order to maintain one company in each country.

The consolidated group has changed since the previous year in accordance with the aforementioned descriptions. Compared to the consolidated financial statements as at 31 December 2011 the net worth, moreover the financial position and results of operations were not significantly affected.

Business Combinations in 2011

In financial year 2011, GILDEMEISTER has taken over the German business from Mori Seiki effective 1 September 2011 as part of an asset deal. The acquistion costs for this amounted to € 10,387 K. The following individual assets and liabilities were acquired and allocated to current value: € 6,500 K intangible assets (of which € 1,586 K is for goodwill and € 4,914 K of acquired customer relationships), € 2,269 K tangible assets, € 1,927 K inventory, € 57 K other assets and € 366 K other provisions. The acquired net assets amounted to € 10,387 K. Of the intangible assets amounting to € 6,500 K, € 1,586 K were recognised as goodwill and resulted from synergy effects which is expected from integrating the operations into the GILDEMEISTER Group. Value amounting to € 4,914 K was capitalised under industrial property rights and other rights concerning for acquired customer relationships. The rights are depreciated using the straight line method over eight years starting at the time of acquisition. Cash and cash equivalents were not acquired. Costs directly attributed to the business cooperation amounting to € 51 K were recognised as expenditure in the previous year's period.

An overview of all companies of the GILDEMEISTER Group, divided into fully consolidated companies, joint ventures and associated companies, is presented in the list of group companies.

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List of group companies

5 FOREIGN CURRENCY TRANSLATION

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

The exchange rates of the major currencies developed as follows:

CURRENCIES

		Exchange rate on reporting date 1 €		Average exchange rate = 1 €	
	ISO Code	**31 Dec. 2012**	31 Dec. 2011	**2012**	2011
British pound	GBP	0.81610	0.83530	0.81373	0.87044
Swiss franc	CHF	1.20720	1.21560	1.20525	1.23325
Polish zloty	PLN	4.07400	4.45800	4.19003	4.12544
Czech crowns	CZK	25.15100	25.78700	25.18931	24.63508
US DOLLAR	USD	1.31940	1.29390	1.29322	1.39511
Canadian dollar	CAD	1.31370	1.32150	1.29299	1.37680
Mexican peso	MXN	17.18450	18.05120	17.03684	17.35454
Brazilian real	BRL	2.70360	2.41590	2.52199	2.32871
Japanese yen	JPY	113.61000	100.20000	103.23615	111.11539
Singapore dollar	SGD	1.61110	1.68190	1.61363	1.75075
Malaysian ringgit	MYR	4.03470	4.10550	3.98869	4.26152
Indian rupee	INR	72.44232	68.59676	69.93586	65.08621
Chinese renminbi	CNY	8.22070	8.15880	8.14615	9.01405
Taiwanese dollar	TWD	38.30607	39.18562	38.26986	41.02398
Korean won	KRW	1,406.23000	1,498.69000	1,451.90154	1,542.26077
Australian dollar	AUD	1.27120	1.27230	1.24680	1.34116

Source: European Central Bank, Frankfurt / Main

Notes to individual items in the Income Statement

6 SALES REVENUES

Broken down by sales areas, that is, according to the customer's place of business, the following distribution of sales revenues occurred:

	2012 € K	2011 € K
Germany	722,125	632,577
EU (excluding Germany)	654,131	488,905
USA	99,969	93,892
Asia	352,206	317,170
Other countries	208,931	155,113
	2,037,362	**1,687,657**

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Segment reporting
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Segment reporting

A breakdown and explanation of the sales revenues from the sale of goods and provision of services are given in segment reporting and in the "Segment Reporting" chapter of the Group Management Report.

7 OWN WORK CAPITALISED

Own work capitalised primarily arise from the capitalisation of development costs of intangible assets for machine tool projects pursuant to IAS 38 "Intangible Assets". Capitalised production costs include all costs that are directly and indirectly attributable to the development process and necessary parts of development-related overheads and borrowing costs.

8 OTHER OPERATING REVENUES

PRIOR PERIOD INCOME	2012 € K	2011 € K
Retransfer of provisions	16,949	13,716
Retransfer of valuation adjustments	1,636	3,218
Profit on asset disposals	515	283
Receipt of payment for receivables written down	100	136
Other prior-period income	1,378	1,678
	20,578	**19,031**
OTHER OPERATING INCOME		
Gains on currency and foreign exchange	18,398	23,818
Refund of costs and cost allocation	11,176	6,737
Payments for damages	1,351	978
Letting and leasing	1,107	523
Bonuses and allowances	445	229
Income from the granting of licences	0	5,000
Other	9,770	12,543
	42,247	49,828
Total	**62,825**	**68,859**

The retransfer of provisions and valuation adjustments involves a number of provisions and valuation adjustments which were set up in previous years and have not been fully used. A breakdown of the retransfer of provisions can be found on page 201 of the notes to the consolidated financial statements.

Income from changes in exchange rates can be seen in relation to exchange rate and currency losses in other operating expenses. These exceed the exchange rate and currency gains.

In the income from refund of cost and cost allocation on-debiting of marketing costs of € 1,782 K (previous year: € 2,090 K) and refunds of charges from the German Unemployment Office for parttime retirement agreements of € 889 K (previous year: € 729 K) are recognised.

Other income includes € 71 K (previous year: € 291 K) of accrued earnings from sale-and-lease back transactions that are classified as financial lease arrangements where GILDEMEISTER is the lessee and € 69 K (previous year: € 276 K) income from subletting arrangements where GILDEMEISTER is the lessor.

9 COST OF MATERIALS

The purchased services relate predominantly to expenses for external production.

10 PERSONNEL COSTS

For financial year 2012, the total remuneration of the Executive Board amounted to € 9,820 K (previous year: € 8,289 K); of which direct remuneration of Executive Board members accounted for € 9,005 K (previous year: € 7,644 K), the fixed remuneration accounted for € 2,410 K (previous year: € 1,848 K), the STI for € 4,500 K (previous year: € 3,515 K) and the LTI for € 955 K (previous year € 816 K). Some € 1,000 K was awarded as payment for individual allowance for performance rendered in 2012 (previous year € 1,350 K). Benefits in kind accounted for € 140 K (previous year: € 115 K). Apart from direct renumeration € 815 K (previous year: € 645 K) were expended as indirect remuneration for pension commitments. In addition, an amount of € 815 K (previous year: € 645 K) was spent on pension commitments. Former members of the Executive Board and their surviving dependants received € 588 K (previous year: € 605 K). Pension provisions for former members of the Executive Board and their surviving dependants amounted to € 9,788 K (previous year: € 8,499 K).

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Remuneration structure for the Executive Board and the Supervisory Board

The remuneration structure for the Executive Board and the Supervisory Board is explained in the Group Management Report and an individual and detailed presentation of the Executive Board remuneration in the financial year is set out in the remuneration report.

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

In the financial year 2012, pension plan expenses in the group, including employer's contributions to the statutory pension insurance, amounted to € 25,156 K (previous year: € 23,119 K). This includes the employers' contributions to the statutory pension insurance amounting to € 20,285 K (previous year: € 19,164 K).

In comparison with the previous year, the number of people employed changed as follows:

	Average number of people employed		At the close of the reporting period	
	2012	2011	**31 Dec. 2012**	31 Dec. 2011
Wage earners	1,747	1,689	1,761	1,719
Salary earners	4,402	3,887	4,506	4,091
Trainees	195	195	229	222

11 DEPRECIATION

A distribution of amortisation / depreciation and writedowns of intangible assets, tangible assets and financial assets is provided in the asset movement schedule on page 138 et seq.

12 OTHER OPERATING EXPENSES

PRIOR PERIOD EXPENSES	**2012 € K**	2011 € K
Losses on fixed asset disposals	156	1,241
Other taxes	65	36
Other prior-period expenses	3,585	3,153
	3,806	**4,430**
OTHER OPERATING EXPENSES		
Outward freight, packaging	48,231	34,970
Corporate communication, trade fairs and other advertisement expenses	47,959	45,355
Travelling and entertainment expenses	37,735	29,768
Rental and leases	31,074	26,158
Sales commissions	27,540	25,384
Expenses for temporary work and freelancers	26,669	20,228
Other external services	23,057	24,150
Cost of preparation of accounts, legal and consultancy fees	22,274	20,400
Exchange rate and currency losses	19,240	22,114
Additions to provisions	14,000	8,315
Stationery, post and telecommunication expenses	11,201	9,638
Other personnel costs	10,229	8,105
Impairments on receivables	6,962	6,896
Insurances	5,867	4,998
Other taxes	4,176	2,290
Monetary transactions and capital procurement	2,513	2,630
Investor and Public Relations	2,491	3,143
Licences and trademarks	1,609	2,212
Other	27,698	27,732
	370,525	324,486
Total	**374,331**	**328,916**

The increase in outward freight and packaging compared to the previous year is due to a rise in sales and the associated higher transport volume. In addition to the rise in the number of machines sold, the proportionate increase in transport volume overseas has also increased outward freight and packaging costs. Higher freight charges in maritime transport to Asia increased this effect.

Expenses for corporate communication, trade fairs and other advertising expense have risen compared to the previous year. The strengthening of the marketing activities was necessary due to the extension of our cooperation with Mori Seiki. Moreover, we had a greater presence at the important international trade fairs.

The increase for expenses for temporary and freelance workers is primarily due to the increase in total operating performance.

Exchange rate and currency losses in connection with exchange rate and currency gains can be seen in other operational income. On balance, exchange rate and currency losses occurred in an amount of € 842 K (previous year exchange rate and currency gain: € 1,704 K).

The additions to provisions result primarily from expenses for warranty commitments because of the increase of revenues and potential losses from pending transactions.

The administration and sales costs are included proportionately in other operational costs and personnel costs.

In the financial year 2012, € 897 K (previous year: € 668 K) accrued for the total remuneration of Supervisory Board members; this was recognised under other external services. Further details on the remuneration of the Supervisory Board are given in the Group Management Report. An individual and detailed presentation of the Supervisory Board remuneration in the financial year is set out in the remuneration report page 78 et seq.

13 FINANCIAL INCOME

Interest receivables and other income of the GILDEMEISTER Group amounted to € 3,129 K (previous year: € 3,114 K). Other income includes income from equity investments of € 1,219 K (previous year: € 992 K). Of these, € 1,181 K (previous year: € 959 K) arose from dividend payments made by Mori Seiki Co. Ltd. An amount of € 24 K (previous year: € 75 K) includes interest income from discounting long-term provisions.

14 FINANCIAL EXPENSES

Interest expenses of € 14,133 K (previous year: € 27,925 K) are related primarily to interest expenses for group financial liabilities, interest rate swaps and factoring. Interest expenses for syndicated loans decreased due to repayment of financial liabilities and due to significantly more favourable conditions of current financing.

Finance expenses include an interest component of € 1,551 K (previous year: € 1,914 K) from allocations to pension provisions. In addition, € 242 K (previous year: € 318 K) from the interest accrued on long-term other provisions have been taken into account. Under other financial expenses, the costs from scheduled and unscheduled amortisation of transaction costs are recognised. In the reporting year, costs of scheduled amortisation of transaction costs arose amounting to € 838 K (previous year: € 285 K).

In the previous year, unscheduled transaction costs for restored borrowing facilities repayment and borrowers' notes amounting to € 4,018 K have arisen. Moreover, a onetime expense amounting to € 12,445 K occurred, which arose from a release to income of the interest rate hedge relating to the discharge of borrowers' notes.

15 RESULT OF PROFITS AND LOSSES OF AT EQUITY ACCOUNTED INVESTMENTS

Profit from at equity accounted investments amount to € 922 K (previous year: € 472 K). These include losses amounting to € – 78 K (previous year: € – 23 K), resulting from the pro rata result in the reporting year of SUN CARRIER OMEGA Pvt. Ltd. In addition, in financial year 2012, pro rata income from the equity investment in MG Finance GmbH in the amount of € 471 K (previous year: € 342 K) was recognised, as well as in DMG / Mori Seiki Australia Pty. Ltd. in the amount of € 529 K (previous year: € 153 K).

16 INCOME TAXES

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

	2012 € K	2011 € K
Current taxes	**41,160**	**21,660**
of which domestic	22,756	9,898
of which foreign	18,404	11,762
Deferred taxes	**– 3,422**	**– 306**
of which domestic	– 840	2,680
of which foreign	– 2,582	– 2,986
	37,738	**21,354**

For domestic companies, current taxes include corporate income and trade tax (including solidarity surcharge), and for international companies, comparable earnings-linked taxes 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 2012, an amount of € 177 K (previous year: € 957 K) resulted from tax income for prior years. An amount of € 2,485 K (previous year: € 5,396 K) is included for tax expenses for prior years.

Deferred tax income unrelated to the accounting period of € 1,652 K (previous year: € 727 K) is set off against deferred tax expenditure unrelated to the accounting period of € 1,153 K (previous year: € 0 K).

Current income tax expense of € 37,738 K (previous year: € 21,354 K) was reduced through the use of tax loss carry forwards not yet recognised from previous accounting periods by € 481 K (previous year: € 2,912 K).

Moreover, a reduction of deferred tax expenses resulted from tax losses of former periods in an amount of € 1,652 K (previous year: € 727 K) that have not been recognised so far.

An adjustment was made for prior years' deferred tax assets from tax loss carry forwards in an amount of € 1,153 K (previous year: € 0 K). Current taxes relating to the discontinuation of business divisions or non-operating activities did not occur in the reporting period. Due to the continued application of the accounting methods, no additional tax expenditure or income arose. No material errors occurred in the past so that no consequences arose in this respect.

Deferred taxes were calculated on the basis of income tax rates which were applied or expected in the individual countries on the valuation date, in accordance with the legal status at the time. In financial year 2012, the corporation tax charge comprised corporation tax rate of 15.0% plus the solidarity surcharge of 5.5%. This results in an effective corporation tax rate of 15.8%. Including the trade earnings tax, which amounted to 13.6% (previous year: 13.6%), the total tax rate amounted to 29.4%. This results in the tax rate for the measurement of deferred taxes for domestic companies (previous year: 29.4%).

International tax rates are between 17% and 38%.

The deferred tax liabilities recognised in equity at the close of the reporting period amounted to € 234 K (previous year: deferred tax assets of € 977 K). In financial year 2012, the recognised income tax expense of € 37,738 K (previous year: € 21,354 K) is some € 2,429 K higher (previous year: € 2,089 K) when compared to the expected income tax expense of € 35,309 K (previous year: € 19,265 K), which would arise in theory if the national tax rate of 29.4% (previous year: 28.8%), applicable for financial year 2012, had been applied at group level. The difference between current and expected income tax expenditure is due to the following:

	2012 € K	2011 € K
Profit (loss) from ordinary activities before income tax	120,097	66,893
GILDEMEISTER Aktiengesellschaft income tax rate in per cent	29,4	28,8
Theoretical tax income / expenditure	35,309	19,265
Tax consequences of the following effects		
Adjustment due to differing tax rate	– 1,856	– 2,254
Effects from changes in tax rate	0	– 731
Tax reduction due to tax-exempt revenue	– 1,681	– 941
Tax loss carry forwards	68	– 1,991
Tax increase due to non-deductible expenses	3,924	3,964
Tax income or expense for prior years	2,308	4,439
Other adjustments	– 334	– 397
Income taxes	**37,738**	**21,354**

Tax income / expenditure from earnings is attributable solely to the operative business activities in the GILDEMEISTER Group.

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

17 PROFIT SHARE ATTRIBUTED TO MINORITY INTERESTS

A proportionate annual result was allotted to minority interests in equity of € 5,065 K (previous year: € – 1,307 K). The increase over the previous year resulted above all from the 40% equity investment of Mori Seiki Co. Ltd., Nagoya, Japan, in DMG Mori Seiki Europe AG, Dübendorf, Switzerland (details on page 169 et seq), effective 1 January 2012. Moreover, these primarily contain proportionate earnings from DMG Mori Seiki India Pvt. Ltd. as well as from DMG Mori Seiki South East Asia Pte. Ltd.

18 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 profit – excluding profit shares of other shareholders – by the weighted average number of shares outstanding, as follows:

		2012	2011
Group result excluding profit share of other shareholders	€ K	77,294	46,846
Average weighted number of shares (pieces)		**58,363,195**	54,964,602
Earnings per share	€	1.32	0.85

Earnings result exclusively from continued business. Group earnings after taxes amounting to € 82,359 K were reduced by the earnings of the minority interests by € 5,065 K. There were no diluted earnings per share in the previous year.

In the previous year, the undiluted earnings per share amounted to € 0.85 and the diluted earnings per share amounted to € 0.84.

Notes to individual Balance Sheet items

19 INTANGIBLE ASSETS

The goodwill shown relates, in the amount of € 114,312 K (previous year: € 78,186 K) to the revaluation difference from the consolidation of investments and in the amount of € 5,209 K (previous year: € 4,831 K) to goodwill from the individual financial statements. The rise in goodwill in an amount of € 36,372 K resulted primarily from the acquisition of Mori Seiki's European sales and service companies

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Business combinations

Moreover, changes occurred in the currency translation of goodwill into the group's currency Euro.

Intangible assets arising from development relate to new machine tool projects in domestic and international product companies, to service products of DMG Vertriebs und Service GmbH and to specific software solutions. Intangible assets arising out of development at the close of the reporting period amounted to € 31,045 K (previous year: € 30,491 K). Research and development costs are immediately shown as an expense amounted to € 44,995 K in the financial year 2012 (previous year: € 42,400 K).

The amount stated for industrial property rights and similar rights includes acquired patents, design patents and trademarks as well as data processing software. In the reporting period, an amount of € 12,763 K was capitalised under industrial property rights and similar rights for the customer relations acquired from the transfer of Mori Seiki's European sales companies (previous year € 4,914 K). These rights will be depreciated over an eightyear period from the date of acquisition, using the straightline method.

Changes and a breakdown of items in the group's intangible assets are illustrated in the consolidated fixed asset movement schedule. Investments are explained in further detail in the Group Management Report.

