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Preliminary notes

GILDEMEISTER Aktiengesellschaft has no own operative business, but runs the GILDEMEISTER group as a management holding company across all functional areas. Shown sales revenue of the parent company results, with very few exceptions, from the performance of the holding and service functions for the group and income from rents. The income situation of GILDEMEISTER Aktiengesellschaft differs from that of the group in terms of level and structure. It is primarily dominated by the profit and loss transfer and control agreements with the four national subsidiaries and the income and expenses relating to the holding functions.

This Management Report refers only to the Annual Financial Statements of GILDEMEISTER Aktiengesellschaft, which were prepared in accordance with the rules of the HGB and AktG. The GILDEMEISTER group is represented in detail in our Annual Report 2005 and the Consolidated Financial Statements contained therein, which was prepared in accordance with International Financial Reporting Standards (IFRS).

Economic Situation and Course of Business 2005**Overall economic development**

In 2005 global economy continued to expand despite the sharp increase in the prices of crude oil and energy. In the USA particularly, growth experienced another rapid increase over the year. Fresh stimulus for this positive economic development also came from Asia, particularly China. The revival experienced in the European Union was comparatively moderate, however, an upward trend was revealed during the second half of the year. This applies to Germany as well. According to provisional calculations by the Institute for World Economics (IfW) based at Kiel University, aggregate output rose globally by 4.3% (previous year: 5.1%).

Development of the machine tool building industry

In 2005 the global market for machine tools developed positively and reached a high level. According to calculations by the Association of German Machine Tool Factories (VDW) **global output** was € 41.7 billion. This represents another rise against 2004 of 14% (previous year: € 36.6 billion). As in previous years, Japan was again the largest producer of machine tools. With an output to the value of € 10.7 billion, Japan has expanded its global market share to 26% (previous year: 23%).

The global market share of Germany (output: € 7.8 billion), placed second, decreased by one percentage point to 19%. With an output of € 4.0 billion, China increased its global market share to 10% (previous year: 9%) and for the first time pushed Italy (output: € 3.9 billion, global market share: 9%) from place three. They were followed by Taiwan (output: € 2.7 billion, global market share: 6%) and USA (output: € 2.5 billion, global market share: 6%). The above six nations together produced 76% of machine tools worldwide (previous year: 75%).

Income, Financial and Net Worth Position

In the previous financial year, the result of GILDEMEISTER Aktiengesellschaft was led primarily by profit and loss transfers and income from investments of the affiliated companies to the value of € 50.3 million (previous year: € 35.0 million). The previous year's result was affected primarily by writedowns of financial assets. GILDEMEISTER Aktiengesellschaft has closed the reporting period with an annual profit of € 26.8 million (previous year: annual loss of € 31.7 million). Following the transfer of € 13.4 million to revenue provisions, GILDEMEISTER Aktiengesellschaft has recorded a retained profit of € 13.4 million on 31 December 2005.

In the reporting year sales revenue (group cost allocations and rents) of € 16.9 million were in line with the figure for 2004 (€ 16.9 million). In the same period, other operating income decreased from € 12.0 million to € 5.0 million. The difference is primarily due to profits arising from the disposal of fixed assets in the previous year.

Cost of purchased services relate mainly to the maintenance area at the Bielefeld site; at € 4.3 million this is about € 1.6 million above the level of the previous year (€ 2.7 million).

Personnel costs of € 9.8 million (previous year: € 10.1 million) and depreciation/-amortisation of € 1.6 million (previous year: € 2.1 million) changed only marginally since the previous year.

Other operating expenses amount to € 20.0 million, thereby falling below the figure for the previous year (€ 34.3 million) by € 14.3 million. The difference to the previous year is due primarily to the expenses arising in relation to the capital measure from 2004, the corporate bond and the extension of the syndicated loan.

Income from profit and loss transfer agreements increased from € 32.7 million in the previous year to € 48.8 million in the reporting year, which was due primarily to the increase in the profit transfer of DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER.

In the accounting period 2005 GILDEMEISTER continued the reorganisation of the group's legal structure that was begun in the previous year.

With effect from 1 January 2005, GILDEMEISTER Aktiengesellschaft transferred its 100% interest in a & f Stahl- und Maschinenbau GmbH to DMG Vertriebs und Service GmbH in line with the company's positioning in the "Services" segment. A management and profit and loss transfer agreement was entered into between DMG Vertriebs und Service GmbH and a & f Stahl- und Maschinenbau GmbH.

As part of the restructuring activities carried out at the Italian subsidiaries, Holding Macchine Utensili S.p.A. the former finance company for the Italian production facilities, merged with GILDEMEISTER Italiana S.p.A.

The financial result of € -4.7 million improved by € 0.9 million in comparison with the previous year (€ -5.6 million). Tax expenditure of € 5.0 million (previous year: € 0.2 million) is due mainly to a positive (previous year: negative) taxable income from the GILDEMEISTER Aktiengesellschaft group of companies. Current tax losses carried forward were set off in line with legally permitted limits.

The balance sheet total as of 31 December 2005 increased slightly by 2.6% to € 609.3 million (previous year: € 593.8 million).

Current assets increased by a total of € 15.5 million to € 295.2 million when compared to the previous year. Due to profit and loss transfers, the backlog of receivables from affiliated companies increased in comparison with the previous year. The reduction in bank balances of € 37.8 million had an antidromic effect in the accounting period.

Due to the positive annual result as at 31 December 2005, the equity ratio of GILDEMEISTER Aktiengesellschaft increased slightly from 48.2% in the previous year to 51.4%. Net indebtedness of GILDEMEISTER Aktiengesellschaft increased from € 220.0 million by € 7.5 million to € 227.5 million over the same period. The increase in liabilities to affiliated company is due to financial clearings.

Dividend

Due to the positive business and performance prospects, the Executive Board and Supervisory Board will propose to the general meeting of shareholders to be held on 19 May 2006 to distribute a dividend for the accounting period 2005 at € 0.10 per share.

Employees

On 31 December 2005 GILDEMEISTER Aktiengesellschaft was divided into three executive units with the following functional areas: sales/services/product development, production/logistics and finances/controllers/IT. On 31 December 2005 GILDEMEISTER Aktiengesellschaft had 67 employees, three more than on 31 December 2004.

Research and development

GILDEMEISTER Aktiengesellschaft is responsible for the research and development strategy. The research and development activities are conducted at group companies' level. Detailed information on research and development is included in the Group Management Report starting on page 72.

Corporate Governance

The declaration of compliance regarding the German Code of Corporate Governance pursuant to Section 161 German Companies Act (AktG) was adopted in September 2005. For the first time, the Supervisory Board and the Executive Board were jointly able to make the declaration of compliance announcing full observance of the recommendations included in the German Code of Corporate Governance as amended on 2 June 2005. Following the full compliance, the Executive Board and Supervisory Board have emphasised their joint commitment to good corporate governance at GILDEMEISTER. Moreover, the chairman of the Supervisory Board has reported on Executive Board members' remuneration in the accounting period 2005 fully and individually at the general meeting of shareholders on 20 May 2005. A comment in this respect can be viewed at our website www.gildemeister.com.

Risk reporting

Our group-wide risk management system enables us to illustrate changes in the group's overall risk situation using a simple, group-level aggregated ratio. This ratio represents cumulative equity-related risks. Risks are part of our business and a necessary condition for our entrepreneurial success. A rational, controlled approach to risks enables us to utilise opportunities and competitive advantages.

The GILDEMEISTER risk management system uses the group's organisational, reporting and management structures and adds to these specific elements required to secure the proper management of risks.

One of the key tasks of GILDEMEISTER Aktiengesellschaft is the limiting of financial risks arising from financing and evaluation. We do not expect any substantial restrictions on business development from the current development of the capital markets and the interest rate level. Currency related risks may arise from our other international activities. We reduce these risks through hedging transactions as part of our currency strategy. Risks arising from sales in foreign currencies are counter-balanced with purchasing and financing transactions in the respective currency wherever possible. The risk position arising from balance sheet items and business transactions is fully hedged. Hedging transactions are entered into by both corporate headquarters and the individual subsidiaries. The hedging instruments permitted in these transactions are stipulated in a currency policy. According to our evaluations, currency-related risks are low. Overall the currency effect of € 0.2 million was negative in the reporting year. For the monitoring and control of the group's liquidity we use

instruments for financial planning and financial analysis that are continuously developed. Our outside financing has been secured on a long-term basis through the issue of the corporate bond, which will mature in 2011. In addition, there is a syndicated loan facility with a total volume of € 141.0 million, which will mature on 30 June 2007. For this purpose, indices (covenants) were agreed, based on our corporate planning. If any of these covenants are breached, creditors are entitled to terminate the agreement. At the balance sheet date all covenants were observed. We see the risk of termination of the agreement to be low, mainly because we are planning to refinance the syndicated loan as early as 2006. About three quarters of our outside financing volume is secured against risks arising from changes in interest rates by agreements for long-term fixed interest rate or interest derivatives. The liquidity risk is assessed as being low. A 1% increase in the level of interest rates pertaining to the non-hedged portfolio on the balance sheet date, would result in an increase in interest expenditure of about € 0.5 million.

Risks to the net worth position of GILDEMEISTER Aktiengesellschaft arise primarily from accounting and valuation of financial assets. Financial assets are shown in the balance sheet at their acquisition costs or the lower fair value. Financial assets are checked annually for impairment with the use of the 'discounted earnings method', which is based on the affiliated companies' forecasting.

The figures defined did not result in a possible adjustment requirement at the reporting date. If the planned results are not achieved, an adjustment to the lower fair value may be required. Due to current forecasts, impairment in value is not expected in 2006.

Our internal risk management system that is integrated into the ordinary operation of our business, serves the early identification, assessment and control of risks and rewards in the GILDEMEISTER group. In this context both the Executive Board and the Supervisory Board are regularly informed on the current risk situation of each group company. In addition, we have defined threshold values which, when exceeded, immediately alert the Executive Board. The risk management policy has been audited by the auditor. It fully meets the requirements of Section 91 para. 2 AktG.

Events at the end of the accounting period

A further measure in the reorganisation of our legal corporate structure was taken in February 2006. The direct investments of GILDEMEISTER Aktiengesellschaft in GILDEMEISTER Drehmaschinen GmbH, FAMOT Pleszew S.A., GILDEMEISTER Italiana S.p.A. and DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd. were transferred to GILDEMEISTER Beteiligungen Aktiengesellschaft through a non-cash contribution. There were no further changes in the legal structure of the company. No acquisitions or sales of investments or operating units were made in the said period.

Forecast 2006

According to economic experts, global economic development will continue to be vibrant throughout the current financial year, with China and the USA remaining the main driving forces. Increasing growth trends are forecast for Germany.

Current forecasts for the German machine construction industry expect further growth for 2006. Following a 4% increase in the preceding year the German Mechanical Engineering Association (VDMA) is expecting a 2% increase in production for 2006.

This year we are striving for a further optimisation of our financial structure and of the refinancing potential. We are currently in the process of developing an ABS (asset-backed securities) programme. The ABS programme with a volume of € 100 million will run for five years. Implementation is planned for the second quarter of the accounting period. Given the current positive environment, we are looking into the early refinancing of the syndicated loan facility with a new term of five years and a volume of € 150 million. The objective of these activities is a reduction in our cost of finance. Another focal point is the implementation of measures to reduce working capital.

Due to the positive performance forecasts of our affiliated companies, we expect an increase in annual profit for the accounting period 2006. For the current accounting period, we are planning for a distribution of a dividend.

Notes for the Financial Year 2005

A. General Declaration

The Annual Financial Statements of GILDEMEISTER Aktiengesellschaft for the year ended 31 December 2005 were prepared in compliance with the regulations stipulated in the German Commercial Code (HGB) and the German Companies Act (AktG). The form of the previous year's statement, particularly the subdivision of the Balance Sheet and the Income Statement, has been retained.

B. Accounting and Valuation Principles

The intangible assets and tangible fixed assets were shown at their acquisition costs, reduced by scheduled depreciation/amortisation. For depreciation the straight line method was applied in accordance with the useful life expectancy.

Useful life of fixed assets

Intangible fixed assets	3 to 4 years
Office and factory buildings	10 to 50 years
Factory and office equipment	5 to 13 years

Additions to intangible and tangible fixed assets were depreciated pro rata temporis during the year of purchase. Additions at an acquisition cost of up to € 410 (low value assets) were fully amortisation/depreciated in the year of addition. The depreciation/amortisation method has not changed from the previous year. The rates of depreciation/amortisation also remained unchanged with respect to intangible assets, office and factory buildings and factory and office equipment.

Financial assets were shown in the balance sheet at their acquisition costs or the lower fair value.

Receivables and other assets with a term of up to one year were shown at face value, receivables and other assets with a term of more than one year were shown in the balance sheet at their present value. An adjustment to the lower fair value for identifiable individual risks was not required in the accounting period.

Receivables in foreign currencies were translated at the exchange rate at reporting date. If the exchange rate at the reporting date falls below the rates prevailing at the time of origination, receivables are adjusted to the lower exchange rate at the reporting date. Marketable securities will be reported in the balance sheet at the most at the lower of the purchase price and the value to be settled.

The valuation of company pension provisions was carried out on an actuarial basis in accordance with Section 6a EstG (German Income Tax Law) with an assumed rate of interest of 6% p.a. For this purpose, the new reference tables by Prof. Dr. Klaus Heubeck that were initially published in July 2005, were used for the first time. The resulting negative difference of € 324 κ was fully recognised as provisions-reducing income.