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Investments

20 TANGIBLE ASSETS

Changes and a breakdown of items in the group's tangible assets are illustrated in the consolidated fixed asset movement schedule. Investments are explained in further detail in the Group Management Report on page 51 et seq.

The change in currency between the close of each reporting period is shown in the consolidated fixed asset movement schedule under "Other Changes".

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

Land and buildings are mortgaged for the security of financial debt in an amount of € 2,487 K (previous year: € 13,382 K).

Tangible assets include leased assets to the value of € 2,823 K (previous year: € 3,086 K) that, due to the structuring of the underlying leases ("finance lease"), must be charged to the respective group company as the beneficial owner. The carrying amounts of capitalised lease items are broken down as follows:

	31 Dec. 2012 € K	31 Dec. 2011 € K
Land and buildings	1,036	1,066
Technical plant and machinery	1,210	1,618
Other plant, factory and office equipment	577	402
	2,823	**3,086**

21 OTHER EQUITY INVESTMENTS

The development of group equity investments is shown in the group assets schedule. The recognition of equity investments involves an interest in an amount of € 270 K in VR Leasing Frontania GmbH & Co. KG and an interest of € 80 K in Pro-Micron GmbH & Co. KG Modular System. GILDEMEISTER does not exercise any significant influence over these companies.

As at the reporting date, GILDEMEISTER held 5.1% of Mori Seiki Co. Ltd., Nagoya. The acquisition cost for the share acquisition amounted to € 46,066 K overall (incl. incidental costs of acquisition). The fair value as of 31 December 2012 amounted to € 40,587 K (previous year: € 41,923 K). The change of the current market value amounting to € –1,337 K is shown in the notes under "other changes".

a+f GmbH has a 3.31% equity investment in Younicos AG, Berlin. The fair value as of 31 December 2012 amounted to € 4,338 K (previous year: € 4,338 K). a+f GmbH also has an interest in Sonnenstrom alpha GmbH & Co. KG, Hamburg. The equity investment amounts to 40% and as at the reporting date, has a fair value of € 21 K.

As in the previous year, no impairment losses on equity investments were made in the reporting year.

An overview of all GILDEMEISTER companies and information on registered offices, equity and equity interests in financial year 2012.

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Overview of group companies

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

- DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER,
- GILDEMEISTER Beteiligungen GmbH.

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

- DECKEL MAHO Pfronten GmbH,
- GILDEMEISTER DREHMASCHINEN GmbH,
- DECKEL MAHO SEEBACH GmbH,
- DMG SPARE PARTS GmbH,
- DMG ELECTRONICS GmbH,
- DMG AUTOMATION GmbH.

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

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

- DMG MORI SEIKI Deutschland GmbH,
- DMG MORI SEIKI Berlin Vertriebs und Service GmbH,
- DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER,
- DMG Service Fräsen GmbH,
- DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER,
- DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER,
- a+f GmbH,
- DMG MICROSET GmbH,
- DMG MORI SEIKI Services GmbH.

DMG MORI SEIKI Deutschland GmbH has entered into profit and loss transfer and control agreements with the following subsidiaries:

- DMG MORI SEIKI Stuttgart Vertriebs und Service GmbH,
- DMG MORI SEIKI München Vertriebs und Service GmbH,
- DMG MORI SEIKI Hilden Vertriebs und Service GmbH,
- DMG MORI SEIKI Bielefeld Vertriebs und Service GmbH,
- DMG MORI SEIKI Frankfurt Vertriebs und Service GmbH,
- DMG MORI SEIKI Hamburg Vertriebs und Service GmbH.

22 EQUITY-ACCOUNTED INVESTMENTS

The following overview shows aggregated key financial figures for companies accounted for at equity included in the consolidated financial statements. The figures refer to equity interests, carrying amounts and notes on the balance sheet as well as to sales revenues:

	31 Dec. 2012		31 Dec. 2011	
	Equity interest	Carrying amount	Equity interest	Carrying amount
	%	€ K	%	€ K
DMG / Mori Seiki Australia Pty. Ltd.	50.0	1,188	50.0	659
MG Finance GmbH	33.0	6,041	33.0	5,553
SUN CARRIER OMEGA Pvt. Ltd.	50.0	396	50.0	474
		7,625		**6,686**

Details of the results from at equity-accounted investments are presented in the discussion on the individual items of the income statement under "Share of Profits and Losses of at Equity-Accounted Investments".

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Results from at equity-accounted investments

	31 Dec. 2012	31 Dec. 2011
	€ K	€ K
Short-term assets	**121,423**	**91,768**
Joint Ventures	10,175	10,155
Associated companies	111,248	81,613
Long-term assets	**71,209**	**46,273**
Joint Ventures	960	856
Associated companies	70,249	45,417
Short-term liabilities	**56,734**	**60,634**
Joint Ventures	7,594	8,628
Associated companies	49,140	52,006
Long-term liabilities	**102,380**	**50,110**
Joint Ventures	0	0
Associated companies	102,380	50,110

	31 Dec. 2012 € K	31 Dec. 2011 € K
Sales revenues	**43,328**	**26,218**
Joint Ventures	24,804	15,890
Associated companies	18,524	10,328
Other revenues	**411**	**387**
Joint Ventures	411	387
Associated companies	0	0
Expenses	**41,408**	**25,544**
Joint Ventures	24,313	16,122
Associated companies	17,095	9,422

23 LONG-TERM RECEIVABLES AND OTHER ASSETS

	31 Dec. 2012 € K	31 Dec. 2011 € K
Trade receivables	447	6,294
Other long-term assets	13,928	11,711
	14,375	**18,005**

Trade receivables are assigned to financial assets. There were no receivables against associated companies included in the long-term trade receivables (previous year: € 4,923 K).

Other long-term financial assets include the following items:

	31 Dec. 2012 € K	31 Dec. 2011 € K
Security deposits and other security payments	796	788
Discounted customers' bills	689	2,170
Purchase price receivables from disposals	115	239
Market value of derivative financial instruments	5	0
Other assets	8,228	7,182
	9,833	**10,379**

Analogous to the previous year, other assets include the purchase price for acquiring share purchase options amounting to € 6,540 K. The valuation of the shares was made at the end of the reporting period.

Other long-term assets include the following items:

	31 Dec. 2012 € K	31 Dec. 2011 € K
Tax refund claims	152	374
Other assets	3,943	958
	4,095	**1,332**

As in the previous year, the tax refund claims resulted primarily from claims for value added tax. In other assets, transaction costs connected with taking out new credit facilities in 2011 amounting to € 3,154 K were recognised. This is reported under other assets, since the credit facilities had not been utilised as at 31 December 2012.

24 INVENTORIES

Inventories are made up as follows:

	31 Dec. 2012 € K	31 Dec. 2011 € K
Raw materials and consumables	200,349	192,223
Work in progress	123,058	118,923
Finished goods and goods for resale	156,561	139,386
Payments on account	6,291	1,454
	486,259	**451,986**

Finished goods and goods for resale includes machines acquired from Mori Seiki in an amount of € 27,493 K (previous year: € 3,479 K). Of inventories recorded on 31 December 2012, € 104,321 K (previous year: € 148,794 K) were recognised at their net realisable value. In the financial year, adjustments of inventories in an amount of € 16,709 K (previous year: € 17,947 K) were recognised as cost of materials in the income statement. In the financial year, revaluations amounting to € 996 K arose (previous year: € 1,840 K), primarily resulting from the increase in net realisable values.

25 SHORT-TERM RECEIVABLES AND OTHER ASSETS

	31 Dec. 2012 € K	31 Dec. 2011 € K
Trade receivables	228,118	208,908
Other short-term assets	112,566	98,873
	340,684	**307,781**

In the reporting year, GILDEMEISTER had agreed upon factoring programs. Within the framework of this agreement domestic receivables with a volume of up to € 102,499 K (previous year: € 88,000 K) and foreign receivables with a volume of up to € 74,024 K (previous year: € 69,223 K) are sold. As of the close of the reporting period, German receivables with a value of € 92,448 K (previous year: € 77,500 K) and foreign receivables with a value of € 70,325 K (previous year: € 46,713 K) were sold without recourse and are thus no longer part of the receivables portfolio.

Trade receivables include receivables against at equity accounted investments amounting to € 11,951 K (previous year: € 3,788 K). Receivables against related companies amounted to € 19,678 K (previous year: € 10,526 K); receivables against associated companies amounted to € 855 K (previous year: € 5,845 K).

The terms of long-term and short-term receivables are shown in the following table:

	Carrying amount	Of which neither impaired nor past due on the closing date	Of which not impaired on the closing date but past due in the following time periods			
			up to 3 months	3 to 6 months	6 to 12 months	more than 1 year
	€ K	€ K	€ K	€ K	€ K	€ K
Trade receivables						
31 Dec. 2012	228,565	190,969	22,703	8,156	1,362	2,662
Trade receivables						
31 Dec. 2011	215,202	184,354	19,640	4,930	1,967	2,436

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

Trade receivables and accumulated value adjustments have developed as follows:

	2012 € K	2011 € K
Trade receivables not impaired	225,852	213,327
Trade receivables before impairment	17,012	14,003
Accumulated impairment	14,299	12,128
Trade receivables impaired	2,713	1,875
Total trade receivables	**228,565**	**215,202**

Impairment of trade receivables have developed as follows:

	2012 € K	2011 € K
Impairments as at January 1	12,128	11,576
Allocations (expenses for impairments)	5,147	5,034
Consumption	– 1,340	– 1,264
Dissolution	– 1,636	– 3,218
Impairments as at 31 December	**14,299**	**12,128**

The following table shows the expenses for the complete write down of trade receivables as well as income from recoveries of trade receivables:

	2012 € K	2011 € K
Expenses for derecognition of receivables	1,815	1,862
Income from payments received for derecognised receivables	100	136

Expenses relating to impairments and write downs of trade receivables are reported under other operating expenses. These involve a large number of individual cases. Income from receipt of payments for derecognised trade receivables are reported under other operating income. Impairments or derecognition of other financial assets were made neither in the financial year nor in the previous year.

Other short-term financial assets include the following items:

	31 Dec. 2012 € K	31 Dec. 2011 € K
Receivables from factoring	12,173	9,394
Payables with debit balance	5,268	8,133
Discounted customers' bills	5,134	7,609
Security deposits and other security payments	3,631	4,107
Fair market value of derivative financial instruments	1,700	2,062
Loans to third parties	481	288
Receivables from employees and former employees	464	343
Purchase price receivables from asset disposal	358	230
Other short-term financial assets	31,887	37,215
	61,096	**69,381**

No financial assets were provided as collateral either in the reporting year or in the previous year.

The overdue periods of other long-term and short-term financial assets are shown as follows:

	Carrying amount	Of which neither impaired nor past due at the closing date	Of which not impaired at the reporting date but past due in the following time periods			
			up to 3 months	3 to 6 months	6 to 12 months	more than 1 year
	€ K	€ K	€ K	€ K	€ K	€ K
Other financial assets						
31.12.2012	70,929	70,340	339	0	12	21
Other financial assets						
31.12.2011	79,837	78,482	239	0	4	24

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

Other short-term assets included the following items:

	31 Dec. 2012 € K	31 Dec. 2011 € K
Tax refund claims	39,369	22,231
Claim for refund taxes on income	2,972	884
Prepayments	2,481	2,183
Receivables from compensation claims	32	14
Other assets	6,616	4,180
	51,470	**29,492**

Tax refund claims primarily include receivables from value added tax. The remaining other assets include refund claims of € 889 K (previous year: € 729 K) with respect to additional compensation paid from parttime retirement agreements against the Federal Labour Office (Bundesanstalt für Arbeit). Claims for repayment of short-time allowance are not included as in the previous year; income from the refund of € 20 K (previous year: € 30 K) was recognised under employee expenses.

26 CASH AND CASH EQUIVALENTS

At the close of the reporting period, bank credit balances amounted to € 173,328 K (previous year: € 105,151 K). Of these, credit balances of subsidiaries in Germany were recognised in an amount of € 88,548 K (previous year: € 61,583 K), in Europe in an amount of € 56,555 K (previous year: € 24,381 K), in Asia in an amount of € 21,657 K (previous year: € 17,853 K) and in America in an amount of € 6,568 K (previous year: € 1,334 K).

The development of cash and cash equivalents constituting the financial resources pursuant to IAS 7 “Statement of cash flows” is illustrated in the statement of cash flows on page 135.

27 LONG-TERM ASSETS HELD FOR SALE

As of 31 December 2012, long-term assets held for sale amounted to € 55,780 K (previous year: € 43,618 K) and shall be sold shortly. Here are recognised the turnkey solar parks in the Energy Solutions division. The shares of the according special purpose entities shall be sold to investors at the beginning of 2013. The revenue contained in earnings from these assets are included under sales revenues, amounting to € 6,707 K (previous year: € 2,988 K).

In the cost of materials and in other operating expenses, total expenses of € 4,321 K were included (previous year: € 2,177 K) as well as financing expenses amounting to € 622 K (previous year: € 106 K). The earnings before taxes was € 1,764 K (previous year: € 705 K).

The assets and the earnings share stemming from the long-term assets held for sale are disclosed in the segmental reporting of the "Industrial Services" business segment.

28 DEFERRED TAXES

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

	31 Dec. 2012		31 Dec. 2011	
	assets	liabilities	assets	liabilities
	€ K	€ K	€ K	€ K
Intangible assets	956	7,609	994	7,034
Tangible assets	8,975	1,787	5,917	3,349
Financial assets	0	39	0	39
Inventories	9,916	1,531	8,082	1,422
Receivables and other assets	6,022	5,455	8,055	5,633
Provisions	6,750	6,343	5,298	6,492
Liabilities	11,008	314	13,465	397
Tax loss carry forward	16,077	–	16,170	–
	59,704	23,078	57,981	24,366
Balancing	– 15,530	– 15,530	– 16,639	– 16,639
Total	**44,174**	**7,548**	**41,342**	**7,727**

A determining factor for the valuation of the recoverability of deferred tax assets is the evaluation of the probability of a sufficient future tax income. Based on past experience and the expected taxable income situation, it is assumed that the corresponding advantages from the deferred tax assets can be realised. As at 31 December 2012, tax loss asset carry forwards amounted to € 16,077 K (previous year: € 16,170 K) and were allocated as follows: no deferred tax assets are allocated to German corporate tax loss carry forwards (previous year. € 1,393 K); as in the previous year, no deferred tax assets were allocated to trade tax loss carry forwards. Due to the German earning stripping rules, no deferred taxes for purposes of corporate tax (previous year: € 870 K) and for purposes of trade tax (previous year: € 560 K) were capitalised on interest carry forwards in financial year 2012; recognition took place in the previous year under deferred tax assets on loss carry forwards. Deferred tax assets for tax loss carry forwards are attributable to foreign subsidiaries in an amount of € 16,077 K (previous year: € 13,347 K). The tax loss carry forwards are either usable for an indefinite period or may be carried forward up to five years (€ 5,703 K). In the reporting year, the deferred tax assets were newly activated, amounting to € 5,914 K (previous year: € 6,448 K), and € 5,134 K (previous year: € 5,816 K) has been offset with current taxable income. GILDEMEISTER assumes that on the basis of future business activities and tax planning there will be sufficient positive taxable income to realise the tax asset claims. The tax losses carried forward amount to € 77,324 K (previous year: € 63,456 K), of which € 18,808 K (previous year: € 4,968 K) have not been taken into account. The theoretically possible deferred tax assets on tax loss carryforwards not taken into account amounts to € 4,671 K (previous year: € 1,245 K). Deferred tax assets amounting to € 12,098 K (previous year: € 11,969 K) were capitalised with regard to subsidiaries which had tax losses in the current or previous year. The realisation of these assets depends on future taxable income which is higher than the income effects from the dissolution of existing taxable differences. GILDEMEISTER assumes the realisation of these estimated deferred tax assets on the basis of future business activity and tax estimates. Deferred taxes were calculated on the basis of income tax rates which were applied or expected in the individual countries on the valuation date, in accordance with the legal status at the time. Taking into account trade earnings tax as well as the corporate tax and solidarity surcharge, this results in a tax rate of 29.4 % (previous year: 29.4%) for domestic companies. International tax rates are between 17% and 38%.

Income tax on other comprehensive income in an amount of € – 1,211 K (previous year: € – 3,838 K) relate – as in the previous year – exclusively to changes in fair value of derivative financial instruments included in other earnings.

29 EQUITY

The movement of individual components in group equity for the financial years 2012 and 2011 is illustrated in the Consolidated Statement of Changes in Group Equity on page 136 et seq. Business transactions are presented under “Transactions with owners” in which the owners have acted in their capacity as owners.

Subscribed Capital

The share capital of GILDEMEISTER Aktiengesellschaft amounts to € 156,437,431.80 and has been fully paid up.

The share capital is divided into 60,168,243 bearer shares with an accounting par value of € 2.60 per share.

The following statements have essentially been taken from the articles of association of GILDEMEISTER Aktiengesellschaft (version as of May 2012).

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital by up to € 78,218,714.60 in nominal terms during the period until 17 May 2017 by issuing up to 30,084,121 new no-par value bearer shares for contributions in cash and/or in kind (authorised capital). This authority can be exercised on one occasion or, in partial amounts, on more occasions.

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

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

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

a) a non-cash capital increase through non-cash capital contribution so as to acquire, in applicable cases, companies, parts of companies or equity investments in companies or other assets in return for the transfer of shares,

b) to the extent required for dilution protection purposes, in order to grant the holders of warrants or the creditors of convertible bonds issued by the company or its equity investment companies as part of an authorisation of the Board by the general meeting of shareholders, a subscription right to new shares to the extent they would be entitled to following the exercising of the option or conversion right or the fulfilment of conversion obligations,

c) to exclude any residual amounts from the subscription right.