The pensions are not insured by an external pension fund.

Provisions for obligations arising from old-age part-time agreements include expenses for wage and salary payments to employees during the pre-retirement lay-off phase and additional compensation. These provisions are accrued rateably from the start of the active phase of the part-time retirement and assessed at the present value.

The remaining provisions were assessed so that they take into account all identifiable risks and contingent obligations. The valuations were made on the basis of proper commercial judgement. In each case the anticipated cost of fulfilment was taken into account. Provisions for anniversary bonuses were discounted at an interest rate of 5.5% p.a.

Liabilities are assessed at their amounts repayable.

C. Notes to individual balance sheet items

Assets

The movements of the individual fixed assets are set out in the fixed-asset movement schedule, which is attached.

1 INTANGIBLE ASSETS AND TANGIBLE FIXED ASSETS The value shown for industrial property rights and similar rights includes mainly data processing software.

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

2 FINANCIAL ASSETS The changes in financial assets of GILDEMEISTER Aktiengesellschaft are set out in the Balance Sheet supplement. The companies included in the “Shares in affiliated companies” account, and the corresponding information on principal places of business, equity capital, capital shares and results as of 31 December 2005 are set out in a separate summary at the end of the Notes.

In comparison with the previous year (€ 91,698 K) there were additions to financial assets in the accounting period. With effect from 1 January 2005 GILDEMEISTER Aktiengesellschaft transferred its 100% investment in a & f Stahl- und Maschinenbau GmbH, against granting of rights in the company, to DMG Vertriebs und Service GmbH. With effect from 20 April 2005 Holding Macchine Utensili S.p.A. merged with GILDEMEISTER Italiana S.p.A.

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

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

3 RECEIVABLES AND OTHER ASSETS Amounts owed by affiliated companies of € 281,655 K (previous year: € 231,445 K) are primarily due to profit and loss transfer agreements, income from investments and costs and finances allocations. A claim of € 2,088 K (previous year: € 0 K) is due in more than one year.

Other assets include asset values from reinsurance for the social protection of employees of € 1,932 K (previous year: € 1,734 K), creditors with debit balance to a value of € 529 K (previous year: € 502 K) and tax refund claims of € 417 K (previous year: € 272 K).

Other assets to the value of € 2,461 K (previous year: € 2,236 K) have a remaining term of more than a year.

4 OTHER SECURITIES	Marketable securities were valued at the market price at reporting date.
5 CASH IN HAND, BALANCE IN BANK	The statement pertains mainly to bank balances.
6 PREPAID EXPENSES	The prepaid expenses pertain to accrued rents and fees for data processing maintenance and funding and maintenance costs of software licenses.

Equity and liabilities

7 EQUITY **Subscribed capital**

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

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

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

With respect to a partial amount of € 5,000,000.00, the Executive Board will be authorised to issue shares to the employees of the company and of companies affiliated to the company. The shareholders' statutory subscription rights are excluded to this extent.

In addition, the Executive Board is authorised, with the approval of the Supervisory Board, to exclude the shareholders' statutory rights in the case of:

- a) capital increases through non-cash capital contribution so as to acquire, in applicable cases, companies, sections of the company or participating interests in companies for the transfer of shares,
- b) to the extent required for dilution protection purposes, in order to grant the holders of warrants or the creditors of convertible bonds issued by the company or its associated companies as part of an authorisation of the Board by the general meeting of shareholders, a subscription right to new shares to the extent they would be entitled to following the exercising of the option or conversion right or the fulfilment of conversion obligations,

- c) to exclude any residual amounts from the subscription right, and
- d) capital increase through cash contribution, if the issue price of the new shares is not significantly lower than the exchange price at the time the issue price is finally defined by the Board within the meaning of section 203 paragraphs 1 and 2, and section 186 paragraph 3 sentence 4 of the German Companies Act (AktG), and the prorated amount of the share capital relating to the new shares that are subject to the exclusion of the subscription right, in aggregate does not exceed 10% of the share capital at the time the new shares are issued. The limit of 10% of the registered capital includes shares that are sold during the lifespan of the authorised capital to the exclusion of the shareholders' subscription rights pursuant to section 71 paragraph 1 no. 8 sentence 5 and section 186 paragraph 3 sentence 4 of the German Companies Act (AktG), and shares with respect to which a conversion right or option right or a conversion obligation or option obligation due to option and / or convertible bonds exists and that were issued by virtue of authorisation of the general meeting of shareholders from 14 May 2004 to the exclusion of the subscription right pursuant to section 221 paragraph 4 section 186 paragraph 3 sentence 4 of the German Companies Act (AktG). The Executive Board is authorised, with the approval of the Supervisory Board, to lay down further details for the capital increase and its implementation.

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

Capital provisions

The capital provisions (€ 71,297,862) has not changed since the previous year.

Revenue provisions

Statutory provisions

The statutory provisions of GILDEMEISTER Aktiengesellschaft is € 680,530 κ.

Other revenue provisions

Due to the transfer of € 13,400,000 of the annual profit to other revenue provisions, these provisions increased to € 115,332,901 when compared to the previous year.

Proposed appropriation of profits

The accounting period 2005 of GILDEMEISTER Aktiengesellschaft closes with a profit for the year of € 26,838,813.35. It will be proposed to the general meeting of shareholders to be held on 19 May 2006 to appropriate the earnings of € 13,438,813.35 million retained after transfer to other revenue provisions of € 13,400,000.00 million as follows:

- _ to distribute € 4,330,250.30 million to the shareholders by dividend payout of € 0.10 per share
- _ to carry the remaining balance of € 9,108,563.05 forward to new account

Development of net profits	€ κ
Net profit as of 31 December 2004	0
Annual profit 2005	26,839
Transfer to other revenue provisions	-13,400
Net profit as of 31 December 2005	13,439

- 8 TAX PROVISIONS** Tax provisions include expenses for corporation tax of € 475 κ, trade tax of € 564 κ and provisions for turnover tax of € 13 κ (previous year: € 13 κ) and wage tax of € 20 κ (previous year: € 95 κ) following an external wage tax audit for the years 2000 to 2004. A deferred tax provision of € 87 κ (previous year: € 0 κ) for tax differences from pension provisions is also included.

- 9 OTHER PROVISIONS Other provisions primarily include expenses for management bonuses to the value of € 1,788 K (previous year: € 1,550 K), for legal and consultancy fees and costs for the preparation of accounts to the value of € 1,532 K (previous year: € 1,687 K), for other personnel costs of € 748 K (previous year: € 636 K) and remaining other provisions of € 852 K (previous year: € 1,153 K).

10 LIABILITIES

	Balance sheet as of 31 Dec. 2005	of which due within 1 year	of which due within 1 to 5 years	of which due within 5 years	Balance sheet as of 31 Dec. 2004
	€ K	€ K	€ K	€ K	€ K
1. Bond	175,000	0	0	175,000	175,000
2. Liabilities to financial institutions ¹⁾	59,684	1,851	57,106	727	90,070
3. Trade payables	2,588	2,588	0	0	1,768
4. Liabilities to affiliated companies	26,651	26,651	0	0	10,170
5. Other liabilities ²⁾	12,172	12,172	0	0	10,988
	276,095	43,262	57,106	175,727	287,996
Outstanding in each maturity period at 31 Dec. 2004		24,774	87,420	175,802	287,996

1) of which secured by mortgage: € 3,752 K (previous year: € 5,599 K)

2) of which from taxes: € 4,079 K (previous year: € 3,176 K) of which social security contributions: € 67 K (previous year: € 76 K), of which accrued interest payments: € 7,681 K (previous year: € 7,698 K)

In the accounting period 2004 GILDEMEISTER Aktiengesellschaft issued a long-term, secondary corporate bond. The bond with a nominal volume of € 175.0 million and a coupon of 9.75% p.a. will mature in July 2011. Other liabilities include € 7,631 K (previous year: € 7,631 K) from accrued interest paid on the corporate bond.

The group companies DECKEL MAHO Geretsried GmbH, DECKEL MAHO Pfronten GmbH, DECKEL MAHO Seebach GmbH, GILDEMEISTER Drehmaschinen GmbH, GILDEMEISTER Beteiligungen AG, DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, FAMOT PLESZEW S.A. and GILDEMEISTER Italiana S.p.A. are guarantors in relation to the loan agreement. In addition, the shares of the above companies to the nominal value of € 101,195 K (previous year: € 96,177 K) are secondarily pledged in favour of the bond holders. Besides, the claims to the respective dividend in the pledged shares, including any interest, have been pledged, each in second place, to the bond holders.

The short and medium term resource requirements of GILDEMEISTER Aktiengesellschaft and, as part of the intragroup cash management system, of the majority of domestic subsidiaries are covered through a syndicated loan agreement. The syn-

licated loan has a term until 30 June 2007 and a volume of € 141.0 million. The lending volume contains three tranches, which differ in terms of amounts, usability, maturity and drawing terms and the agreed interest rates. In favour of the lending banks, the shares of DECKEL MAHO Pfronten GmbH, DECKEL MAHO Seebach GmbH, DECKEL MAHO Geretsried GmbH, GILDEMEISTER Drehmaschinen GmbH, DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, GILDEMEISTER Beteiligungen AG, FAMOT PLESZEW S.A. and GILDEMEISTER Italiana S.p.A., to the nominal value of € 101,195 K (previous year: € 96,177 K) were pledged in first place to the national banking consortium. Besides, the claims to the respective dividend in the pledged shares, including any interest, have been pledged, each in first place, to each of the lending banks.

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

Liabilities to the value of € 55,932 K (previous year: € 84,471 K) to lenders from the banking consortium are set off against balances to the value of € 7,218 K (previous year: € 45,033 K) in the current accounts at these banks.

11 CONTINGENCIES AND OTHER FINANCIAL OBLIGATIONS

At the balance sheet date the following contingencies and other financial obligations existed, shown at their face value:

	As of 31 Dec. 2005	As of 31 Dec. 2004
	€ K	€ K
Contingencies		
Guarantees	140,416	105,671
Warranties	7,069	8,695
	147,485	114,366
Obligations from tenancy and lease agreements due		
within 1 year	3,409	3,084
within 1 - 5 years	5,362	5,896
after 5 years	886	1,140
	9,657	10,120
Fixed assets commitments	9,521	0

The guarantees of GILDEMEISTER Aktiengesellschaft include maximum-amount guarantees of € 65,757 K (previous year: € 82,530 K) for affiliated companies. The value date of the liabilities to banks pertaining to guarantees was fixed at 31 December 2005 at an amount of € 21,979 K (previous year: € 37,253 K). At the balance sheet date GILDEMEISTER Aktiengesellschaft is jointly and severally liable for liabilities of € 15,670 K (previous year: € 17,491 K).

The guarantees of GILDEMEISTER Aktiengesellschaft also include guarantees for affiliated companies for contingent claims of a factoring bank amounting to € 46,000 K (previous year: € 25,533 K).

Advance guarantees of € 2,283 K (previous year: € 3,025 K) were given to customers of several group companies.

GILDEMEISTER Aktiengesellschaft also has a guarantee line, which can be used for advance and performance guarantees of the domestic subsidiaries with secondary liability of GILDEMEISTER Aktiengesellschaft. On 31 December 2005 an amount of € 48,589 K (previous year: € 21,639 K) of this was drawn down.

In addition, GILDEMEISTER Aktiengesellschaft issued letters of comfort to the value of € 7,806 K to DECKEL MAHO Geretsried GmbH, DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Sauer GmbH, DMG Europe Holding GmbH, DMG Benelux B.V. and DMG Malaysia SDN BHD. The relating liabilities were fixed at 31 December 2005 at an amount of € 5,896 K.

In addition, GILDEMEISTER Aktiengesellschaft has entered into two building leasing arrangements for DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Leonberg, and DMG Frankfurt am Main Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bad Homburg. The monthly lease instalment for these contracts is € 83 K. Their term will end in 2024.

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

12 DERIVATIVE FINANCIAL INSTRUMENTS

	Nominal volume		Fair market values	
	31 Dec. 2005	31 Dec. 2004	31 Dec. 2005	31 Dec. 2004
	€ K	€ K	€ K	€ K
Forward exchange dealings	13,858	5,725	-390	275
Interest swaps	0	40,000	0	-155
	13,858	45,725	-390	120

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

Due to negative fair market values a provision of € 390 κ (previous year: € 155 κ) for anticipated losses related to incomplete contracts is shown on 31 December 2005.

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

The forward exchange dealings carried out mature within two years and serve the hedging of receivables from group companies in foreign currencies such as USD, YEN and KRW.