The total prorated amount of the share capital relating to the shares that are subject to the exclusion of the subscription right according to a), in aggregate shall not exceed 20% of the share capital neither at point the right is effective nor at the time the new shares are issued. The limit of 20% of the registered capital includes shares that are issued during the lifetime of the authorised capital to the exclusion of the shareholders' subscription rights; also, shares which are to be sold after exercising a conversion right or option right and/or a conversion bond or option bond, as long as the conversion bond or option bond was issued during the lifetime of this authorisation to the exclusion of the subscription right in order to compensate for residual amounts and/or for dilution protection purposes in favour of owners or creditors of conversions right or option rights of option or convertible bonds.

The Executive Board is authorised, with the approval of the Supervisory Board, to lay down further details for the capital increase and its implementation. The supervisory board is authorised to adjust the articles of incorporation according to each individual utilisation of the approved capital and, if the approved capital is not utilised or not fully utilised before 17 May 2017, to cancel this after this date.

The share capital has been conditionally increased by up to a further € 37,500,000.00 through the issue of up to 14,423,076 bearer shares (conditional capital I). The contingent capital increase is for granting new no-par bearer shares to the holders of options or warrants issued by the company or by a group company controlled by the company under the authorisation passed by resolution of the Annual General Meeting of 15 May 2009 under agenda item 7 against cash payment and grants a warrant or option right to the new no-par bearer shares of the company or provides for a conversion requirement.

The new shares will be issued at an option or conversion price to be determined in accordance with the aforementioned authorisation resolution.

The capital increase is to be effected only insofar as the holders of option or conversion rights or those obliged to exercise conversion or options rights exercise their options or conversion rights, insofar as they are obliged to exercise their conversion or option rights, they fulfil their obligation to exercise the conversion or option right and neither shares already in existence nor the payment of a cash amount is used to fulfil the option or conversion rights.

The new shares will participate in the profit as of the beginning of the financial year in which they are issued following the exercising of option or conversion rights, or the fulfilment of conversion or option obligations.

The board of the GILDEMEISTER Aktiengesellschaft decided on 25 August 2011 to exercise its right to buy back company shares. This was announced at the Annual General Meeting of 14 May 2010. According to the buy-back decision, a total of 3,068,581 shares were able to be repurchased. The buyback began on 26 August 2011. As at 31 December 2011, 1,805,048 shares with a nominal value of € 4,693,124.80 of company shares were repurchased. This equates to 3.0% of voting rights. The shares acquired can be used for all purposes which are listed in the Annual General Meeting; the use as acquisition currency should especially be mentioned here.

Pursuant to IAS 32.33, the entity's own shares reduce equity. At the close of the reporting period, an amount of € 4,693,124.80 was deducted from subscribed capital.

Capital Provision

The group's capital provision include the premiums for the issue of shares of GILDEMEISTER Aktiengesellschaft in financial year 2012 in the amount of € 182,122,880. At the close of the reporting period, the premiums totalled € 265,570,477 including the amounts from previous years, which amounted to € 83,447,597. Transaction costs of € 12,454,747 (previous year: € 12,454,747) that are allocated directly to capital procurement reduced by related tax benefits on income of € 4,060,939 (previous year: € 4,060,939) were deducted from the capital provision. The capital provision as of 31 December 2012 remain unchanged at 257,176,670 €.

Revenue Provisions

Statutory provision

The disclosure does not affect the statutory provision of GILDEMEISTER Aktiengesellschaft in an amount of € 680,530.

Other Retained Earnings

Retained earnings include priorperiod profits generated by the companies included in the Consolidated Financial Statements as far as they were not distributed. Retained earnings also include the offset of liabilitiesside 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 posttax effects from the valuation of financial instruments in equity. Deferred taxes recognised directly in equity amount to € –234 K (previous year: € 977 K).

As of 31 December 2012, the amount of € 15,994 K (previous year: € 15,994 K), pursuant to IAS 33.32 was deducted from retained earnings for the company's own shares. This is due to the difference between the nominal value and the acquisition costs of the company's own shares.

A detailed overview on the composition of, or changes in, other retained earnings in financial year 2012 and in the previous year is included in the Development of Group Equity.

Proposed appropriation of profits

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

- The financial year 2012 of GILDEMEISTER Aktiengesellschaft closed with net income for the year of € 44,860,877.36. It will be proposed to the annual general meeting of shareholders on 17 May 2013, taking into account the appropriation of € 22,400,000.00 to other retained profits and the profit carry forward from the previous year in an amount of € 2,186,895.80, to use the net retained profit of € 24,647,773.16 as follows:
- Distribution of € 20,427,118.25 to the shareholders through dividends of € 0.35 per share,
- Carry forward of the remaining net retained profit of € 4,220,654.91 € to new account.

For financial year 2011 a dividend of € 0.25 per share was distributed.

Minority Interests

Minority interests include non-controlling interests in the consolidated equity of the companies included and, as of 31 December 2012, amounts to € 84,609 K (previous year: € 12,100 K). The increase resulted from the following changes from the previous year:

With effect from 1 January 2012, GILDEMEISTER and Mori Seiki transferred the stocks of their European sales and service companies to DMG Mori Seiki Europe AG as a non-cash contribution as part of a capital increase. Mori Seiki Co. Ltd., Nagoya, has acquired a 40% interest and the voting rights in the European DMG sales and service companies. The European DMG sales and service companies are all subsidiaries which appear in the list of „GILDEMEISTER Group companies“ as 100% shareholdings of DMG Mori Seiki Europe AG, Dübendorf, Switzerland.

In financial year 2012, GILDEMEISTER acquired the remaining 49.99% of Cellstrom GmbH, Vienna at a purchase price of € 6,500 K and thus holds 100% of equity capital. GILDEMEISTER derecognised minority equity interests and recognised a reduction in equity attributable to shareholders in the amount of € 1,685 K and recorded a reduction of equity, that is due to the shareholders of GILDEMEISTER amounting to € 2,786 K.

During the reporting year, Mori Seiki USA Inc., Hoffman Estates / Illinois took over 49% of the shares of DMG Mori Seiki Mexico S.A. de C.V., Queretaro, as part of a capital increase of DMG Europe Holding GmbH, Klaus, Austria.

Capital Management Disclosure

A strong equity capital base is an important precondition for GILDEMEISTER in order to ensure the ongoing existence of the company. The capital is regularly monitored on the basis of various key indicators. The ratio of net indebtedness to equity (gearing) and the equity ratio are key indicators for this. Surplus funds is determined as the sum of financial liabilities less cash and cash equivalents.

		31 Dec. 2012	31 Dec. 2011
Cash and cash equivalents	€ K	173,328	105,151
Financial liabilities	€ K	12,269	33,998
Surplus funds	€ K	161,059	71,153
Total equity	€ K	787,881	655,158
Equity ratio	%	48.8	47.8
Gearing	%	–	–

Total equity has risen in absolute terms by € 132,723 K. This is primarily due to the surplus achieved during the financial year and the increase in minority interests in equity. As a result, the equity ratio rose to 48.8% (previous year: 47.8%) as of 31 December 2012. Gearing does not exist any longer.

30 PROVISIONS FOR PENSIONS

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

Employee pension schemes are based as a rule either on contributionoriented or performanceoriented benefit systems.

In the case of contributionoriented 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 financial year 2012, the related expenses amounted to € 4,871 K (previous year: € 3,955 K).

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

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

	Germany		Remaining countries	
	2012	2011	**2012**	2011
	%	%	**%**	%
Interest rate	2.95	4.40	1.50 – 2.8	2.00 – 2.25
Salary trend	0.00	0.00	1.00 – 5.00	1.00 – 5.00
Pension trend	2.00	2.00	0.00	0.00

The pension development includes expected future increases in salary that are assessed annually and are subject to, amongst other things, inflation and the duration of employment at the company. Since the pension commitments that were entered into at the national subsidiaries are not subject to future increases in salary, salary development was not taken into account when determining the 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. 2012 € K	31 Dec. 2011 € K
	Cash value of unfunded pension commitments	34,717	31,735
+	Cash value of funded pension commitments	21,157	17,218
–	Current value of the pension plan assets	– 17,825	– 16,456
=	Cash value of the pension commitments (after deduction of the plan assets)	38,049	32,497
–	Balance of actuarial profits/losses not yet recognised in the financial position	– 18,175	– 13,214
=	Net value of amounts shown in the financial position on the reporting date	19,874	19,283
	of which pensions	21,663	21,636
	of which assets (–)	– 1,789	– 2,353

The plan assets take into account on the one hand risk payments that depend on the insured salary. On the other hand they include retirement benefits that are dependent on the accumulated retirement assets at the time of retirement. The pension plan assets comprise shares in an amount of € 2,000 K or 11.22% (previous year: € 1,841 K or 19.89%), obligations in an amount of € 3,449 K or 19.35% (previous year: € 3,169 K or 34.23%), real estate in an amount of € 1,196 K or 6.71% (previous year: € 1,100 K or 11.88%), as well as qualifying insurance policies and other assets in an amount of € 11,180 K or 62.72% (previous year: € 10,346 K or 62.9%). When assessing the plan assets, an expected interest rate of 4.4% (previous year: 3.5%) and 2.75% (previous year: 3.5%) is applied.

The principle for determining the expected long-term returns is based on past experience. The actual return on plan assets amounts to € 853 K (previous year: € 160 K).

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

		31 Dec. 2012 € K	31 Dec. 2011 € K
	Fair value of the assets at the start of the year	16,456	8,759
+/–	Exchange rate changes	64	250
+	Expected revenues from plan assets	573	317
+/–	Actuarial profits (+) and losses (–)	281	– 157
+/–	Transfers	475	0
+	Employer contributions	319	7,502
+	Pension plan participant contributions	278	269
+/–	Benefits paid	– 621	– 484
=	Fair value of the assets at the end of the year	17,825	16,456

The benefits actually granted are disclosed as benefits paid.

Of the company pension provisions in the amount of € 21,663 K (previous year: € 21,636 K), € 20,567 K (previous year: € 21,240 K) are attributable to domestic group companies; this corresponds to about 95% (previous year: 98%) of the total amount. The changes in the cash value compared to the previous year are due to an adjustment of the underlying interest rate from 4.40% to 2.95% and to the change in the number of pensioners included in the calculations.

Pension provisions amounting to € 9.788 K (previous year: € 8,499 K) were attributed to former members of the Executive Board and their surviving dependants.

The part of the new actuarial profits and losses that is due to experiencebased adjustments can be derived from the following table:

	2012 € K	2011 € K	2010 € K	2009 € K	2008 € K
Profit (–) and loss (+) on obligations	694	1,089	887	2,158	937
Profit (+) and loss (–) on plan assets	281	– 157	799	– 41	– 791

In financial year 2012, total expenditure amounted to € 3,422 K (previous year: € 3,033 K), which breaks down into the following components:

		2012 € K	2011 € K
	Current service cost	1,572	542
+	Retroactive service cost	2	1
+	Interest expenses	1,551	1,914
–	Expected revenues from plan assets (–)	– 573	– 317
+/–	Actuarial profits (+) and losses (–)	870	893
=	Total expenses for defined contribution pension plans	3,422	3,033

The present value of the provisions had changed as follows:

		2012 € K	2011 € K
	DBO beginning of the year	**48,953**	**46,626**
+	Current service cost	1,572	542
+	Retroactive service cost	2	1
+	Plan participants contribution	278	269
+	Interest expenses	1,551	1,914
+/–	Actuarial profits (-) and losses (+)	6,129	2,395
–	Pension payments made	– 2,820	– 3,054
+/–	Exchange rate changes	209	260
=	**DBO end of the year**	**55,874**	**48,953**

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

	2012 € K	2011 € K	2010 € K	2009 € K	2008 € K
Cash value of all pension commitments	55,874	48,953	46,626	41,747	36,608
Current value of the pension plan assets of all funds	– 17,825	– 16,456	– 8,759	– 6,190	– 5,172
Funding status	38,049	32,497	37,867	35,557	31,436

Payments to beneficiaries from unfunded pension plans next year are expected to amount to about € 2,443 K (previous year: € 2,506 K), while payments to funded pension plans in the financial year 2013 are estimated to amount to about € 322 K (previous year: € 294 K).

31 OTHER PROVISIONS

The following lists the major contents of provisions:

	31 Dec. 2012 Total	31 Dec. 2012 Of which short-term	31 Dec. 2011 Total	31 Dec. 2011 Of which short-term
	€ K	€ K	€ K	€ K
Tax provisions	34,501	34,501	13,367	13,367
Obligations arising from employees	79,781	64,558	68,192	55,452
Risks arising from warranties and retrofitting	36,718	32,355	33,256	29,859
Obligations arising from sales	40,757	40,289	40,332	39,906
Legal and consultancy fees and costs of preparation of accounts	5,363	5,363	4,882	4,882
Other	19,963	19,801	15,038	14,943
	182,582	162,366	161,700	145,042
Total	**217,083**	**196,867**	**175,067**	**158,409**

Tax provisions include current taxes on income and returns of € 23,906 K (previous year: € 7,580 K) for risks from current external audits amounting to € 3,000 K (previous year: € 1,000 K) and other operating taxes, which have been accumulated for the reporting period and for previous years.

Provisions for employee expenses in the group include obligations for profitsharing and staff bonuses of € 29,177 K (previous year: € 24,225 K), parttime retirement payments of € 5,633 K (previous year: € 7,581 K), holiday pay of € 13,074 K (previous year: € 10,482 K) and anniversary payments of € 7,221 K (previous year: € 4,982 K). The provisions for anniversary bonuses and parttime retirement will be discounted and carried as liability at their present value. Obligations arising from parttime retirement are secured against potential insolvency through a mutual trust relationship. To secure the pension plan, cash assets are transferred into a trust property. The members of this trust property are domestic group companies.

The assets are defined as “plan assets” in accordance with IAS 19.7 and balanced against the related provisions. Proceeds arising from the pension plan assets are balanced against the related expenses. As of 31 December 2012, liquid assets of € 4,658 K (previous year: € 2,677 K) were transferred to the trust property.

Risks arising from warranties and retrofitting relate to present obligations to third parties, the use of which is probable and the anticipated amount of which can be reliably estimated. The measurement of provisions was carried out on the basis of previous experience, taking into account the conditions at the close of the reporting period and taking into account possible price increases on the closing date. The obligations from the operations area are liabilities for provisions, contractual penalties and other liabilities.

The other obligations primarily include provisions for installations to be carried out and other various services. For the short-term provisions, it can be assumed that a significant part of the obligations will be fulfilled in financial year 2013. The movement in the other provisions is illustrated in the analysis of provisions:

	1 Jan. 2012	Transfers	Used	Retransfers	Changes in basis of consolidation	Other changes	**31 Dec. 2012**
	€ K	€ K	€ K	€ K	€ K	€ K	**€ K**
Tax provisions	13,367	32,296	12,015	372	1,244	– 19	34,501
Obligations arising from personnel	68,192	56,171	42,045	3,589	861	191	79,781
Risks arising from warranties and retrofitting	33,256	14,676	9,028	2,831	392	253	36,718
Obligations arising from sales	40,332	58,300	53,307	6,560	1,600	392	40,757
Legal and consultancy fees and costs of preparation of accounts	4,882	4,834	4,180	249	71	5	5,363
Other	15,038	18,476	9,948	3,720	455	– 338	19,963
	161,700	152,457	118,508	16,949	3,379	503	182,582
Total	**175,067**	**184,753**	**130,523**	**17,321**	**4,623**	**484**	**217,083**

The other changes include currency adjustments and transfers.

Obligations arising from personnel include provisions for the long-term incentive totalling € 4,365 K (previous year: € 2,016 K). A detailed description of the long-term incentive can be found in the “remuneration report” chapter of the Group Management Report.

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Remuneration structure for the Executive Board and the Supervisory Board

The following table shows the number of performance units awarded in 2009, 2010, 2011 and 2012, and the amount of the provisions:

	2009 tranche 4-year term		2010 tranche 4-year term			2011 tranche 4-year term			2012 tranche 4-year term		
	Number of performance units awarded	Amount of the allocation for 2012	Number of performance units awarded	**Fair value 31 Dec. 2012**	**Provision 31 Dec. 2012**	Number of performance units awarded	**Fair value 31 Dec. 2012**	**Provision 31 Dec. 2012**	Number of performance units awarded	**Fair value 31 Dec. 2012**	**Provision 31 Dec. 2012**
	Shares	€ K	Shares	€ K	€ K	Shares	€ K	€ K	Shares	€ K	€ K
Dr. Rüdiger Kapitza	20,790	409	37,879	999	749	26,858	638	319	22,422	517	129
Dr. Thorsten Schmidt	13,860	273	25,253	666	499	17,905	426	213	14,948	345	86
Günter Bachmann	13,860	273	25,253	666	499	17,905	426	213	14,948	345	86
Kathrin Dahnke	–	–	13,889	366	275	17,905	426	213	14,948	345	86
Christian Thönes	–	–	–	–	–	–	–	–	7,474	172	43
Total	**48,510**	**955**	**102,274**	**2,697**	**2,022**	**80,573**	**1,916**	**958**	**74,740**	**1,724**	**430**

From the tranche issued in 2012, a provision arose in the reporting year in an amount of € 430 K. From the tranche issued in 2011, a provision arose in 2011 in an amount of € 958 K. From the tranche issued in 2010, a provision arose in an amount of € 2,022 K, from the tranche of 2009 with a term of four years, a provision amounting to € 955 K occurred.

32 FINANCIAL LIABILITIES

Details of short-term and long-term financial debts are listed in the following tables:

	31 Dec. 2012	of which due within 1 year	of which due within 1 to 5 years	of which due after 5 years
	€ K	€ K	€ K	€ K
Bank loans and overdrafts [1]	6,473	3,987	1,281	1,205
Discounted customer bills	5,796	5,108	688	0
	12,269	**9,095**	**1,969**	**1,205**

[1] of which secured by mortgages: € 2,487 K

	31 Dec. 2011	of which due within 1 year	of which due within 1 to 5 years	of which due after 5 years
	€ K	€ K	€ K	€ K
Bank loans and overdrafts [1]	24,726	12,390	3,705	8,631
Discounted customer bills	9,272	7,102	2,170	0
	33,998	**19,492**	**5,875**	**8,631**

[1] of which secured by mortgages: € 13,382 K

Liabilities towards credit institutes reduced in comparison with the previous year by € 18,253 K. Long-term loans reduced within the framework of the planned repayment of € 806 K whilst the use of overdraft loans fell compared to the previous year by € 7,746 K. An unplanned reduction in an amount of € 9,670 K occurred as a result of redemption of the loan for two leasing property companies.