D. Notes to individual items in the Income Statement

- 13 SALES REVENUES** Sales revenues of € 16,939 κ (previous year: € 16,921 κ) primarily pertain to sales arising from the group-wide holding functions.
- 14 OTHER OPERATING INCOME** Other operating income consists mainly of income from cost allocation and refund of expenses.
It also includes income from the retransfer of provisions in an amount of € 579 κ (previous year: € 1,775 κ).
- 15 PERSONNEL COSTS** In the accounting period 2005 the employee pension plan contributions amounted to € 1,565 κ (previous year: € 1,836 κ).
The remuneration of the active members of the Executive Board for 2005 totalled € 2,489 κ (previous year: € 2,032 κ). Of this amount, € 1,090 κ (previous year: € 1,004 κ) were attributed to fixed remuneration, € 1,014 κ (previous year: € 600 κ) to the management bonus, € 300 κ (previous year: € 350 κ) project bonus and € 85 κ (previous year: € 79 κ) to remuneration in kind. In addition, an amount of € 177 κ (previous year: € 307 κ) was spent on pension commitments. € 586 κ (previous year: € 598 κ) were paid to former Executive Board members and their surviving dependants.
Company pension provisions of € 5,997 κ (previous year: € 6,105 κ) were set up for former Executive Board members and their surviving dependants.
Advances and loans to officers were not granted. No contingencies in favour of officers were entered into (Sect. 285 no. 9 c HGB).
In comparison with the previous year the average number of staff has developed as follows:

	2005	2004
Salary earners	65	62

- 16 OTHER OPERATING EXPENSES** Other operating expenses result mainly from external services to the value of € 4,580 κ (previous year: € 7,418 κ), costs of the preparation of accounts and legal and consultancy fees to the value of € 4,235 κ (previous year: € 11,916 κ), rental and lease expenses to the value of € 2,353 κ (previous year: € 1,980 κ), investor and public relations expenses to the value of € 2,130 κ (previous year: € 1,713 κ) and travelling and entertaining expenses to the value of € 1,672 κ (previous year: € 2,097 κ).

Auditor's fees and services

The fees recorded as expenditure in the financial year 2005 for the audit for annual accounts for the auditors KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt am Main amount to € 286 κ and include the fees for the audit of the annual and consolidated statutory financial statements. An amount of € 403 κ was also charged in expenditure on other services.

Remuneration for the Supervisory Board of GILDEMEISTER Aktiengesellschaft

In the accounting period 2005, € 175 κ (previous year: € 173 κ) were transferred to provisions for Supervisory Board members' remuneration. Provisions for the variable components were also set up. In accordance with the Articles of Association, the variable component is based on the future performance of the company and cannot be paid out before the underlying objectives have been accomplished.

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

	Fixed	Remuneration	Total
	Remuneration	for committee	
	€	€	€
Hans Henning Offen, Chairman	20,000	5,877	25,877
Gerhard Dirr, Deputy Chairman (since 01 Dec. 2005)	15,000	5,657	20,657
Wulf Bantelmann	10,000		10,000
Günther Berger	10,000	6,164	16,164
Harry Domnik	10,000	7,938	17,938
Alfred Geißler (until 01 June 2005)	4,164	2,082	6,246
Dr.-Ing. Jürgen Harnisch	10,000		10,000
Ulrich Hocker	10,000	438	10,438
Prof. Dr.-Ing. Walter Kunerth	10,000	5,000	15,000
Dr.-Ing. Manfred Lennings (until 20 May 2005)	3,836	3,836	7,672
Prof. Dr.-Ing. Uwe Loos (since 20 May 2005)	6,164		6,164
Peter Oxfart (until 31 Jan. 2005)	849		849
Günther-Johann Schachner	10,000		10,000
Rainer Stritzke (since 01 February 2005)	9,151		9,151
Norbert Zweng (since 02 June 2005)	5,836	2,918	8,754
Total	135,000	39,910	174,910

17 INCOME FROM PROFIT AND LOSS TRANSFER AGREEMENTS	The income from profit and loss transfer agreements of GILDEMEISTER Aktiengesellschaft of € 48,849 K (previous year: € 32,700 K) was allotted to four (previous year: four) affiliated companies.
18 INCOME FROM PARTICIPATING INVESTMENTS	The income from participating investments of € 1,500 K (previous year: € 2,258 K) was attributed to two (previous year: three) affiliated companies.
19 OTHER INTEREST AND SIMILAR INCOME	In the reporting period affiliated companies were charged interest to the value of € 19,795 K (previous year: € 14,966 K).
20 INTEREST PAYABLE AND SIMILAR CHARGES	Interest paid, amounting to € 24,702 K (previous year: € 20,934 K) include interest for the utilisation of the bond of € 17,063 K (previous year: € 7,631 K). It also includes € 998 K (previous year: € 3,821 K) charged by the affiliated companies. The remaining interest payable pertains primarily to interest on amounts owing to credit institutions.
21 TAXES ON PROFIT	Taxes on profit include expenses unrelated to accounting period in an amount of € 424 K (previous year: € 363 K) and income unrelated to accounting period in an amount of € 322 K (previous year: € 135 K).
22 DECLARATION ON THE CORPORATE GOVERNANCE CODE	The declaration of compliance in accordance with Section 161 AktG was made in September 2005 and has been made accessible to the shareholders on our website www.gildemeister.com .

Corporate Directory

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

Supervisory Board

Hans Henning Offen,

Großhansdorf, born 1940, Chairman,
Independent Industry Consultant,

- Lindner Hotels AG, Düsseldorf, member of the Supervisory Board since 30 August 2005
- * Schwarz Beteiligungs GmbH, Neckarsulm, member of the Advisory Board
- * Familienstiftung Schwarz, Neckarsulm, member of the Supervisory Board
- * Kaufland Stiftung & Co. KG, Neckarsulm, member of the Supervisory Board
- * Lidl Stiftung & Co. KG, Neckarsulm, member of the Endowment Board
- * Heckler & Koch GmbH, Neckarsulm, member of the Advisory Board since 16 July 2004, Chairman of the Advisory Council since 10 December 2004
- * Alpha-Stiftung, Dresden, Endowment Board since 26 April 2005
- * LD-Stiftung, Dresden, Endowment Board since 26 April 2005

Gerhard Dirr,

Vils, Austria, born 1964,

Deputy Chairman, Chairman of the Works Council at DECKEL MAHO Pfronten GmbH, Pfronten, until 31 January 2006,

Head of Facility Management at DECKEL MAHO Pfronten GmbH, Pfronten, since 1 February 2006

Wulf Bantelmann,

Bielefeld, born 1947,

Chairman of the Works Council at GILDEMEISTER Drehmaschinen GmbH, Bielefeld

Günther Berger,

Munich, born 1948,

Independent Industry Consultant,

- Rathgeber AG, Munich, member of the Supervisory Board

Harry Domnik,

Bielefeld, born 1953,

1st Secretary of the IG Metall headquarters, Bielefeld,

- * ThyssenKrupp Umformtechnik GmbH, Ludwigsfelde, member of the Supervisory Board

Alfred Geißler,

Pfronten, born 1958,

head of Engineering/Development,

Senior Executives' representative,

member of the Supervisory Board until 1 June 2005

Dr.-Ing. Jürgen Harnisch,

Essen, born 1942,

Independent Industry Consultant,

- ThyssenKrupp Automotive AG, Bochum, member of the Supervisory Board
- ThyssenKrupp Technologies AG, Essen, member of the Supervisory Board
- Fahrzeug-Werke LUEG AG, Bochum, member of the Supervisory Board
- * ThyssenKrupp Budd Company, Troy/Michigan, USA, member of the Boards of Directors
- * ThyssenKrupp Presta AG, Eschen, Liechtenstein, member of the Supervisory Board
- * Huf Hülsbeck & Fürst GmbH & Co. KG, Velbert, Chairman of the Supervisory Board
- * Presswerk Krefeld GmbH & Co. KG, Krefeld, member of the Supervisory Board

Ulrich Hocker,

Düsseldorf, born 1950,

Legal counsel, Chief manager

Deutsche Schutzvereinigung für

Wertpapierbesitz e.V. (German association of securities owners) (DSW), Düsseldorf,

- E.ON AG, Düsseldorf, member of the Supervisory Board
- Feri Finance AG, Bad Homburg, member of the Supervisory Board
- KarstadtQuelle AG, Essen, member of the Supervisory Board
- ThyssenKrupp Steel AG, Duisburg, member of the Supervisory Board since 9 December 2005
- ThyssenKrupp Stainless AG, Duisburg, member of the Supervisory Board since 25 November 2005
- * Phoenix Mecano AG, Kloten, Schweiz, President of the Administrative Board
- * Gartmore Capital Strategy Fonds, St. Helier, Jersey, member of the board until 23 February 2005
- * Gartmore SICAV, Luxemburg, member of the board since 10 May 2005

Prof. Dr.-Ing. Walter Kunerth,

Zeitlarn, born 1940,

Independent Industry Consultant,

- Götz AG, Regensburg, Chairman of the Supervisory Board
- Paragon AG, Delbrück, Chairman of the Supervisory Board
- * Autoliv Inc., Stockholm, Schweden, Member of the Board of Directors

Dr.-Ing. Manfred Lennings,

Essen, born 1934,
Independent Industry Consultant

- Deutsche Post AG, Bonn,
member of the Supervisory Board
- ENRO AG, Essen,
member of the Supervisory Board
- IVG Immobilien AG, Bonn,
member of the Supervisory Board
until 31 May 2005
- * Bauunternehmung E. Heitkamp GmbH,
Herne, member of the Supervisory Board
- * Deilmann-Haniel GmbH, Dortmund,
member of the Supervisory Board
- * Heitkamp-Deilmann-Haniel GmbH, Herne,
member of the Supervisory Board

member of the Supervisory Board
until 20 May 2005

Prof. Dr.-Ing. Uwe Loos,

Stuttgart, born 1946,
Independent Industry Consultant

- Dorma Holding GmbH + Co. KGaA,
Ennepetal, member of the Supervisory Board
- EDAG Engineering + Design AG, Fulda,
member of the Supervisory Board
- * Trumpf GmbH + Co. KG, Ditzingen,
member of the Supervisory Board,
member of the Administrative Board
- * Claas KGaA mbH, Harsewinkel,
member of the shareholders' committee
- * Bharat Forge LTD, Pune, Indien,
Non Executive Independent Director
- * ssv Antriebstechnik GmbH, Salzbergen,
Chairman of the Advisory Council
- * cdp Bharat Forge GmbH, Ennepetal,
member of the Advisory Council

member of the Supervisory Board
since 20 May 2005

Peter Oxfart,

Creuzburg, born 1943,
Chairman of the Works Council at
DECKEL MAHO Seebach GmbH, Seebach,
until 31 January 2005

member of the Supervisory Board
until 31 January 2005

Günther-Johann Schachner,

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

Rainer Stritzke,

Seebach, born 1957,
design engineer,
member of the Works Council at
DECKEL MAHO Seebach GmbH, Seebach,
member of the Supervisory Board
since 1 February 2005

Norbert Zweng,

Eisenberg, born 1957,
head of Logistics at DECKEL MAHO
Pfronten GmbH, Pfronten,
Senior Executives' representative,
member of the Supervisory Board
since 2 June 2006

The Executive Board

Dipl.-Kfm. Dr. Rüdiger Kapitza,

Bielefeld,
Chairman

Prof. Dr.-Ing. Raimund Klinkner,

Bielefeld,
Deputy Chairman

Dipl.-Kfm. Michael Welt,

Pfronten

- Staufen Akademie
Beratung und Beteiligung AG,
Bad Boll, Deputy Chairman of the
Supervisory Board until 29 April 2005

Affiliated companies

	Equity ¹⁾		Participation	Profit / loss for	
	National currency	€ K	quota in %	the accounting period 2005 ¹⁾ € K	
Production plants, sales and service companies, procurement/components					
GILDEMEISTER Drehmaschinen GmbH, Bielefeld ²⁾		16,650	100.0	0	
GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italy		58,601	100.0	5,241	
GRAZIANO Tortona S.r.l., Tortona, Italy ³⁾		3,165	100.0	165	
SACO S.p.A., Castelleone, Italy ³⁾		9,761	100.0	-149	
GRAZIANO Immobiliare S.r.l., Tortona, Italy ³⁾		2,586	100.0	-611	
DMG Italia S.r.l., Brembate di Sopra, Italy ³⁾		3,500	100.0	52	
GILDEMEISTER Beteiligungen Aktiengesellschaft, Bielefeld ²⁾		62,909	100.0	0	
DECKEL MAHO Geretsried GmbH, Geretsried ^{4/5)}		49,624	100.0	0	
DECKEL MAHO Pfronten GmbH, Pfronten ^{6/7)}		28,222	100.0	0	
SAUER GmbH, Stipshausen/Idar-Oberstein ^{8/9)}		6,942	98.8	0	
DECKEL MAHO Seebach GmbH, Seebach ²⁾		8,363	100.0	0	
FAMOT Pleszew S.A., Pleszew, Poland	PLN K	19,044	4,923	100.0	580
DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China	CNY K	44,211	4,629	100.0	-870
DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld ²⁾		50,375	100.0		
DMG Stuttgart Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Leonberg ^{10/11)}		45,001	100.0		
DMG München Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Munich ^{12/13)}		929	100.0		
DMG Hilden Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Hilden ^{12/13)}		935	100.0		
DMG Bielefeld Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Bielefeld ^{12/13)}		957	100.0		
DMG Berlin Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Berlin ^{11/12)}		301	100.0		
DMG Frankfurt am Main Vertriebs und Service GmbH					
DECKEL MAHO GILDEMEISTER, Bad Homburg ^{12/13)}		310	100.0		
GILDEMEISTER Italiana Deutschland GmbH, Leonberg ¹²⁾		25	100.0		
DMG Europe Holding GmbH, Klaus, Austria ¹⁰⁾		40,883	100.0		
DMG Russland o.o.o., Moskau, Russia ¹⁴⁾	RUB K	36,912	1,087	99.0	
DMG Istanbul Makine Ticaret ve Servis Limited Sirketi, Istanbul, Turkey ¹⁴⁾	TRL K	1,285	806	100.0	
DMG Asia Pacific Pte. Ltd., Singapore ¹⁴⁾	SGD K	7,869	3,997	100.0	
DMG Australia Pty. Ltd., Clayton Victoria, Australia ¹⁵⁾	AUD K	3,983	2,467	100.0	
DMG (Thailand) Co. Ltd., Bangkok, Thailand ¹⁵⁾	THB K	3,719	76	100.0	
DMG Austria GmbH, Klaus, Austria ¹⁴⁾		1,400	100.0		
DMG Malaysia SDN BHD, Puchong/Kuala Lumpur, Malaysia ¹⁴⁾	MYR K	2,047	457	100.0	
DMG Nippon K.K., Yokohama, Japan ¹⁴⁾	JPY K	46,366	333	100.0	
DMG Benelux B.V., Veenendaal, Netherlands ¹⁴⁾		19,010	100.0		
DMG Paris S.a.r.l., Les Ulis, France ¹⁶⁾		3,588	100.0		
DMG (Schweiz) AG DECKEL MAHO GILDEMEISTER, Dübendorf, Switzerland ¹⁶⁾	CHF K	9,094	5,847	100.0	
DMG (U.K.) Ltd., Luton, Great Britain ¹⁶⁾	GBP K	1,988	2,894	100.0	
DMG Benelux BVBA - SPRL., Zaventem, Belgium ¹⁶⁾		1,385	100.0		
DECKEL MAHO GILDEMEISTER Iberica S.L., Berriz, Spain ¹⁶⁾		525	100.0		
DMG Czech s.r.o., Brno, Czech Republic ¹⁶⁾	CZK K	86,870	2,997	100.0	
DMG Polska Sp.z o.o., Pleszew, Poland ¹⁶⁾	PLN K	7,013	1,813	100.0	