The short and medium term resource requirements of GILDEMEISTER Aktiengesellschaft and, as part of the intragroup cash management system, of the majority of domestic subsidiaries are covered by the operative cash flow as well as short-term and long-term financing. The amount of approved credit lines amounted to a total of € 790.8 million (previous year: € 831.9 million). Significant components of this are syndicated credit lines amounting to € 450.0 million, cash credit lines amounting to € 131.5 million (previous year: € 178.0 million), as well as factoring agreements as an essential part of the financing mix of € 176.5 million (previous year: € 157.2 million).

In addition to the syndicated loan, there are still some long-term loans and current bilateral loans to individual subsidiaries of a total volume of € 29.6 million (previous year: € 46.7 million). Long-term loans as of 31 December 2012 were € 3.2 million (previous year € 13.7 million). € 3.3 million in short-term financing approvals (previous year: € 11.0 million) were drawn upon.

The international share in liabilities to credit institutes amounted in total to about 55% (previous year: about 41%) as of 31 December 2012. The average cost of borrowing amount to 4.2% (previous year: 8.2%). For liabilities to banks of € 6,473 K (previous year: € 24,726 K), there were no significant differences between the carrying amount and fair market value arise due to the mainly short terms.

Set out below are the major liabilities to financial institutions:

	31 Dec. 2012				31 Dec. 2011			
	Currency	**Carrying amount**	Remaining period in years	Effective interest rate	Currency	Carrying amount	Remaining period in years	Effective interest rate
		€ K		%		€ K		%
Loan	EUR	3,150	up to 14	3.2 – 6.25	EUR	13,657	up to 8	3.2 – 6.25
Overdrafts	various	3,323	up to 1	2.35 – 12.0	various	11,069	up to 3	3.85 – 13.2
		6,473				**24,726**		

A syndicated credit line is available to GILDEMEISTER with a volume totalling € 450.0 million. It comprises a cash tranche of € 200.0 million and a cash credit line tranche of € 250.0 million. The loan has a five-year term (until 2016) and was concluded on significantly better terms which attests to the improved credit rating of GILDEMEISTER over previous years. The current syndicated loan will have an interest rate based on the current money market rate (1 to 6-month EURIBOR) plus an interest surcharge. The interest surcharge is variable and can change depending on the company's key figures (0.90% to a maximum of 2.30%). It is currently 1.15% (previous year: 1.40%).

The syndicated loan is classified as current as it can be drawn upon for a maximum of six months.

The financing agreements for the syndicated loan bind GILDEMEISTER to adhere to covenants which are usual for the market. All covenants were adhered to as of 31 December 2012.

As in previous financing, the lending banks have completely waived the right to collateral for the refinancing, for the syndicated credit. The companies DECKEL MAHO Pfronten GmbH, DECKEL MAHO Seebach GmbH, GILDEMEISTER Drehmaschinen GmbH, DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, GILDEMEISTER Beteiligungen GmbH, a+f GmbH, GILDEMEISTER Partecipazioni S.r.l., FAMOT Pleszew Sp z.o.o and GILDEMEISTER Italiana S.p.A. continue to be guarantors for the loan agreements.

Open credit lines as of the close of the reporting period amount to € 464.7 million (previous year: € 429.0 million). These comprise free cash lines of € 226.3 million (previous year: € 222.0 million) and additional open lines of credit (guaranteed bills outstanding, bills of exchange, factoring) of € 238.3 million (previous year: € 207.0 million).

In addition to the guaranteed loans, SAUER GmbH has assigned fixed assets and current assets in an amount of € 1,097 K (previous year: € 1,322 K) to the lending banks by transfer of ownership by way of security.

33 TRADE CREDITORS AND OTHER LONG-TERM LIABILITIES

Long-term financial liabilities are shown as follows:

	31 Dec. 2012 € K	31 Dec. 2011 € K
Trade creditors	237	682
Other long-term liabilities	10,931	19,018
	11,168	**19,700**

Trade creditors are classified as financial liabilities. There were no liabilities against associated companies included (previous year: € 383 K) in the reporting year.

Other long-term financial liabilities include the following items:

	31 Dec. 2012 € K	31 Dec. 2011 € K
Liabilities from finance lease arrangements	1,660	2,448
Fair market value of derivative financial instruments	6,375	13,244
Other short-term financial liabilities	221	500
	8,256	**16,192**

Liabilities arising from finance leases amounted to € 1,660 K (previous year: € 2,448 K) and show the discounted value of future payments from finance leases. These are liabilities arising from finance leases for buildings.

Fair market values of derivative financial instruments comprise fair market values of interest rate swaps totalling € 6,358 K and for forwards amounting to € 17 K (previous year: € 13,193 K for interest rate swaps and € 51 K for forwards).

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

Other long-term liabilities take into account deferred income. These include the guaranteed investment grants from the funds of the joint aid programme "Improvement of the Regional Economic Structure" and investment subsidies pursuant to the German investment subsidy act in an amount of € 2,587 K (previous year: € 2,826 K) as applied under IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance".

In the financial year 2012, no investment allowances were paid as in the previous year. The accruals will be dissolved in accordance with the depreciation procedure for tax-privileged capital assets and recognised in the income statement.

34 TRADE CREDITORS AND OTHER SHORT-TERM LIABILITIES

Short-term financial liabilities are shown as follows:

	31 Dec. 2012 € K	31 Dec. 2011 € K
Trade creditors	329,391	267,472
Fair market value of derivative financial instruments	5,014	6,030
Debtors with credit balance	2,549	4,207
Liabilities from finance lease arrangements	1,091	1,166
Other short-term financial liabilities	17,297	12,912
	355,342	**291,787**

Trade creditors include payables to associates in the amount of € 8,877 K (previous year: € 9,896 K), as well to at equity accounted investments in the amount of € 106 K (previous year: € 217 K). Trade liabilities to related companies amounted to € 55,953 K (previous year: € 11,221 K); the increase over the previous year resulted from the expansion of business relations to Mori Seiki companies as part of the cooperation.

The fair value of derivative financial instruments involves the fair value for interest rate swaps amounting to € 3,513 K (previous year: € 0 K), as well as the fair value for forward exchange contracts mainly in USD, JPY and AUD.

Liabilities arising from finance leases amounted to € 1,091 K (previous year: € 1,166 K) and show the discounted value of future payments from finance leases. For the most part, these are liabilities arising from finance leases for buildings.

Short-term liabilities arising from finance leases are recognised without future interest payable. All future payments arising from finance leases total € 2,995 K (previous year: € 4,016 K).

Other financial liabilities include liabilities from bills of € 8,059 K (previous year: € 9,113 K), which arise from the acceptance of drafts and the issue of promissory notes. The minimum lease payments for the respective lease agreements are as follows:

TOTAL FUTURE MINIMUM LEASE PAYMENTS	31 Dec. 2012 € K	31 Dec. 2011 € K
Due within one year	1,221	1,350
Due within between one and five years	1,774	2,666
Due in more than five years	0	0
	2,995	**4,016**
INTEREST COMPONENT INCLUDED IN FUTURE MINIMUM LEASE PAYMENTS		
Due within one year	130	184
Due within between one and five years	114	218
Due in more than five years	0	0
	244	**402**
NET PRESENT VALUE OF FUTURE MINIMUM LEASE PAYMENTS		
Due within one year	1,091	1,166
Due within between one and five years	1,660	2,448
Due in more than five years	0	0
	2,751	**3,614**

The minimum lease payments from subleases, for which GILDEMEISTER is the lessor, will amount to € 601 K (previous year: € 69 K) in 2013. The agreements refer to the leasing of machine tools.

Other short-term liabilities include the following items:

	31 Dec. 2012 € K	31 Dec. 2011 € K
Tax liabilities	22,469	15,530
Liabilities relating to social insurance	5,163	3,825
Payroll account liabilities	3,237	3,426
Deferred income	4,275	4,057
Other liabilities	496	183
	35,640	**27,021**

Tax liabilities refer to liabilities arising from value added tax amounting to € 11,865 K (previous year: € 7,083 K) as well as liabilities arising from wage and church tax in the amount of € 6,421 K (previous year: € 6,250 K).

35 LIABILITIES IN CONNECTION WITH ASSETS HELD FOR SALE

As of 31 December 2012, liabilities of € 10,910 K (previous year: € 11,939 K) occurred in connection with long-term assets held for sale. The long-term liabilities are disclosed in the segmental reporting of the "Industrial Services" business segment.

36 CONTINGENCIES AND OTHER FINANCIAL OBLIGATIONS

No reserves were set up for the following contingent liabilities, which are recognised at their notional amounts, since the risk of utilisation is estimated as not very probable:

CONTINGENCIES	31 Dec. 2012 € K	31 Dec. 2011 € K
Guarantees	1,296	5,216
Warranties	703	1,700
Other contingencies	5,519	5,329
	7,518	**12,245**

The guarantees primarily include advance payment guarantees to foreign group companies. Other contingencies comprises, in particular, a guarantee in connection with the offer of financing solutions through leasing.

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

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

NOMINAL AMOUNT OF FUTURE MINIMUM LEASE PAYMENTS	31 Dec. 2012 € K	31 Dec. 2011 € K
Due within one year	23,414	21,204
Due within between one and five years	32,390	29,600
Due in more than five years	7,969	6,637
	63,773	**57,441**

Of which operating lease arrangements account for:

NOMINAL AMOUNT OF FUTURE MINIMUM LEASE PAYMENTS	31 Dec. 2012 € K	31 Dec. 2011 € K
Due within one year	22,193	19,854
Due within between one and five years	30,616	26,934
Due in more than five years	7,969	6,637
	60,778	**53,425**

Operating lease agreements exist in connection with the financing of buildings of DMG Europe Holding GmbH in Klaus, Austria, in the amount of € 1.7 million, of FAMOT Pleszew Sp. z.o.o. in the amount of € 2.5 million and of DECKEL MAHO Pfronten GmbH in the amount of € 2.1 million. The operating lease agreement for the buildings includes a purchase option upon expiration of the basic rental period.

Further operating lease agreements for machines exist at FAMOT Pleszew Sp. z.o.o., Poland, in the amount of € 5.7 million and at DECKEL MAHO Pfronten GmbH in the amount of € 1.3 million. At DECKEL MAHO Pfronten GmbH, lease agreements in connection with the financing of crane installations exist in an amount of € 0.7 million and telephone installations in an amount of € 0.1 million. The agreements contain purchase options upon expiry of the basic rental period.

At other group companies, leasing agreements exist especially for vehicle fleets in the amount of € 20.1 million and other plant, factory and business equipment. Some of the agreements contain purchase options upon expiry of the basic rental period. The operating lease agreements have a minimum period of between two and 41 years.

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

37 DERIVATIVE FINANCIAL INSTRUMENTS

At the close of the reporting period, foreign exchange futures contracts were held by the GILDEMEISTER Group essentially in USD, GBP, CAD, JPY, CHF and AUD as well as interest rate swaps in euros. The nominal and fair market values of derivative financial instruments existing at the close of the reporting period are set out below:

	31 Dec. 2012				31 Dec. 2011	
	Nominal value	Fair market values Asset	Fair market values Debt	Total	Nominal value	Fair market values
	€ K	€ K	€ K	€ K	€ K	€ K
Forward exchange contracts as cash flow hedges	40,415	919	283	637	114,193	– 3,729
of which USD	25,602	506	0	506	86,611	– 3,387
of which CAD	6,943	234	49	185	8,130	– 317
of which SGD	4,738	169	0	169	4,339	– 73
of which GBP	1,875	10	45	– 35	8,752	– 248
of which JPY	1,257	0	188	– 188	6,361	296
Interest rate swaps without hedge relations	200,000	0	9,871	– 9,871	200,000	–13,769
Forward exchange contracts for trading purposes	85,279	786	1,236	– 450	55,196	286
of which USD	34,901	233	371	–139	11,882	185
of which GBP	15,222	162	52	111	6,468	151
of which CHF	8,436	3	10	– 7	24,544	33
of which JPY	8,358	113	608	– 495	2,176	31
of which AUD	6,567	19	126	– 107	0	0
of which CAD	4,114	65	37	28	0	0
of which SEK	2,734	55	0	55	0	0
of which PLN	2,242	17	6	11	0	0
of which other currencies	2,705	119	25	94	10,126	– 114
	325,694	**1,705**	**11,389**	**– 9,685**	**369,389**	**– 17,212**

The nominal values correspond to the total of all unbalanced purchase and sales amounts of derivative financial transactions. The fair market values recognised correspond with the price at which, as a rule, third parties would assume the rights or obligations arising from the financial instruments at the close of the reporting period. It cannot be assumed overall that the assessed value will also be actually realised upon dissolution. 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 interest rate swaps are recognised in the balance sheet under other long-term financial liabilities respectively short-term financial liabilities.

The fair market values of foreign exchange futures contracts and currency options are recognised in the balance sheet under other long-term and short-term financial assets or other long-term and short-term financial liabilities.

At the close of the reporting period, GILDEMEISTER also held forward foreign exchange contracts for trading purposes, which, although they do not fulfil the strict requirements of hedge accounting pursuant to IAS 39, make an effective contribution to the securing of financial risks pursuant to the principles of risk management. For the hedging of currency risks recognised as monetary assets and liabilities, GILDEMEISTER does not use hedge accounting pursuant to IAS 39, as the realised profits and losses from the underlying transactions from the currency translation pursuant to IAS 21 are recognised in the income statement at the same time as the realised profits and losses from the derivatives applied as hedging instruments. In the event that third parties do not fulfil their obligations arising from forward foreign exchange contracts, as at the close of the reporting period, GILDEMEISTER had a deficit risk amounting to € 1,705 K (previous year: € 2,062 K).

Interest rate swaps have a nominal volume of € 200,000 K in total. Interest rate swaps with a volume of € 140,000 K have a remaining term of up to one year and interest rate swaps with a volume of € 60,000 K have a remaining term of up to two and a half years. As of the close of the reporting period, all existing forward exchange contracts with a nominal volume of € 121,686 K have a remaining term of up to one year (previous year: € 168,544 K). Forward exchange conracts with a volume of € 4,007 K (previous year: € 845 K) have a remaining term of over one year.

In the financial year 2012, expenses arising from the market valuation of financial instruments allocated to cash flow hedges in an amount of € 793 K (previous year: € 3,325 K) were allocated to equity and an amount of € 3,325 K (previous year: € 791 K) was removed from equity and recognised as expense in profit or loss for the reporting period. It was recognised in the income statement under exchange rate and currency profits or in the exchange rate and currency losses. Neither in the financial year nor in the previous year was there any ineffectiveness in forward exchange contracts.

The interest rate swaps became ineffective in financial year 2011 due to the discontinuation of the underlying transactions; therefore, the cash flow hedge relationship was dissolved in financial year 2011.

38 RISKS FROM FINANCIAL INSTRUMENTS

Risks from Financial Instruments

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

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Risk managment system

Currency Risks

In its global business activities, GILDEMEISTER is exposed to two types of currency risks. Transaction risks arise through changes in value of future foreign currency payments due to exchange rate fluctuations in individual accounts. In the GILDEMEISTER group, both purchases and sales are made in foreign currencies. To hedge currency risks arising from activities within the GILDEMEISTER Group, foreign exchange futures contracts are used. The conclusion and processing of derivative financial instruments is based on binding internal regulations defining scope, responsibilities, reporting and monitoring.

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

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

If the euro had been revalued (devalued) by 10% against the US dollar as of 31 December 2012, the reserves for derivatives in equity and the fair value of the forward exchange contracts would have been € 5,368 K lower (higher) (31 Dec. 2011: € 1,547 K lower (higher). A hypothetical effect on equity results, in individual cases, from the currency sensitivities EUR / USD: € –4,874 K; EUR / JPY: € 760 K; EUR / CAD: € –1,254 K. If the euro had been revalued (devalued) by 10% against all currencies as of 31 December 2012, the results and fair value of the forward exchange contracts would have been € 19 K lower (higher) (31 December 2011: € 6,858 K lower (higher). A hypothetical impact on profit or loss ensues, in individual cases, from the currency sensitivities EUR / USD: € –954 K; EUR / JPY € 1,677 K; EUR / CAD: € –708 K; EUR / CHF: € 4 K.

The following tables show the transactionrelated net currency risk in € K for the most important currencies as at 31 December 2012 and 2011:

Currency	31 Dec. 2012 USD € K	31 Dec. 2012 JPY € K	31 Dec. 2012 CAD € K	31 Dec. 2011 USD € K	31 Dec. 2011 JPY € K	31 Dec. 2011 CAD € K
Currency risk from balance sheet items	16,487	3,088	705	16,069	6,639	727
Currency risk from pending transactions	34,952	0	9,910	28,882	0	5,288
Transaction-related currency items	51,439	3,088	10,615	44,951	6,639	6,015
Financially hedged item through derivatives	– 45,455	– 2,506	– 9,669	– 43,729	– 6,361	– 7,084
Open foreign currency item	5,984	582	946	1,222	278	– 1,069
Change in foreign currency item through a 10% revaluation of the euro	– 598	– 58	– 95	– 122	– 28	107

Interest rate risks

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

Interest hedging instruments in the form of swaps are generally used to eliminate the effects of future changes in interest rate on the cost of financing loans that are subject to a variable interest rate.

To hedge against future interest rate changes, GILDEMEISTER has concluded in 2008 interest rate swaps – originally serving to secure against interest changes from the borrower's notes. Interest rate swaps for a nominal total volume of € 140,000 K were concluded for a hedged interest rate of 4.98% to 5.02% with a term up to 29 May 2013. The interest rate swaps bind GILDEMEISTER to pay a fixed rate interest over the term and for the volume concluded. To offset this, GILDEMEISTER receives a EURIBOR 6-month rate payment from the contractual partner to the interest rate swap.