Affiliated companies

	Equity ¹⁾		Participation	Profit / loss for
	National currency	€ K	quota in %	the accounting period 2005 ¹⁾ € K
Production plants, sales and service companies, procurement/components (continue)				
DMG America Inc., Charlotte, USA ¹⁶⁾	USD K	12,521	10,580	100.0
DMG Chicago Inc., Schaumburg, USA ¹⁷⁾	USD K	808	683	100.0
DMG Houston Inc., Houston, USA ¹⁷⁾	USD K	823	695	100.0
DMG Los Angeles Inc., Los Angeles, USA ¹⁷⁾	USD K	1,432	1,210	100.0
DECKEL MAHO GILDEMEISTER Brasil Ltda., São Paulo, Brasil ¹⁶⁾	BRL K	1,605	582	100.0
DMG Canada Inc., Toronto, Canada ¹⁰⁾	CAD K	106	77	100.0
DECKEL MAHO GILDEMEISTER México, S.A. de C.V., Monterrey, Mexico ¹⁰⁾	MXN K	2,685	213	100.0
DMG Technology Trading (Shanghai) Co. Ltd., Shanghai, China ¹⁰⁾	CNY K	7,567	792	100.0
DMG DECKEL MAHO GILDEMEISTER (India) Pvt. Ltd., Bangalore, India ¹⁰⁾	INR K	50,513	948	100.0
DMG Machinery Taiwan Ltd., Taichung, Taiwan ¹⁰⁾	TWD K	92,649	2,379	100.0
DMG Korea Ltd., Seoul, Korea ¹⁰⁾	KRW K	2.490,779	2,091	100.0
DMG Service Drehen GmbH DECKEL MAHO GILDEMEISTER, Bielefeld ^{10/11)}			1,500	100.0
DMG Service Fräsen Pfronten GmbH, Pfronten ^{10/11)}			1,559	100.0
DMG Service Fräsen Seebach GmbH, Seebach ^{10/11)}			1,171	100.0
DMG Gebrauchtmachines GmbH, DECKEL MAHO GILDEMEISTER, Geretsried ^{10/11)}			7,517	100.0
DMG Gebrauchtmachines Czech s.r.o., Zlin, Czech Republic ¹⁸⁾	CZK K	11,693	403	100.0
DMG Trainings-Akademie GmbH DECKEL MAHO GILDEMEISTER, Bielefeld ^{10/11)}			271	100.0
DMG MICROSET GmbH, Bielefeld ¹⁰⁾			668	100.0
a & f Stahl- und Maschinenbau GmbH, Würzburg ^{10/11)}			1,112	100.0
Other				
DMG Marketing & Services SMD BHD, Selangor, Malaysia ¹⁰⁾	MYR K		-	40.0
Zarząd Bloków Mieszkalnych Spółka z o.o., Pleszew, Poland ¹⁹⁾	PLN K	294	76	100.0
Chemnitzer Grundbesitz Limited, Birmingham, Great Britain ²⁰⁾	GBP K	17	25	94.9

¹⁾ The figures correspond with the financial statements prepared in accordance with local regulations. Foreign currencies with respect to equity were translated at the market price on reporting date.

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

³⁾ Participating interest of GILDEMEISTER Italiana S.p.A.

⁴⁾ Participating interest of GILDEMEISTER Beteiligungen Aktiengesellschaft

⁵⁾ Management and profit and loss transfer agreement with GILDEMEISTER Beteiligungen Aktiengesellschaft

⁶⁾ Participating interest of DECKEL MAHO Geretsried GmbH

⁷⁾ Management and profit and loss transfer agreement with DECKEL MAHO Geretsried GmbH

⁸⁾ Participating interest of der DECKEL MAHO Pfronten GmbH

⁹⁾ Management and profit and loss transfer agreement with DECKEL MAHO Pfronten GmbH

¹⁰⁾ Participating interest 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⁾ Participating interest of DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER

¹³⁾ Management and profit and loss transfer agreement with DMG Stuttgart Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER

¹⁴⁾ Participating interest of DMG Europe Holding GmbH

¹⁵⁾ Participating interest of DMG Asia Pacific Pte. Ltd.

¹⁶⁾ Participating interest of DMG Benelux B.V.

¹⁷⁾ Participating interest of DMG America Inc.

¹⁸⁾ Participating interest of DMG Gebrauchtmachines GmbH DECKEL MAHO GILDEMEISTER

¹⁹⁾ Participating interest of FAMOT Pleszew S.A., Pleszew, Poland

²⁰⁾ Participating interest of DMG Berlin Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Berlin

GILDEMEISTER Aktiengesellschaft is a parent company within the meaning of Section 290 of the German Commercial Code (HGB) and is obligated to provide Consolidated Financial Statements. The Annual Financial Statements and the Consolidated Financial Statements are lodged at Bielefeld District Court under HRB 7144.