Furthermore, GILDEMEISTER has concluded a further interest rate swap for a nominal amount of € 60,000 K and a hedged interest rate of 4.79% with a term up to 29 May 2015. The interest rate swaps bind GILDEMEISTER to pay a fixed rate interest over the term and for the volume concluded. To offset this, GILDEMEISTER receives a EURIBOR 6-month rate payment from the contractual partner to the interest rate swap.

As a result of the discharge of the borrowers' notes in 2011 an effective hedge relationship does not exist. In the financial year, changes in values of the interest rate swaps were therefore recognised in the income statement as "other financial expenses", amounting to € 3,898 K (previous year: € –13,769 K). We plan to hold the interest rate swaps until their maturity date in order to avoid onetime payments for their dissolution.

If the interest rate at 31 December 2012 had been 1% lower, the fair value of the interest rate swap would have been unchanged due to the interest curve (previous year: € 3,353 K lower). If the interest rate at 31 December 2012 had been 1% higher, the fair value of the interest rate swap would have been € 1,269 K higher (previous year: € 3,222 K).

For financial instruments with a variable rate of interest – mainly this refers to the syndicated loan of € 450.0 million – the interest rate risk will be measured with the aid of cash flow sensitivity. Based on the financial instruments with a variable interest rate, existing interest hedges with a nominal value of € 200,000 K have been deducted. As of 31 December 2012 GILDEMEISTER had no net deficit, so that interest rate increases would present an opportunity to higher interest yield. A 1% increase in interest rates pertaining to the portfolio at the end of the reporting period would result in an increase in interest yield of € 2.1 million (previous year: interest expense of € 1.7 million).

Within the scope of adapting the existing financing agreement, interest margins have significantly improved and now bear interest at 1 to 6-month EURIBOR plus margin.

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

Liquidity risks

The liquidity risk is the risk that GILDEMEISTER may not be able to meet its financial obligations. Cash outflows result primarily from financing working capital, capital investments and covering the financial requirements of sales financing. The management is informed regularly of the cash inflows and outflows as well as of financing sources. The liquidity risk is limited by creating the necessary financial flexibility within the scope of the existing financing and through effective cash management. Liquidity risk at GILDEMEISTER is governed by financial planning over 12 months. This makes it possible to finance predictable deficits under normal market conditions at standard market terms. On the basis of the current liquidity planning, no liquidity risks are identifiable at present. As a liquidity precaution, there is a syndicated loan facility of € 450.0 million with various banks as well as bilateral standby credits of € 32.8 million (previous year: € 46.7 million). Loan facilities have not been cancelled either in the financial year 2012 or in the previous year. The financing agreements for the syndicated loan bind GILDEMEISTER to adhere covenants which are usual for the market. All covenants were complied with as at 31 December 2012.

As at 31 December 2012, GILDEMEISTER had cash and cash equivalents totalling € 173.3 million (previous year: € 105.2 million), open cash lines in an amount of

€ 226.3 million (previous year: € 222.0 million) and further open lines (guaranteed bills outstanding, bills of exchange and factoring) totalling € 238.3 million (previous year: € 207.0 million) available to it.

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

			Cashflows 2013		Cashflows 2014 – 2016		Cashflows 2017 et seq.
	Book value 31 Dec. 2012	Interest	Repay-ment	Interest	Repay-ment	Interest	Repay-ment
	€ K	€ K	€ K	€ K	€ K	€ K	€ K
Liabilities to banks	6,473	147	3,988	316	940	499	1,545
Liabilities arising from leases	2,751	104	1,091	115	1,660	0	0
Discounted customers' bills	5,796	0	5,108	0	688	0	0
Other financial liabilities	360,605	16	360,146	22	320	81	139
Subtotal	375,625	267	370,333	453	3,608	580	1,684
Liabilities from derivatives	11,389	0	5,014	0	6,375	0	0
	387,014	**267**	**375,347**	**453**	**9,983**	**580**	**1,684**

This includes all instruments that were held as of 31 December 2012 and 31 December 2011, respectively, and for which payments have been contractually agreed. Forecast figures for future new liabilities have not been included. Amounts in foreign currencies were translated at the exchange rate at the close of the reporting period. The variable interest payments for financial instruments were determined on the basis of the last fixed interest rate before 31 December 2012 and 31 December 2011, respectively. Financial liabilities that can be repaid at any time are always allocated to the earliest possible date. It can be assumed that for the part of financial assets from derivatives (€ 919 K) as well as the part of the liabilities resulting from derivatives (€ 283 K) classified as cashflow hedges, that these will be recognised in the income statement in the next twelve months.

			Cashflows 2012		Cashflows 2013 – 2015		Cashflows 2016 et seq.
	Book value 31 Dec. 2011	Interest	Repay-ment	Interest	Repay-ment	Interest	Repay-ment
	€ K	€ K	€ K	€ K	€ K	€ K	€ K
Liabilities to banks	24,726	455	12,390	378	2,853	587	9,483
Liabilities arising from leases	3,614	184	1,166	212	2,380	5	68
Discounted customers' bills	9,272	0	7,102	0	2,170	0	0
Other financial liabilities	297,712	18	296,530	38	1,033	91	149
Subtotal	**335,324**	**657**	**317,188**	**628**	**8,436**	**683**	**9,700**
Liabilities from derivatives	19,274	0	6,030	0	13,244	0	0
	354,598	**657**	**323,218**	**628**	**21,680**	**683**	**9,700**

Credit Risks

A credit risk is the unexpected loss of payment funds or income. This occurs if the customer is not able to meet his obligations within the due time. Receivables management with worldwide applicable guidelines and regular analysis of the age structure of trade receivables ensures the continuous monitoring and limiting of risks and, in this way, minimises losses from receivables. Due to the diversified business structure within the GILDEMEISTER Group, there are no special concentrations of credit risks, neither with respect to customers nor for individual countries. The GILDEMEISTER Group as a rule is exposed to factoring default risks which may cause impairments or in individual cases even factoring default. The group's bad debt losses have historically been approx. 1% of receivables. In the financial year, expenses for the complete write down of receivables totalled € 1,815 K (previous year: € 1,862 K). Further details on the estimate of financial risks can be found in the Opportunities and Risks chapter of the Group Management Report.

Within the scope of cash deposits, financial contracts are only concluded with the federal bank and banks that we have carefully chosen and continuously monitored. 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 to the agreement. This credit risk is minimised by only entering into transactions with parties of first-class financial creditworthiness. Pursuant to IFRS 7.36 the carrying amount of the financial assets represents the maximum credit risk. From the following table, a maximum credit risk arises of € 513,409 K as of the close of the reporting period (previous year: € 453,735 K):

	31 Dec. 2012 € K	31 Dec. 2011 € K
Financial assets held for sale	40,587	53,545
Loans and receivables	291,249	286,437
Financial assets held to maturity	6,540	6,540
Cash and cash equivalents	173,328	105,151
Derivative financial assets		
Derivatives without hedge relation	785	1,681
Derivatives with hedge relation	920	381
	513,409	**453,735**

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

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

		Valuation in accordance to IAS 39					
				Fair value			
	Carrying amount 31 Dec. 2012	Amortised cost	Acquisition cost	recognised in equity	through profit or loss	**Valuation in accordance to IAS 17**	**Fair value at 31 Dec. 2012**
	€ K	€ K	€ K	€ K	€ K	€ K	**€ K**
Assets							
Financial assets	40,587	0		40,587		–	40,587
Cash and cash equivalents	173,328	173,328				–	173,328
Trade receivables	228,565	228,565				–	228,565
Other receivables	62,684	62,684				–	62,684
Other original financial assets in the category							
Held to maturity	6,540				6,540	–	6,540
Derivative financial assets							
Derivatives without hedge relation	785				785	–	785
Derivatives with hedge relation	920			920		–	920
Equity and liabilities							
Liabilities to banks	6,473	6,473				–	6,473
Discounted customer bills of exchange	5,796	5,796				–	5,796
Trade payables	329,628	329,628				–	329,628
Liabilities from finance lease arrangements	2,751	2,751				2,751	2,751
Other liabilities	20,067	20,067				–	20,067
Derivative financial liabilities							
Derivatives without hedge relation	11,107				11,107	–	11,107
Derivatives with hedge relation	282			282		–	282
Of which aggregated in measurement categories acc. to IAS 39							
Loans and receivables	291,249	291,249					291,249
Assets in the category							
held-to-maturity	6,540				6,540		6,540
available for sale	40,587			40,587			40,587
held for trading purposes	785				785		785
Liabilities in the category							
measured at amortised cost	364,715	364,715					364,715
held for trading purposes	11,107				11,107		11,107

	Carrying amount 31 Dec. 2011	Valuation in accordance to IAS 39: Amortised cost	Acquisition cost	Fair value recognised in equity	Fair value through profit or loss	Valuation in accordance to IAS 17	Fair value at 31 Dec. 2011
	€ K	€ K	€ K	€ K	€ K	€ K	€ K
	53,545	11,622		41,923		–	41,923
	105,151	105,151				–	105,151
	215,202	215,202				–	215,202
	71,235	71,235				–	71,235
	6,540				6,540	–	6,540
	1,681				1,681	–	1,681
	381			381		–	381
	24,726	24,726				–	24,726
	9,272	9,272				–	9,272
	268,154	268,154				–	268,154
	3,614	3,614				3,614	3,614
	17,619	17,619				–	17,619
	15,568				15,568	–	15,568
	3,706			3,706		–	3,706
	391,588	391,588					391,588
	6,540				6,540		6,540
	53,545	11,622		41,923			41,923
	1,681				1,681		1,681
	323,385	323,385					323,385
	15,568				15,568		15,568

For financial instruments that have to be accounted at fair value the current values are generally calculated on the basis of stock market quotations. Insofar as stock market prices are not available, measurement is carried out applying standard economic methods (measurement methods), taking instrumentspecific market parameters as a basis.

Fair value assessment is carried out by means of the discounted cash flow method, where the individual creditstandings and other market circumstances in the form of standard market creditstandings or liquidity spreads are taken into account in the cash value assessment.

Financial assets are measured at fair value or acquisition cost (if necessary taking impairments into account).

For loans and receivables, which are measured at amortised acquisition costs, there is no liquid market. For short-term loans and receivables, it is assumed that the fair value corresponds to the carrying amount. All other loans and receivables are assessed at fair value through the deduction of accrued interest on future expected cash flows. In this, interest rates are used for credits, for which credits with a corresponding risk structure, original currency and term have been reconcluded.

Trade payables and other short-term financial liabilities in general have a term of less than one year, so that the carrying amount corresponds approximately to the fair value.

For the liabilities to banks and other long-term liabilities, the fair values are cash values of the payments related to the liabilities taking market standard interest rates as the basis.

Fair Value Hierarchy

As of 31 December 2012, the financial assets and liabilities presented in the following table and measured at fair value through profit and loss were held.

Determining and the classification of fair value of financial instruments is based on a fair value hierarchy, which takes into account the significance of the input data used in the measurement and follows the following stages:

Stage 1: Prices listed on active markets (taken over unchanged) for identical assets and liabilities.

Stage 2: for assets or liabilities which are not represented by any listed price in accordance with Stage 1, either direct (as the price) or indirect (derived from price) observable input data.

Stage 3: input data applied that is not based on observable market data for the measurement of assets and liabilities (nonobservable input data).

	31 Dec. 2012			31 Dec. 2011		
	€ K	€ K	€ K	€ K	€ K	€ K
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Financial assets						
Measured at fair value						
Other financial assets (not affecting net income)		0	6,540		0	6,540
Derivative financial instruments with hedge relation (not affecting net income)		920			381	
Derivative financial instruments without hedge relation (affecting net income)		785			1,681	
Financial liabilities						
Measured at fair value						
Other financial liabilities		0			0	
Derivative financial instruments with hedge relation (not affecting net income)		282			3,706	
Derivative financial instruments without hedge relation (affecting net income)		11,107			15,568	

In the financial year there was no reclassification between Stages 1 and 2 in the measurement of fair value and there was no reclassification in or out of Stage 3 with respect to the measurement of fair value. For other financial assets in Stage 3, there were no changes in value. The other financial assets resulted from the acquisition of purchase options amounting to € 6,540 K (previous year: € 6,540 K).

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

	From interest € K	Subsequent measuring At fair value € K	Foreign currency translation € K	Value adjust-ment € K	Disposal € K	2012 € K
Loans and receivables	– 520	0	– 1,804	– 5,426	98	– 7,652
Assets in the category						
Held to maturity	0	0	0	0	0	0
Available for sale	0	0	0	0	0	0
Held for trading purposes	0	– 896	0	0	0	– 896
Liabilities in the category						
Measured at amortised cost	– 4,217	– 1,203	577	0	0	– 4,843
Held for trading purposes	– 7,656	4,461	0	0	0	– 3,195
Total	**– 12,393**	**2,362**	**– 1,227**	**– 5,426**	**98**	**– 16,586**

	From interest € K	Subsequent measuring At fair value € K	Foreign currency translation € K	Value adjust-ment € K	Disposal € K	2011 € K
Loans and receivables	– 1,298	0	– 993	– 3,542	– 150	– 5,983
Assets in the category						
Held to maturity	0	0	0	0	0	0
Available for sale	0	0	0	0	0	0
Held for trading purposes	0	1,681	0	0	0	1,681
Liabilities in the category						
Measured at amortised cost	– 23,998	– 6,625	2,495	0	288	– 27,840
Held for trading purposes	0	– 15,568	0	0	0	– 15,568
Total	**– 25,296**	**– 20,512**	**1,502**	**– 3,542**	**138**	**– 47,710**

Interest from financial instruments is recognised in interest results. Value adjustments on trade receivables are recognised in other operating expenses. Interest results from financial liabilities in the valuation category "liabilities at amortised cost" result essentially from interest expenses and for liabilities to banks and in 2011 for the borrower's notes.

Notes on the Cash Flow Statement

39 CASH FLOW STATEMENTS

The statement of cash flows pursuant to IAS 7 "Statement of Cash Flows" records the payment flow in a financial year and represents the inflow and outflow of the company's liquid funds. The payment flow is distinguished between cash flow from current operations and cash flow from investment and financing activity.

Cash and cash equivalents include, in addition to liquid funds in the narrowest sense, cheques, cash in hand and money on account at banks, as well as shortterm financial investments that can be converted to cash amounts at any time and are only subject to immaterial fluctuations in value. Cash and cash equivalents are measured at amortised cost.

The cash flow from current operations was calculated by the indirect method through adjusting the earnings before tax by changes in inventories, trade receivables and payables, non-cash items and all other items showing cash flows in the investment or financing areas.

The cash flows from investment and financing activities were each calculated in terms of actual sums paid. Effects from foreign currency translation and changes in the consolidated group are adjusted accordingly. Investment transactions for finance lease agreements that did not lead to a change in the means of payment did not occur in the financial year 2012 nor in the previous year. As a part of GILDEMEISTER's takeover of Mori Seiki's European sales and service companies, cash or cash equivalents amounting to € 6,646 K were taken over and recognised in cash flow from investment activities. Detailed notes on the assets and liabilities taken over and on the purchase price are presented in the chapter business combinations. A purchase price was not paid.

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Business combinations

Payments arising from changes in ownership interests in subsidiaries amounting to € 4,740 K result from the acquisition of shares in Cellstrom GmbH, Vienna. The purchase costs amounted to € 6,500 K in total.

The deposit arising from changes in ownership interests in subsidiaries in the previous year in the amount of € 7,919 K result from the sale of 49.0% of the shares of DMG Europe Holding GmbH to DMG Mori Seiki South East Asia Pte. Ltd., Singapore.

The joint ventures were accounted for at equity and thus have no influence on the cash flows.

40 EXPLANATORY NOTES ON THE SEGMENTS

Notes on Segmental Reporting

Within the scope of segment reporting, pursuant to the IFRS 8 regulations, the business activities of the GILDEMEISTER Group are categorised into the business segments of "Machine Tools", "Industrial Services" and "Corporate Services". Decisive in the differentiation between the business segments is the information that the socalled "chief decisionmaker" is regularly provided with for the purposes of decisionmaking on the allocation of resources and the evaluation of profitability. The segment differentiation follows internal management and reporting on the basis of the different products and services. The key performance indicators for evaluating profitability of each business segment are the sales revenues and EBT.

A tabular presentation as part of the notes can be found on page 142 et seq.

The **"Machine Tools"** segment covers the group's new machines business and consists of the business areas Turning, Milling, Ultrasonic / Lasertec, ECOLINE as well as Electronics. This includes the lathes and turning centres of

- GILDEMEISTER Drehmaschinen GmbH, Bielefeld,
- GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italy,
- GRAZIANO Tortona S.r.l., Tortona, Italy,
- FAMOT Pleszew Sp. z o.o., Pleszew, Poland,
- DMG ECOLINE GmbH, Klaus, Austria,
- 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,
- DMG ECOLINE GmbH, Klaus, Austria,
- DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China,

the ultrasonic and laser machines of

- SAUER GmbH, Idar-Oberstein / Kempten

and the products of

- DMG ELECTRONICS GmbH, Pfronten.

All machines produced are classified as cutting machine tools, and all business segments are highly concurrent with each other. GILDEMEISTER Beteiligungen GmbH, as the parent company of all production plants, is also part of this segment. Additionally, the group's uniform IT is concentrated here.

The "Industrial Services" segment comprises both the Services and Energy Solutions divisions.

The Services division, which covers all areas with its products and services, is directly related to machine tools. It includes the business activities of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld, and its subsidiaries.

All products and services provided by the Services division are geared towards machine tools: With the aid of the DMG / MORI SEIKI LifeCycle Products, the productivity of our customers' machine tools are optimised over the entire life cycle – from their installation until part exchange as used machines. This also includes advisory and brokering services. The wide range of training, repair and maintenance services offered, guarantees our customers maximum costeffectiveness for their DMG and Mori machine tools. In the reporting year we created an area wide structure by the integration of the European sales and service companies. Our unique extensive network of highlytrained service technicians ensures the quick and long-term availability of machine tools. With its ultramodern service centre in Geretsried, near Munich, as well as several branches in Asia and America, DMG Spare Parts ensures that anywhere in the world, DMG and Mori Seiki spare parts are available within 24 hours to an extent of more than 95%. Thus we have more than 70,000 spare parts and 1,000 spindles available for dispatch to our customers. DMG / MORI SEIKI LifeCycle Products as well as the software solutions of DMG Power Tools, DMG MICROSET tool management and automation solutions from DMG AUTOMATION, enable the user to set up processes for machining work pieces safely and quickly, and thus cost-effectively. Another area is key accounting to serve
major international customers, which is concentrated for all products and areas.

The "Energy Solutions" division includes the business activities of a+f GmbH and the companies responsible for sales, service and production in Italy, Spain, Austria and India. It includes the four business sectors, Components, SunCarrier, Cellstrom and Service. The area was directed towards industrial customers and investors with an optimised product and service portfolio and a greater focus on new markets, industrial customers and investors. In the reporting year, we have placed our focus on opening up new markets. Cellstrom GmbH offers products for storing energy. The longlasting and low maintenance "CellCube" largescale battery offers a variety of deployment possibilities.

In the "Components" area, GILDEMEISTER specialises in the production and marketing of cast iron and steel components, in particular for mechanical engineering and wind power plants.

The "Corporate Services" segment primarily comprises the GILDEMEISTER Aktiengesellschaft with its group wide holding functions. Central functions have been assigned to GILDEMEISTER Aktiengesellschaft such as group strategy, development and purchasing coordination, management of overall projects in the production and logistics areas, financing, corporate controlling and corporate personnel management. The holding functions across the group result in expense and sales revenues.

41 EXPLANATORY NOTES ON SEGMENT DATA

The definition of terms used in individual segment information is in line with the management principle for the valueoriented corporate management of the GILDEMEISTER Group. Segment data is generally based on the same accounting and valuation methods as form the basis for the Consolidated Financial Statements.

Segmental assets include all assets tied up in the operative business including shares, goodwill and prepaid expenses; it does not include income tax claims. To evaluate the profitability of the segments, sales revenues from the "Machine Tools" segment are reclassified to the "Industrial Services" segment. Sales between the segments are made at standard market transfer prices.

Pursuant to IFRS 3 "Business Combinations", existing goodwill was allocated to the segments as follows: goodwill is attributed to the "Machine Tools" segment amounting to € 39,072 K (previous year: € 39,072 K), to the "Industrial Services" segment in the amount of € 80,449 K (previous year: € 43,945 K), and to the "Corporate Services" segment amounting to € 0 K (previous year: € 0 K). No impairment of goodwill was recorded for the financial year.

Investments include the additions to tangible fixed assets and intangible assets, to property, plant and equipment and additions to financial assets.

Intrasegment sales revenues show the sales revenues that have been made between the segments. The settlement prices of intragroup sales revenues are determined in line with the market (arm's length principle).

Depreciation relates to segmental fixed assets.

The EBT of the "Machine Tools" segment includes income from the reversal of provisions in the financial year of € 5,323 K (previous year: € 7,010 K). In the previous year € 5,000 K for licensing were included. The EBT of the "Services" segment includes income from the reversal of provisions in the financial year of € 10,433 K (previous year: € 4,408 K). Electricity yielded from solar parks were recognised in the amount of € 6,706 K (previous year: € 0 K) as sales revenues.

In the financial year noncash expenses were included in the "Corporate Services" segment due to the scheduled amortisation of transaction costs of financial instruments in an amount of € 838 K (previous year: € 4,303 K). No significant non-cash expenses were incurred in the two other segments.

In financial year 2012 and in the previous year, no transactions were carried out with any one customer that were more than 10% of the sales revenues of the GILDEMEISTER Group.

The "Transition" column represents the elimination of intragroup receivables and liabilities, income and expenses, as well as the elimination of intermediate results between the segments.

The information on geographical areas is based on the registered office of the group companies and is broken down into regions comprising Germany, the rest of Europe, North America, Asia and the rest of the world, which includes Mexico and Brazil. The data is determined on the basis of geographical subgroups.

Long-term assets arise mainly out of tangible assets; they do not include financial instruments or deferred tax claims.

Other explanatory notes

42 AUDITOR'S FEES AND SERVICES

The fees and charges recognised as expense in financial year 2012 for the auditors of the consolidated financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, amount to € 961 K (previous year: € 890 K) for fees and charges for the annual audit, € 22 K (previous year: € 375 K) for other assurance services, € 289 K for tax consultancy services (previous year: € 0 K) and € 791 K (previous year: € 413 K) for other services.

43 EVENTS OCCURRING AFTER THE CLOSE OF THE REPORTING PERIOD

In the Supervisory Board meeting of 12 March 2013 the Supervisory Board appointed Dr. Maurice Eschweiler as deputy member of the Executive Board of GILDEMEISTER Aktiengesellschaft effective as of 1 April 2013. There were no other significant events after the close of the reporting period. No other material events occured until the date of submission to the Supervisory Board on 25 February 2013.

44 INFORMATION ON RELATIONS WITH RELATED COMPANIES AND PEOPLE

Related people and companies within the meaning of IAS 24 "Related Party Disclosures" are, in principle, members of the Executive Board and of the Supervisory Board, close members of their families and subsidiaries that are not fully consolidated. Related parties were not party to any significant transaction or any transaction of unusual nature or structure with companies of the GILDEMEISTER Group. All transactions between affiliated companies are carried out under normal market conditions, as if with external third parties.

Related parties to the GILDEMEISTER Group are all companies which belong to the group of consolidated companies of Mori Seiki Co. Ltd., Nagoya, as well as DMG / Mori Seiki Australia Pty. Ltd., MG Finance GmbH and Sun Carrier OMEGA PVT. LTD.

Detailed statements regarding the remuneration of executive and supervisory board members are found in the remuneration report on pages 78 et seq and in the annual report.

Provisions for doubtful debts in connection with outstanding balances amounted to € 187 K (previous year: € 313 K) in the financial year. In financial year 2012, expenses for uncollectible or doubtful debts against related companies and people in the amount of € 254 K (previous year: € 162 K) were recognised.

In the previous year, trade receivables of other related companies included revenue from licensing agreements amounting to € 5,000 K.

Moreover, acquisition costs for licenses from other affiliated companies amounted to € 9,952 K in the previous year. They are capitalized as industrial property rights and similar rights and are depreciated over a fiveyear period from the time of their utilisation using the straightline method.

The following transactions were carried out with related party companies:

SALE OF GOODS	2012 € K	2011 € K
Associates	69,248	31,830
Joint ventures	5,911	4,060
Other related companies	44,321	19,614

PURCHASE OF GOODS	2012 € K	2011 € K
Associates	1,008	120
Joint ventures	14	169
Other related companies	63,961	21,596

The disclosure of receivables and liabilities against related companies is shown under the corresponding explanations of the financial position items.

45 DUTY OF NOTIFICATION PURSUANT TO SECTION § 26 WPHG

Mori Seiki International S.A. Le Locle, Switzerland, has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WPHG) by letter of 12 March 2012 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, fell below the threshold of 3% on 9 March 2012 and as of that date now amounts to 0% of the voting rights (0 voting rights).

BlackRock, Inc., New York (NY), USA has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WPHG) by letter of 01 October 2012 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, exceeded the threshold of 3%, on 25 September 2012 and as of that date now amounts to 3.08% of the voting rights (1,853,099 shares). The assignment of the voting rights is carried out according to Section 22 (1) (1) (6) in connection with (2) of WPHG.

BlackRock Holdco 2, Inc., Wilmington (DE), USA, has notified us pursuant to Section 21 (1) by letter of 01 October 2012 that its share of the voting rights in our company exceeded the threshold of 3%, on 25 September 2012 and as of that date now amounts to 3.08% of the voting rights (1,852,135 shares). The assignment of the voting rights is carried out according to Section 22 (1) (1) (6) in connection with (2) of WPHG.

BlackRock Financial Management, Inc., New York (NY), USA has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WPHG) by letter of 01 October 2012 that its share of the voting rights in our company exceeded the threshold of 3%, on 25 September 2012 and as of that date now amounts to 3.08% of the voting rights (1,852,135 shares). The assignment of the voting rights is carried out according to Section 22 (1) (1) (6) in connection with (2) of WPHG.

BlackRock, Inc., New York (NY), USA has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WPHG) by letter of 06 December 2012 that its share of the voting rights in GILDEMEISTER Aktiengesellschaft, Gildemeisterstrasse 60, 33689 Bielefeld, Germany, went below the threshold of 3%, on 30 November 2012 and as of that date now amounts to 2.995% of the voting rights (1,802,176 shares). The assignment of these voting rights to the company is carried out according to Section 22 (1) (1) (6) in connection with (2) of WPHG.

BlackRock Holdco 2, Inc., Wilmington (DE), USA, has notified us pursuant to Section 21 (1) by letter of 06 December 2012 that its share of the voting rights in our company went below the threshold of 3%, on 30 November 2012 and as of that date now amounts to 2.99% of the voting rights (1,801,212 shares). The assignment of these voting rights to the company is carried out according to Section 22 (1) (1) (6) in connection with (2) of WPHG.

BlackRock Financial Management, Inc., New York (NY), USA has notified us pursuant to Section 21 (1) of the German Securities Trading Act (WPHG) by letter of 06 December 2012 that its share of the voting rights in our company went below the threshold of 3%, on 30 November 2012 and as of that date now amounts to 2.99% of the voting rights (1,801,212 shares). The assignment of these voting rights to the company is carried out according to Section 22 (1) (1) (6) in connection with (2) of WPHG.

46 CORPORATE GOVERNANCE

The declaration of conformity in accordance with Section 161 of the German Stock Corporation Act (AktG) and the Corporate Governance Report was made in December 2012 and has been made permanently accessible on our website at www.gildemeister.com.

GILDEMEISTER Group Companies

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES, PROCUREMENT / COMPONENTS	National currency	Equity [1]	€ K	Participation quota in %
Subsidiaries (fully consolidated companies)				
GILDEMEISTER Beteiligungen GmbH, Bielefeld [2/5]			240,416	100.0
DECKEL MAHO Pfronten GmbH, Pfronten [4/6/7]			47,922	100.0
SAUER GmbH, Stipshausen / Idar-Oberstein [4/8/9]			7,455	100.0
Alpenhotel Krone GmbH & Co. KG, Pfronten [4/8]			73	100.0
Alpenhotel Krone Beteiligungsgesellschaft mbH, Pfronten [4/8]			27	100.0
DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China [6]	CNY K	78,933	9,602	100.0
FAMOT Pleszew Sp. z o.o., Pleszew, Poland [6]	PLN K	158,343	38,867	100.0
GILDEMEISTER Drehmaschinen GmbH, Bielefeld [4/6/7]			15,750	100.0
GILDEMEISTER Partecipazioni S.r.l., Tortona, Italy [6]			63,736	100.0
GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italy [3]			38,259	100.0
GRAZIANO Tortona S.r.l., Tortona, Italy [3]			18,648	100.0
DMG Service Drehen Italia S.r.l., Brembate di Sopra (Bergamo), Italy [3]			580	100.0
DMG Italia S.r.l., Brembate di Sopra, Italy [3]			14,104	100.0
a+f Italia S.r.l., Milan, Italy [3]			817	100.0
MASSERIA MARAMONTI S.r.l., Milan, Italy [21]			12	100.0
Agridaunia S.r.l., Milan, Italy [21]			11	100.0
Capitanata Rurale S.r.l., Milan, Italy [21]			11	100.0
La Daunia Gialla S.r.l., Milan, Italy [21]			11	100.0
La Terra del Sole S.r.l., Milan, Italy [21]			12	100.0
Terra Mia S.r.l., Milan, Italy [21]			11	100.0
Energia Solare S.r.l., Milan, Italy [21]			13	100.0
Le Fonti Rinnovabili S.r.l., Milan, Italy [21]			12	100.0
Solar Energy S.r.l., Milan, Italy [21]			11	100.0
DECKEL MAHO Seebach GmbH, Seebach [4/6/7]			30,363	100.0
DMG Automation GmbH, Hüfingen [4/5/6/7]			1,486	100.0
DMG Electronics GmbH, Pfronten [4/6/7]			500	100.0
DMG Spare Parts GmbH, Geretsried [4/5/6/7]			19,000	100.0
Ulyanovsk Machine Tools OOO, Ulyanovsk, Russia [6]	RUB K	– 868	– 22	100.0
MITIS Grundstücks-Vermietungs Gesellschaft mbH & Co. Objekt Bielefeld KG, Bielefeld [4]			2	100.0
MITIS Grundstücks-Vermietungs Gesellschaft mbH, Bielefeld [4]			83	100.0
DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [2/4/5]			152,663	100.0
DMG MORI SEIKI Deutschland GmbH, Leonberg [4/5/10/11]			45,000	100.0
DMG MORI SEIKI München Vertriebs und Service GmbH, Munich [4/5/12/13]			929	100.0
DMG MORI SEIKI Hilden Vertriebs und Service GmbH, Hilden [4/5/12/13]			935	100.0

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES, PROCUREMENT / COMPONENTS	National currency	Equity [1]	€ K	Participation quota in %
DMG MORI SEIKI Bielefeld Vertriebs und Service GmbH, Bielefeld [4/5/12/13]			957	100.0
DMG MORI SEIKI Berlin Vertriebs und Service GmbH, Berlin [4/5/11/12]			301	100.0
DMG MORI SEIKI Frankfurt Vertriebs und Service GmbH, Bad Homburg [4/5/12/13]			610	100.0
DMG MORI SEIKI Hamburg Vertriebs und Service GmbH, Hamburg [4/5/12/13]			200	100.0
DMG MORI SEIKI Stuttgart Vertriebs und Service GmbH, Leonberg [4/5/12/13]			4,299	100.0
DMG MORI SEIKI Services GmbH, Bielefeld [4/5/10/11]			1,000	100.0
DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [4/5/10/11]			1,508	100.0
DMG Service Fräsen GmbH, Pfronten [4/5/10/11]			2,730	100.0
DMG Gebrauchtmaschinen GmbH DECKEL MAHO GILDEMEISTER, Geretsried [4/5/10/11]			17,517	100.0
DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [4/5/10/11]			271	100.0
DMG MICROSET GmbH, Bielefeld [4/5/10/11]			1,405	100.0
a+f GmbH, Würzburg [4/5/10/11]			52,100	100.0
Cellstrom GmbH, Vienna, Austria [17]			1,291	100.0
AF Sun Carrier Iberíca S.L., Madrid, Spain [17]			26	100.0
Green Energy Babice s.r.o., Babice, Czech Republic [17]	CZK K	– 22,543	– 896	100.0
Karina Solar S.r.l., Milan, Italy [17]			168	100.0
Leonie Solar S.r.l., Milan, Italy [17]			189	100.0
Simon Solar S.r.l., Milan, Italy [17]			684	100.0
Vincent Solar S.r.l., Milan, Italy [17]			106	100.0
Rena Energy S.r.l., Milan, Italy [17]			582	100.0
Winch Puglia Foggia S.r.l., Milan, Italy [17]			754	100.0
Cucinella S.r.l., Milan, Italy [17]			161	100.0
Solar Power Puglia S.r.l., Bolzano, Italy [17]			11	100.0
DMG Netherlands B.V., Veenendaal, Netherlands [10]			156,625	100.0
DMG Holding AG, Dübendorf, Switzerland [20]	CHF K	133,602	110,671	100.0
DMG Europe Holding AG, Dübendorf, Switzerland [19]	CHF K	264,848	219,390	60.0
DMG Mori Seiki Europe AG, Dübendorf, Switzerland [19]	CHF K	100	83	100.0
DMG / Mori Seiki Austria International GmbH, Klaus, Austria [21]			1,022	100.0
DMG / Mori Seiki Austria GmbH, Klaus, Austria [22]			3,367	100.0
DMG / MORI SEIKI Benelux B.V., Veenendaal, Netherlands [21]			3,272	100.0
DMG – MORI SEIKI Benelux BVBA – SPRL., Zaventem, Belgium [21]			1,428	100.0
DMG Mori Seiki Denmark ApS, Kopenhagen, Denmark [21]	DKK K	4,984	668	100.0
DMG MORI SEIKI France SAS, Paris, France [21]			8,001	100.0
DMG MORI SEIKI Czech s.r.o., Brno, Czech Republic [21]	CZK K	52,675	2,094	100.0