Income Statement
for the period 01 January to 31 December 2005
of GILDEMEISTER Aktiengesellschaft

	Notes	2005		2004	
		€	€	€	€
1. Sales revenues	13		16,938,840		16,920,994
2. Other operating income	14		4,956,436		11,987,517
				21,895,276	28,908,511
3. Cost of materials					
a) Cost of raw materials and consumables for purchased goods		81,219			59,995
b) Cost of purchased services		4,295,800	4,377,019		2,749,221
4. Personnel costs	15				
a) Wages and salaries		7,531,836			7,637,837
b) Social contributions, pensions and other benefits		2,244,376	9,776,212		2,508,653
5. Depreciation of tangible and intangible assets			1,594,098		2,072,277
6. Other operating expenses	16		20,034,003	35,781,332	34,306,715
7. Income from management and profit and loss transfer agreements	17		48,848,524		32,700,187
8. Income from affiliated companies	18		1,500,000		2,257,677
9. Other interest and similar charges	19		20,031,851		15,305,122
10. Amounts written off financial assets and short term investments			0		40,366,576
11. Cost from loss transfers	20		24,702,475	45,677,900	20,934,406
12. Interest payable and similar charges				31,791,844	-31,464,183
13. Taxes on profits	21			4,953,031	224,841
14. Annual Profit/loss				26,838,813	-31,689,024
15. Profit carried forward				0	31,689,024
16. Withdrawal from revenue provisions				13,400,000	0
17. Net profit for the year				13,438,813	0

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

Aquisition and production costs

I. Intangible assets

Industrial property and similar rights values and licences to such rights and values

II. Tangible assets

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

III. Financial assets

Shares in affiliated companies

Total fixed assets

Depreciation

I. Intangible assets

Industrial property and similar rights and values and licences to such rights and values

II. Tangible assets

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

III. Financial assets

Shares in affiliated companies

Total fixed assets

As at 01 Jan. 2005	Additions	As at Disposals	31.12.2005
€	€	€	€
16,947,563	122,741	0	17,070,304
16,947,563	122,741	0	17,070,304
29,207,987	148,157	0	29,356,144
6,411,944	514,356	0	6,926,300
0	454,111	0	454,111
35,619,931	1,116,624	0	36,736,555
356,934,644	26,125,742	26,125,742	356,934,644
356,934,644	26,125,742	26,125,742	356,934,644
409,502,138	27,365,107	26,125,742	410,741,503

Book value

As at 01 Jan. 2005	Additions	Disposals	As at 31 Dec. 2005	As at 31 Dec. 2005	As at 31 Dec. 2004
€	€	€	€	€	€
15,760,259	662,570	0	16,422,829	647,475	1,187,304
15,760,259	662,570	0	16,422,829	647,475	1,187,304
14,725,936	581,610	0	15,307,546	14,048,598	14,482,051
5,520,316	349,918	0	5,870,234	1,056,066	891,628
0	0	0	0	454,111	0
20,246,252	931,528	0	21,177,780	15,558,775	15,373,679
59,732,646	0	0	59,732,646	297,201,998	297,201,998
59,732,646	0	0	59,732,646	297,201,998	297,201,998
95,739,157	1,594,098	0	97,333,255	313,408,248	313,762,981

**Balance Sheet as at 31 December 2005
of GILDEMEISTER Aktiengesellschaft**

Assets	Notes	As at	
		31 Dec. 2005	31 Dec. 2004
		€	€
A. Fixed Assets			
I. Fixed assets	1		
Industrial property and similar rights and values and licences in such rights and values			1,187,304
		647,475	
II. Tangible assets	1		
1. Land and buildings		14,048,598	14,482,051
2. Other equipment, factory and office equipment		1,056,066	891,628
3. Payments on account and construction in progress		454,111	0
			15,373,679
III. Financial assets	2		
Shares in affiliated companies		297,201,998	297,201,998
		313,408,248	313,762,981
B. Current Assets			
I. Receivables and other assets	3		
1. Trade receivables		2,794,657	257,616
2. Affiliated companies		281,654,735	231,445,035
3. Other assets		3,455,362	2,932,544
			287,904,754
II. Securities	4		53,443
		99,325	
III. Cash in hand, Bundesbank balance and bank balances	5		45,050,520
		7,230,078	
C. Prepaid Expenses	6		318,862
		648,302	
		609,290,707	593,821,001

Equity and Liabilities

	Notes	As at	
		31 Dec. 2005	31 Dec. 2004
		€	€
A. Equity	7		
I. Subscribed equity		112,586,508	112,586,508
II. Capital provisions		71,297,862	71,297,862
III. Revenue provisions			
1. Statutory provisions		680,530	680,530
2. Other revenue provisions		115,332,901	101,932,901
IV. Net profit		13,438,813	0
		313,336,614	286,497,801
B. Provisions			
1. Pension provisions		13,781,234	14,192,371
2. Tax provisions	8	1,158,786	108,551
3. Other provisions	9	4,919,592	5,026,580
		19,859,612	19,327,502
C. Liabilities	10		
1. Bond		175,000,000	175,000,000
2. Bank loans and overdrafts		59,683,904	90,069,940
3. Trade creditors		2,587,606	1,767,891
4. Amounts owed to affiliated companies		26,650,830	10,169,906
5. Other liabilities		12,172,141	10,987,961
		276,094,481	287,995,698
		609,290,707	593,821,001

Bielefeld, 28 March 2006

GILDEMEISTER Aktiengesellschaft

The Executive Board

Dr. R. Kapitza

Prof. Dr.- Ing. R. Klinkner

Dipl.-Kfm. M. Welt

Auditor's Report

We have audited the annual financial statements, comprising the balance sheet, the income statement and the notes to the financial statements, together with the bookkeeping system, and the management report of the GILDEMEISTER Aktiengesellschaft, Bielefeld, for the business year from January 1, 2005 to December 31, 2005. The contents of the statement on the declaration of compliance ("Entsprechenserklärung") pursuant to Section 161 of the German Companies Act (AktG) included in the management report is not the object of our audit. The maintenance of the books and records and the preparation of the annual financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system, and the management report based on our audit.

We conducted our audit of the annual financial statements in accordance with section 317 HGB („German Commercial Code“) and German generally accepted standards for the audit of financial statements promulgated by the Institute of Public Auditors in Germany (IDW). 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 annual financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and the management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the annual financial statements and 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 annual financial statements comply with the legal requirements and give a true and fair view of the net assets, financial position and results of operations of the Company in accordance with German principles of proper accounting. The management report is consistent with the annual financial statements and as a whole provides a suitable view of the Company's position and suitably presents the opportunities and risks of future development.

Berlin and Frankfurt am Main, 28 March 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Rehnen
Auditor

Droste
Auditor

30 March 2006	Press conference on Financial Statements
30 March 2006	Publication of Annual Report 2005
31 March 2006	DVFA-Analysts' conference
09 May 2006	First Quarterly Report 2006 (1 January to 31 March)
19 May 2006	General meeting of shareholders at 10am in the Town Hall Bielefeld
22 May 2006	Distribution of dividend
04 August 2006	Second Quarterly Report 2006 (1 April to 30 June)
07 November 2006	Third Quarterly Report 2006 (1 July to 30 September)
14 February 2007	Press release on provisional figures for the financial year 2006
25 May 2007	General meeting of shareholders at 10am in the Town Hall Bielefeld

Subject to alteration

Forward-looking statements

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

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

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