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES, PROCUREMENT / COMPONENTS	National currency	Equity [1]	€ K	Participation quota in %
DMG / MORI SEIKI Polska Sp. z o.o., Pleszew, Poland [21]	PLN K	17,320	4,251	100.0
DMG Mori Seiki Schweiz AG, Dübendorf, Switzerland [21]	CHF K	9,677	8,016	100.0
DMG MORI SEIKI Romania Sales & Services S.r.l., Bukarest, Rumania [20]	RON K	8,232	1,852	100.0
DMG / Mori Seiki South East Europe E.P.E., Thessaloniki, Greece [21]			177	100.0
DMG Mori Seiki UK Ltd., Luton, Great Britain [21]	GBP K	14,031	17,193	100.0
Mori Seiki UK Ltd., Coventry, Great Britain [21]	GBP K	3,556	4,357	100.0
DMG MORI SEIKI Middle East FZE, Dubai, United Arab Emirates [21]	AED K	1,316	272	100.0
DMG MORI SEIKI IBERICA S.L.U., Ripollet, Spain [21]			6,630	100.0
DMG MORI SEIKI Italia S.r.l., Milan, Italy [21]			28,253	100.0
DMG Mori Seiki Sweden AB, Göteborg, Sweden [21]	SEK K	56,056	6,532	100.0
DMG / MORI SEIKI Hungary Kereskedelmi és Szeviz Korlatolt Felelösségü Tarasag, Budapest, Hungary [21]			2,107	100.0
DMG Scandinavia Norge AS, Langhus, Norway [21]	NOK K	8,181	1,113	100.0
DMG Europe Holding GmbH, Klaus, Austria [20]			98,732	100.0
DMG Mori Seiki South East Asia Pte. Ltd., Singapore [14]	SGD K	25,079	15,566	51.0
DMG (Thailand) Co. Ltd., Bangkok, Thailand [15]	THB K	1,967	49	100.0
DMG Mori Seiki (Malaysia) SDN. BHD., Shan Alam / Selangor, Malaysia [15]	MYR K	11,155	2,765	100.0
DMG Mori Seiki (Vietnam) Co. Ltd., Vietnam [15]	VND K	13,341,522	485	100.0
DMG Canada Inc., Toronto, Canada [10]	CAD K	3,330	2,535	100.0
DMG Ecoline GmbH, Klaus, Austria [14]			3,321	100.0
DMG Technology Trading (Shanghai) Co. Ltd., Shanghai, China [10]	CNY K	75,644	9,202	100.0
DMG MORI SEIKI INDIA MACHINES AND SERVICES PRIVATE LIMITED, Bangalore, India [10]	INR K	662,675	9,148	51.0
DMG MORI SEIKI (Taiwan) Co. Ltd., Taichung, Taiwan [10]	TWD K	86,337	2,254	100.0
DMG MORI SEIKI Korea Co. Ltd., Sihung-Si / Gyeonggi-do, Korea [10]	KRW K	7,568,735	5,382	100.0
DMG America Inc., Itasca, USA [14]	USD K	40,144	30,426	100.0
DMG Los Angeles Inc., Los Angeles, USA [16]	USD K	333	252	100.0
DMG Mori Seiki México S.A. de C.V., Queretaro, Mexico [16]	MXN K	57,362	3,338	51.0
DECKEL MAHO GILDEMEISTER Brasil Ltda., Sao Paulo, Brazil [14]	BRL K	4,903	1,813	100.0

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES, PROCUREMENT / COMPONENTS	National currency	Equity [1]	€ K	Participation quota in %
DMG Asia Pte. Ltd., Singapore [14]			20,062	100.0
DMG Russland o.o.o., Moscow, Russia [14]	RUB K	171,356	4,249	100.0
DMG MORI SEIKI ISTANBUL MAKINE TICARET VE SERVIS LIMITED SIRKETI, Istanbul, Turkey [14]	TRY K	10,961	4,654	100.0
DMG Nippon K.K., Yokohama, Japan [14]	JPY K	266,728	2,348	100.0
DMG Egypt for Trading in Machines Manufactured LLC, Kairo, Egypt [14]	EGP K	200	24	100.0
Mori Seiki Egypt for Trading in Machines & Equipments LLC, Cairo, Egypt [14]	EGP K	200	24	100.0
Jointly-controlled entities (joint venture)				
DMG / Mori Seiki Australia PTY LTD, Clayton Victoria, Australia	AUD K	3,168	2,492	50.0
SUN CARRIER OMEGA Pvt. Ltd., Bhopal, India	INR K	60,000	828	50.0
Associates				
MG Finance GmbH, Wernau			17,830	33.0

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) Equity investment of GILDEMEISTER Partecipazioni S.r.l.
4) The domestic subsidiary has complied with the conditions required by Section 264 paragraph 3 HGB (German Commercial Code) regarding the application of the exemption regulations and therefore waives the disclosure of its annual financial statements and relating documents.
5) The domestic subsidiary has complied with the conditions required by Section 264 paragraph 3 HGB (German Commercial Code) regarding the application of the exemption regulations and therefore waives the preparation of a management report.
6) Equity investment of GILDEMEISTER Beteiligungen GmbH
7) Management and profit and loss transfer agreement with GILDEMEISTER Beteiligungen GmbH
8) Equity investment of DECKEL MAHO Pfronten GmbH
9) Management and profit and loss transfer agreement with DECKEL MAHO Pfronten GmbH
10) Equity investment of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
11) Management and profit and loss transfer agreement with DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
12) Equity investment of DMG MORI SEIKI Deutschland GmbH
13) Management and profit and loss transfer agreement with DMG MORI SEIKI DEUTSCHLAND GmbH
14) Equity investment of DMG Europe Holding GmbH
15) Equity investment of DMG Mori Seiki South East Asia Pte. Ltd.
16) Equity investment of DMG America Inc.
17) Equity investment of a+f GmbH
18) Equity investment of a+f Italia S.r.l.
19) Equity investment of DMG Holding AG
20) Equity investment of DMG Netherlands B.V.
21) Equity investment of DMG Mori Seiki Europe AG
22) Equity investment of DMG / Mori Seiki Austria International GmbH
23) Equity investment of DMG MORI SEIKI (UK) Limited

Corporate Directory

• Supervisory Board mandate pursuant to Section 100 AktG (German Companies Act)
* Member of comparable domestic and foreign control bodies of business enterprises

Supervisory Board

Hans Henning Offen,
Grosshansdorf, born 1940, Chairman,
Independent Industry Consultant,
* Schwarz Beteiligungs GmbH, Neckarsulm, member of the Advisory Board
* Schwarz Unternehmenstreuhand KG, Neckarsulm, extraordinary member of the Advisory Board

Günther-Johann Schachner,
Peiting, born 1952, Deputy Chairman,
1st secretary of the IG Metall Headquarters, Weilheim

Prof. Dr. Edgar Ernst,
Bonn, born 1952,
President of Deutsche Prüfstelle für Rechnungslegung DPR e.V.
• Deutsche Postbank AG, Bonn, member of the Supervisory Board
• Österreichische Post AG, Vienna, member of the Supervisory Board
• TUI AG, Hannover, member of the Supervisory Board,
• Wincor Nixdorf AG, Paderborn, member of the Supervisory Board,

Oliver Grabe,
Bielefeld, born 1964,
Production scheduler,
Member of the Works Council at GILDEMEISTER Drehmaschinen GmbH, Bielefeld
Member of the Group Works Council of GILDEMEISTER Aktiengesellschaft, Bielefeld

Dr.-Ing. Jürgen Harnisch,
Mühlheim an der Ruhr, born 1942,
Member of the Supervisory Board until 13 March 2012
Independent Industry Consultant,
* Kongsberg Automotive Holding ASA, Kongsberg, Norway, member of the Supervisory Board
* MacLean-Fogg Company, Mundelein, Illinois, USA, member of the Supervisory Board
* Presswerk Krefeld GmbH & Co. KG, Krefeld member of the Supervisory Board
• Schenck Process Holding GmbH, Darmstadt, member of the Supervisory Board

Ulrich Hocker,
Düsseldorf, born 1950,
President of Deutsche Schutzvereinigung für Wertpapierbesitz e. V.,
• Deutsche Telekom AG, Bonn, member of the Supervisory Board until 24 May 2012
• E.ON AG, Düsseldorf, member of the Supervisory Board until 15 Nov. 2012
• FERI Finance AG, Bad Homburg, deputy chairman of the Supervisory Board
* Phoenix Mecano AG, Kloten, Switzerland, President of the Administrative Board

Prof. Dr.-Ing. Raimund Klinkner,
Gräfelfing, born 1965, since 18 April 2012,
Managing partner, INSTITUTE FOR MANUFACTURING EXCELLENCE GmbH,
• Terex Corporation, Westport Conneticut, USA, Member of the Board of Directors

Mario Krainhöfner,
Pfronten, born 1964,
Chairman of the Group Works Council at GILDEMEISTER AG,
Chairman of the Works Council at DECKEL MAHO Pfronten GmbH

Dr. Constanze Kurz,
Frankfurt am Main, born 1961,
Political secretary of the Board of IG Metall, corporate and industry policy, Frankfurt am Main

Prof. Dr.-Ing. Walter Kunerth,
Zeitlarn, born 1940,
Independent Industry Consultant,
* Autoliv Inc., Stockholm, Sweden, member of the Board of Directors

Dr.-Ing. Masahiko Mori,
Nara, born 1961,
President of Mori Seiki Co. Ltd

Matthias Pfuhl,
Schmerbach, born 1960,
Chairman of the Works Council at
DECKEL MAHO Seebach GmbH

Norbert Zweng,
Eisenberg, born 1957,
Head of Logistics at DECKEL MAHO
Pfronten GmbH,
Senior Executives' representative

Executive Board

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

Dipl.-Kfm. Dr. Thorsten Schmidt,
Bielefeld,
Deputy Chairman since 23 Nov. 2012

Dipl.-Ing. Günter Bachmann,
Wutha-Farnroda

Dipl.-Kffr. Kathrin Dahnke,
Bielefeld

Dipl.-Kfm. Christian Thönes,
Bielefeld

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable accounting and reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Bielefeld, 12 March 2013
GILDEMEISTER Aktiengesellschaft
Executive Board

Dipl.-Kfm. Dr. Rüdiger Kapitza

Dipl.-Kfm. Dr. Thorsten Schmidt

Dipl.-Kffr. Kathrin Dahnke

Dipl.-Ing. Günter Bachmann

Dipl.-Kfm. Christian Thönes

Auditors' report

We have audited the consolidated financial statements prepared by GILDEMEISTER Aktiengesellschaft, comprising the consolidated income statement, the reconciliation to comprehensive income the consolidated balance sheet, the development to group equity, the consolidated cash flow statement and the notes to the consolidated financial statements, together with the group management report of GILDEMEISTER Aktiengesellschaft Bielefeld, for the business year from 1 January to 31 December 2012. The preparation of the consolidated financial statements and the group management report in accordance with the International Financial Reporting Standards (IFRSs), as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (HGB) are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW – Institute of Public Auditors in Germany). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of the audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements and group management report.

We believe that our audit provides a reasonable basis for our opinion. Our audit has not led to any reservations.

In our opinion based on the findings of our audit the consolidated financial statements comply with the IFRS, as adopted by the EU, the additional requirements of German commercial law pursuant to Section 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Berlin, 12 March 2013

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Tonne	Bröker
Auditor	Auditor

Group Overview
Multiple Year Overview

GILDEMEISTER GROUP		IFRS							Changes against previous year in %
		2006	2007	2008	2009	2010	2011	2012	
Sales revenues	**€ K**	**1,328,971**	**1,562,037**	**1,903,964**	**1,181,222**	**1,376,825**	**1,687,657**	**2,037,362**	**21**
Domestic	€ K	612,758	730,372	829,874	496,475	499,124	632,578	722,126	14
International	€ K	716,213	831,665	1,074,090	684,747	877,701	1,055,079	1,315,236	25
% International	%	54	53	56	58	64	63	65	3
Total work done	**€ K**	**1,330,116**	**1,599,601**	**1,954,856**	**1,143,645**	**1,373,542**	**1,743,556**	**2,055,065**	**18**
Cost of materials	€ K	698,153	833,948	1,066,296	559,783	768,148	952,693	1,129,323	19
Personnel costs	€ K	320,201	366,411	405,497	346,025	333,150	384,704	440,408	14
Depreciation	€ K	32,600	32,311	30,663	29,119	29,456	33,605	40,913	22
Financial result	€ K	−35,053	−42,458	−31,444	−24,733	−38,045	−46,076	−13,740	70
Earnings before taxes	**€ K**	**47,418**	**83,449**	**126,745**	**7,109**	**6,532**	**66,893**	**120,097**	**80**
Annual profit / loss	**€ K**	**27,100**	**50,137**	**81,119**	**4,706**	**4,300**	**45,539**	**82,359**	**81**
Adjusted results									
EBITDA	**€ K**	**115,071**	**158,218**	**188,852**	**60,961**	**74,436**	**146,102**	**173,828**	**19**
EBIT	**€ K**	**82,471**	**125,907**	**158,189**	**31,842**	**44,980**	**112,497**	**132,915**	**18**
EBT	**€ K**	**47,418**	**83,449**	**126,745**	**7,109**	**6,532**	**66,893**	**120,097**	**80**
Profit share of shareholders in GILDEMEISTER AG	**€ K**	**27,243**	**50,087**	**81,052**	**4,658**	**4,205**	**46,846**	**77,294**	**65**
Fixed assets	**€ K**	**265,420**	**285,262**	**301,330**	**326,024**	**365,339**	**403,925**	**500,697**	**24**
Intangible assets	€ K	97,387	100,057	99,368	100,149	112,757	132,354	184,598	
Tangible assets	€ K	167,850	184,848	201,606	197,354	201,807	218,025	263,174	
Financial assets	€ K	183	357	356	28,521	50,775	53,546	52,925	
Current assets incl, deferred tax and deferred income	**€ K**	**689,437**	**864,863**	**1,089,028**	**826,630**	**992,188**	**967,883**	**1,114,600**	**15**
Inventories	€ K	292,964	361,044	425,858	391,235	410,289	451,986	486,259	
Receivables incl, deferred tax assets + prepaid expenses	€ K	354,292	408,267	405,248	350,955	470,130	410,746	455,013	
Cash and cash equivalents	€ K	42,181	95,552	257,922	84,440	111,769	105,151	173,328	
Equity	**€ K**	**288,574**	**329,513**	**379,690**	**380,815**	**412,893**	**655,158**	**787,881**	**20**
Subscribed capital	€ K	112,587	112,587	112,587	118,513	118,513	151,744	151,744	
Capital provisions	€ K	68,319	68,319	68,319	80,113	80,113	257,177	257,177	
Revenue provisions	€ K	108,070	148,958	199,067	182,427	207,704	234,137	294,351	
Net retained profits / loss	€ K	0	0	0	0	0	0	0	
Minority interests' share of equity	**€ K**	**−402**	**−351**	**−283**	**−238**	**6,563**	**12,100**	**84,609**	**599**
Outside capital	**€ K**	**666,283**	**820,612**	**1,010,668**	**771,839**	**944,634**	**716,650**	**827,416**	**15**
Provisions	€ K	166,206	214,041	252,676	188,051	179,289	196,703	238,746	
Liabilities incl, deferred tax liabilities + deferred income	€ K	500,077	606,571	757,992	583,788	765,345	519,947	588,670	
Balance Sheet total	**€ K**	**954,857**	**1,150,125**	**1,390,358**	**1,152,654**	**1,357,527**	**1,371,808**	**1,615,297**	**18**
Employees (annual average)		5,202	5,588	6,051	5,763	5,187	5,576	6,149	10
Employees (31.12.)		5,367	5,772	6,191	5,197	5,232	5,810	6,267	8
Trainees		191	226	260	253	213	222	229	3
Total employees		**5,558**	**5,998**	**6,451**	**5,450**	**5,445**	**6,032**	**6,496**	**8**

GILDEMEISTER GROIUP		IFRS							Changes against previous year in %
		2006	2007	2008	2009	2010	2011	2012	
Efficiency ratios									
Profit on sales (EBIT) = EBIT / Sales revenues	%	6.2	8.1	8.3	2.7	3.3	6.7	6.5	–2
Profit on sales (EBT) = EBT / Sales revenues	%	3.6	5.3	6.7	0.6	0.5	4.0	5.9	49
Profit on sales (Annual result) = Annual result / Sales revenues	%	2.0	3.2	4.3	0.4	0.3	2.7	4.0	50
Equity return = Annual result / Equity (as of 01 Jan.)	%	10.2	17.4	24.6	1.2	1.1	11.0	12.6	14
Return on total assets = EBT + interest on borrowed capital / average total assets	%	8.7	12.2	12.7	2.8	3.7	8.5	9.2	8
ROI – Return on Investment = EBT / average total capital	%	4.9	7.9	10.0	0.6	0.5	4.9	8.0	64
Sales per employee = Sales revenues / average number of employees (exc. trainees)	€ K	255.5	279.5	314.7	205.0	265.4	302.7	331.3	9
EBIT per employee = EBIT / average number of employees (exc. trainees)	€ K	15.9	22.5	26.1	5.5	8.7	20.2	21.6	7
ROCE – Return on capital employed = EBIT / Capital Employed	%	12.3	17.8	21.0	3.9	5.6	14.4	15.4	7
Value added	€ million	403.1	492.9	564.3	378.8	378.9	497.9	574.2	15
Value added per employee	€ K	77.5	88.2	93.3	65.7	73.0	89.3	93.4	5
Balance Sheet ratios									
Capitalisation ratio of fixed assets = fixed assets / total assets	%	27.8	24.8	21.7	28.3	26.9	29.4	31.0	5
Working intensity of current assets = current assets / total assets	%	68.5	72.4	75.8	68.2	69.5	67.1	65.9	–2
Equity ratio = equity / total capital	%	30.2	28.7	27.3	33.0	30.4	47.8	48.8	2
Borrowed capital ratio = borrowed capital / total assets	%	69.8	71.3	72.7	67.0	69.6	52.2	51.2	–2
Assets and liabilities structure = fixed assets / current assets	%	40.6	34.3	28.6	41.5	38.7	43.9	47.0	7
Capital structure = equity / outside capital	%	43.3	40.2	37.6	49.3	43.7	91.4	95.2	4

>> to be continued

GILDEMEISTER GROUP		IFRS 2006	2007	2008	2009	2010	2011	2012	Changes against previous year in %
Ratios pertaining to financial position									
1st class liquidity = liquid funds (from balance sheet) / short-term liabilities (up to 1 year)	%	12.5	15.3	40.8	19.3	19.6	20.0	29.8	49
2nd class liquidity = (liquid funds + short-term receivables) / short-term liabilities (up to 1 year)	%	106.6	75.5	99.4	90.3	93.4	89.1	99.4	12
3rd class liquidity = (liquid funds + short-term receivables + inventories) / short-term liabilities (up to 1 year)	%	177.1	115.4	151.5	169.8	148.3	150.8	156.2	4
Net financial liabilities = bank liabilities + bond borrower's note – liquid funds	€ million	216.7	165.0	120.4	244.9	208.4	–71.2	–161.0	126
Gearing = net financial liabilities / equity	%	75.0	50.0	31.7	64.3	50.5	–	–	0
Working Capital = current assets – short-term borrowed capital	€ million	284.8	127.4	385.9	339.0	295.7	283.6	301.0	6
Net Working Capital [1)] = inventories + payments on account – customer prepayments + trade debtors – trade creditors – notes payable	€ million	360.5	398.2	416.4	445.7	354.4	271.3	221.3	–18
Capital Employed = equity + provisions + net financial liabilities	€ million	671.5	708.6	752.7	813.7	800.6	780.7	865.6	11
Structural analysis ratios									
Turnover rate of raw materials and consumables = cost for raw materials and consumables / inventories of raw materials and consumables		5.9	5.3	6.0	3.0	3.9	4.3	5.0	17
Turnover rate of inventories = sales revenues / inventories		4.5	4.3	4.5	3.0	3.4	3.7	4.2	12
Turnover rate of receivables = sales revenues (incl. 16% or 19% [2)] VAT on domestic revenues) / average trade debtors		5.3	6.2	7.1	4.9	5.4	6.9	9.8	41
Total capital-sales ratio = sales revenues / total capital (incl. deferred tax and deferred income)		1.4	1.4	1.4	1.0	1.0	1.2	1.3	3
DSO (Days sales outstanding) = average trade debtors / (sales revenues (incl. 16% or 19% [2)] VAT on domestic revenues)) x 365		68.4	58.6	51.2	75.2	67.7	52.6	37.2	–29

GILDEMEISTER GROUP		2006	2007	2008	2009	2010	2011	2012	Changes against previous year in %
		IFRS							
Productivity ratios									
Intensity of materials = Cost of materials / Total work done	%	52.5	52.1	54.5	48.9	55.9	54.6	55.0	1
Intensity of staff = Personnel costs / Total work done	%	24.1	22.9	20.7	30.3	24.3	22.1	21.4	– 3
Cash flow & Investments									
Cash flow from current operations	€ million	108.1	128.2	108.6	– 75.2	74.6	161.0	168.7	5
Cash flow from investment activity	€ million	– 35.1	– 46.7	– 49.4	– 56.5	– 40.3	– 80.6	– 63.0	22
Cash flow from financing activity	€ million	– 52.5	– 27.7	104.0	– 42.3	– 8.3	– 86.7	– 39,2	55
Free Cashflow = cash flow from current operation + cash flow from investment activity (exc. cash flow from financial investments)	€ million	74.8	84.8	60.1	– 100.5	45.3	95.2	99.1	4
Investments	€ million	37.2	53.1	50.2	57.8	50.0	89.7	74.5	– 17
Share & valuation									
Market capitalisation	€ million	414.0	801.1	339.9	516.4	761.2	586.6	917.6	56
Company value = Market capitalisation + bank liabilities + bond liabilities / borrowers' note + bills of exchange + other liabilities + pension provisions – liquid funds	€ million	698.3	1.071.4	552.6	846.3	1.066.0	600.5	843.8	41
Earnings per share = result after minority interests / number of shares	€	0.63	1.16	1.87	0.10	0.09	0.85	1.32	56
Price-to-earnings ratio (P / E) = market capitalisation / EBT		8.7	9.6	2.7	72.6	116.5	8.8	7.6	– 13
Company value-EBITDA-ratio = company value / EBITDA		6.1	6.8	2.9	13.9	14.3	4.1	4.9	18
Company value-EBIT-ratio = company value / EBIT		8.5	8.5	3.5	26.6	23.7	5.3	6.3	19
Company value sales ratio = company value / sales revenues		0.5	0.7	0.3	0.7	0.8	0.4	0.4	16

1) Since 1 Jan. 2012 including notes payable
2) From 2007 19% VAT on domestic sales revenues; before 16%

Commercial Glossary

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.

Cashflow
Changes in liquid funds in a reporting period.

Cash-Pooling
The term "cash pooling" refers to an internal company means of balancing liquidity through centralised financial management.

Closing
The legal conclusion of and the legal entering into force of an agreement on the financial market.

Compliance
The German Corporate Governance Code defines compliance as the responsibility of the Executive Board to ensure that all provisions of law and the company's internal guidelines are abided by. The term compliance stands for the observance of statutory provisions and regulatory standards and for fulfilling other, essential ethical standards and requirements, which as a rule are set by the company itself.

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

Covenants
Additional or supplementary stipulations in credit agreements. The borrower agrees to observe specific indices. If these are breached the agreement may be terminated.

Directors`-Dealing
Dealings in securities in their own company by members of the management of listed companies or by persons or companies closely associated with them.

Diversity
Diversity means a broad base of male and female employees. It also stands for topics such as that of a female ratio, cultural diversity and heterogeneous teambuilding.

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

EAT
Earnings after taxes. EAT is a key performance indicator from business economics and is taken from the income statement of a company.

EBITDA
Earnings before interest, taxes, depreciation and amortisation.

EBIT
Earnings before interest and taxes.

EBT
Earnings before taxes.

EPS
Earnings per share is a key performance indicator to evaluate the profitability of a stock corporation. It represents a special type of return on equity. To determine this key performance indicator the consolidated annual net income of the company (in the analysis period) is divided by the weighted average number of shares outstanding over the period.

Free Cashflow
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.

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) or IFRS (International Financial Reporting Standards).

Global Sourcing
The systematic exploitation of procurement markets worldwide. This involves optimising the purchase of resources at the company without being restricted to the company's local, regional, national and / or continental catchment area.

Statement of Cash Flows
View of liquidity development / cash flows taking into account the effect of the source of the funds and the use of the funds

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.

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

LTI
Long-term, variable remuneration component for members of the Execution Board and Supervisory Board. It is performance-related and based on different parameters for the Execution Board and the Supervisory Board (Long Term Incentive).

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

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

Natural Hedge
The aim of natural hedging is to reduce the difference between income and expense in a given currency. This should reduce any transaction risk.

Rating
A periodic standardised assessment of risk and credit standing of issuers and the securities issued by them. Ratings are performed by specialised, generally approved agencies.

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

SD-KPIS
Sustainable Development Key Performance Indicators.

Sourcing
Is a general term for all types of resource procurement at the company.

STI
Short-term, variable remuneration component for members of the Execution Board and Supervisory Board. It is performance-related and based on different parameters for the Execution Board and the Supervisory Board (Short Term Incentive).

Tapping Center
The term describes a class of fast, compact machining centres. The first machine to be jointly developed by GILDEMEISTER and Mori Seiki, the MILLTAP 700, was presented at the EMO 2011. It is representative of this class of machine tools.

TERP
The accepted share price following the issue of new shares in accordance with a capital increase. (Theoretical ex-rights price).

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

WACC / Cost of Capital
The WACC (weighted average cost of capital) is calculated as weighted average of the cost of equity and the cost of debt. The cost of equity is initially calculated after taxes.

Technical Glossary

3D Quickset
The 3D Quickset checks and corrects axis precision in the machine tools work area. Its advantage is great ease of use and programming by the operator and high precision, even in 5-axis machining.

Airmatrix
This is a tool pre-setting device with a new type of AirDrive technology. The trend-setting procedure permits unlimited measuring of nearly every turning and milling tool.

App
An „App“ (English abbreviation for application) is a user program for smart phones.

CAD
Computer Aided Design (CAD) describes the drawing and design of a structural part with the help of computers.

CAM
To produce a structural part, all the work procedures and movements for the machine tool are taken from the drawing data. This is carried out in the CAM programming (computer-aided manufacturing) by means of special software.

CellCube
The Cellcube big battery is an energy store that is designed for industrial use. Its fields of application are found in providing uninterrupted power supply for instable networks, the storage of energy from renewable energy sources or the supply of energy in connection with e-fuelling stations.

Cluster Asembly
In this type of assembly a set group of employees work together to build several machines. They assume responsibility for the entire assembly procedure.

CO_2
Carbon dioxide, chemical formula CO_2, is a natural gas contained in the earth‘s atmosphere. Carbon dioxide occurs from the combustion of fuels containing carbon, in particular fossil fuels

DIXI
The DIXI version DIXI 210 on the basis of the DMU 210 P 5-axis portal machine enables high precision. With geometric precision in the magnitude of 5 µm it is ideal for the machining of high-precision parts with the tightest tolerance, for example for those of the aerospace industry or mechanical engineering. The DIXI 210 is a cooperation development between DECKEL MAHO Pfronten GmbH and the Mori Seiki owned Swiss company, DIXI, in Le Locle, Switzerland.

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

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

CTX
The CTX product line provides a differentiated programme of CNC universal lathes with a variety of innovative options for numerous machining tasks.

Darrieus Rotor
Contrary to standard wind turbines, the axis of the Darrieus rotor is aligned vertically. The French engineer, Georges Darrieus, received a patent for this rotor principle in 1931 (US 1,835,018).

Turning
Turning is a metal-cutting machining process, which is used to produce mostly rotationally symmetrical machine tools. When doing so, the piece to be machined is held by a fast-rotating work-holding fixture, whilst a cutting tool moves parallel to and across the axis of rotation.

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 high demands in both the tools manufacture and mould making industries and for small-lot and medium-sized serial production.

DMF
The DMF product line provides traversing column machines with large machining areas, effective pendulum machining in two separate work areas, high cutting performance, dynamics and precision with fast traverse speeds of the traversing column.

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

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

DMU monoBLOCK®
The DMU monoBLOCK series of universal milling machines serves 5-axis machining with a rotary table and is designed and produced by DECKEL MAHO PFRONTEN.

DMU P / FD
The successful portal series of universal milling machines for 5-sided / 5-axis machining is designed and built by DECKEL MAHO Pfronten. The large milling machines are also available with a milling-turning functionality.

duoBLOCK®
The patented duoBLOCK® construction combines the advantages of a travelling column construction with those of a gantry construction and through its construction that is stable against thermal deformation, guarantees maximum precision, stiffness and dynamics.

ECOLINE machines
The DMG ECOLINE machines offer reasonably priced yet technologically high-quality entry to CNC turning or milling. The universal lathes and milling machines are characterised by their low acquisition cost, as well as their cost-effectiveness and flexibility.

Energy Saving
With energy saving the performance capability of a machine is designed for reduced energy requirements. This is carried out, for example, by switching off components automatically.

Entry Level Machines
These are precise, robust machine tools, which enable a technologically, high-quality of production in turning and milling that borders on the premium segment. Their main features are economic efficiency, flexibility and a low initial cost.

Fibre Composite materials
A fibre plastics composite (also known as a fibre reinforced plastics composite – FRP) is a material comprising reinforcing fibres and a polymer matrix. Through the use of fibrous materials in a matrix, these fibre plastics composites have excellent mechanical features.

Milling
Milling refers to a metal-cutting process in which the cutting tool rotates and not the workpiece. Through rapid machine tool feed movements and of the workpiece itself as necessary in several axes, any number of machine tool surfaces can be produced.

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 recision.

HSC
The HSC (high speed cutting) product line includes machining centres for 5-axis precision machining. HSC technology is primarily used where high demands are made of cutting performance and surface quality.

Job Assistance
Job assistance describes intelligent software products that support efficient and highly-productive manufacturing.

Job Monitoring
Job monitoring enables customers to access and evaluate their machine's status from anywhere, at any time. Maintenance cycles can also be scheduled.

Job Preparation
Job preparation serves to prepare production processes for machine tools with specific tools and machining sequences.

Cavity
A cavity is a small hollow mould.

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

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

Lasertec Shape
The lasertec shape technology makes it possible to produce complex surface structures on any number of moulded structural parts Through the combination with milling technology, high-tech structural parts can be produced in one setting with maximum efficiency and precision.

Local Content
Local content describes goods whose different stages of production have taken place in different countries. The part that is carried out locally of the entire value added of the product is attributed to a specific national site.

MILLTAP
Characteristic of the vertical MILLTAP 700 milling machine – the first jointly-developed machine from DMG and Mori Seiki – are the shortest tool change times, maximum precision, optimum chip disposal and very compact dimensions.

monoBLOCK®
Especially compact and thus space-saving base body of a machine tool, which additionally has great stiffness and permits a high degree of precision.

MSL
In the area of single spindle automatic lathes with six or seven axes, the MSL series offers high productivity in bar machining at lower investment costs.

NCU
The numerical control unit serves to control a machine's axes as well as assuming other control functions.

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.

Net service
The net service serves the partial remote maintenance of machines through 24 / 7 online support.

NHX
The NHX series includes horizontal machining centers with high speed and precision for a broad range of applications. The NHX is based on a Mori Seiki basic machine. However, the DMG machine differs from the Mori Seiki products in its control technology, drive technology and software.

NLX
The NLX is a series of universal lathes from Mori Seiki. They offer high precision, stiffness and machining performance while increasing cost-efficiency. The NLX 2500 SY / 700 from this series is localised by GILDEMEISTER Italiana S.p.A and was presented at the Pfronten 2013 open house exhibition..

NTX
The NTX 1000 offers 5-axis and 6-sided machining for small, complex workpieces, for example from medical technology, precision mechanics and the watch industry. The NTX is based on a Mori Seiki basic machine. However, the DMG machine differs from the Mori Seiki products in its control technology, drive technology and software

One piece flow principle
The one piece flow principle describes a unique type of production. Its main characteristic is that production takes place on the basis of single workpieces, which "flow" through the entire production system without any temporary storage or buffer..

Power clamp
This is a series of devices for shrinking and unshrinking milling tools with an optionally available cooling unit.

PULL
PULL stands for Produktions- und Logistik-Leistung (performance of production and logistics) and has represented GILDEMEISTER production system since June 1998. In line with examples from the motor industry (Toyota production system, TPS) it combines different components and individual measures with the aim of increasing efficiency in production and in the production-related areas, such as materials planning, receipt of goods and stock of goods, in one continual improvement process.

PULLplus
The GILDEMEISTER value-added system PULLplus is the improvement of the production system PULL. It combines the idea of waste minimisation with a value-added based approach to all areas of the company. The adaptation to best-practice methods is carried out in a continuous improvement process.

Service Agent
By way of the service agent, maintenance can be scheduled and carried out with software support.

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.

SunCarrier
The SunCarrier is a solar installation that can track the sun's movement from a rotational axis. This makes it possible to achieve higher current efficiency compared to conventional systems.

Tool Dynamic
The tool dynamic is a modular balancing out system to balance tool carriers.

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 designs 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.

UNO
This is a tool pre-setting device for the entry level with tool dimensions of up to 230 millimetres diameter and measuring lengths of up to 370 millimetres.

Vanadium Redox Flow Batterie
The vanadium redox flow battery is a special, rechargeable type of battery. It is based on the ability of the vanadium element to exist in solution in four different oxidation states. Its advantages lie in a markedly improved operating life and the seamless scalability of the system.

VIO *linear*
This is a tool pre-setting device for the premium level with measurement ranges that can be freely combined in both axes. The toolshrink option enables the automatic shrinking and unshrinking of milling tools.

WindCarrier
The WindCarrier is a small wind farm that operates according to the Darrieus principle. The vertically placed axis of rotation does not need any transmission and works independently of the wind's direction.

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

List of Tables and Graphs

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Forward-looking statements

This report contains forward-looking statements, which are based on current estimates of the management of future developments. Such statements are based on the management's current expectations and specific assumptions. They are subject to risks, uncertainties and other factors, which could lead to the actual future circumstances, including the assets, liabilities, financial position and profit or loss of GILDEMEISTER, differing materially from or being more negative than those expressly or implicitly assumed or described in these statements. The business activities of GILDEMEISTER are subject to a series of risks and uncertainties, which may result in forward-looking statements, estimates or forecasts becoming inaccurate.

GILDEMEISTER is strongly affected, in particular, by changes in general economic and business conditions (including margin developments in the most important business areas as well as the consequences of a recession) as these have a direct effect on processes, suppliers and customers. Due to their differences, not all business areas are affected to the same extent by changes in the economic environment; significant differences exist with respect to the timing and extent of the effects of any such changes. This effect is further intensified by the fact that, as a global entity, GILDEMEISTER operates in various markets with very different economic rates of growth. Uncertainties arise inter alia from the risk that customers may delay or cancel orders or they may become insolvent or that prices become further depressed by a persistently unfavourable market environment than that which we are expecting at the current time; developments on the financial markets, including fluctuations in interest rates and exchange rates, in the price of raw materials, in borrowing and equity margins as well as in financial assets in general; growing volatility and further decline in the capital markets and a deterioration in the conditions for the credit business and in particular deterioration from growing uncertainties that arise from the financial market and liquidity crisis including that of the euro debt crisis as well as a deterioration in the future economic success of the core business areas in which we operate; challenges in integrating major acquisitions and in implementing joint ventures and achieving the expected synergy effects and other essential portfolio measures; the introduction of competing products or technology by other companies or the entry onto the market of new competitors; a change in the dynamics of competition (primarily on developing markets); a lack of acceptance of new products and services in customer target groups of the GILDEMEISTER group; changes in corporate strategy; interruptions in the supply chain, including the inability of a third party, for example due to a natural catastrophe, to supply parts, components or services on schedule; the outcome of public investigations and associated legal disputes as well as other measures of public bodies; the potential effects of these investigations and proceedings on the business of GILDEMEISTER and various other factors.

Should one of these factors of uncertainty or other unforeseeable event occur, or should the assumptions on which these statements are based prove incorrect, the actual results may differ materially from the results stated, expected, anticipated, intended, planned, aimed at, estimated or projected in these statements. GILDEMEISTER neither intends to nor does GILDEMEISTER assume any separate obligation to update any forward-looking statements to reflect any change in events or developments occurring after the reporting period. Forward-looking statements must not be understood as a guarantee or assurance of the future developments or events contained therein.

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Financial Calendar

14 March 2013	Press Conference of the Balance Sheet, Düsseldorf
14 March 2013	Publication of the Annual Report 2012
15 March 2013	Society of Investment Professionals in Germany (DVFA) Analysts' Conference, Frankfurt
07 May 2013	First Quarterly Report 2013 (1 January to 31 March)
17 May 2013	Annual General Meeting of Shareholders at 10 a.m. in the Town Hall Bielefeld
21 May 2013	Dividend Distribution
25 Oct. 2013	Third Quarterly Report 2013 (1 July to 30 September)
16 May 2014	Annual General Meeting of Shareholders at 10 a.m. in the Town Hall Bielefeld

SUBJECT TO ALTERATION

Handling Annual Report