DMG MORI

AKTIENGESELLSCHAFT

ADDITIVE MANUFACTURING

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LASERTEC

# ANNUAL REPORT 2016

DIGITISATION

ANNUAL REPORT AND
FINANCIAL STATEMENTS 2016

## MANAGEMENT REPORT OF THE FINANCIAL YEAR 2016 OF DMG MORI AKTIENGESELLSCHAFT



## NOTES FOR THE FINANCIAL YEAR 2016 OF DMG MORI AKTIENGESELLSCHAFT

MANAGEMENT REPORT

# Basis of the Company

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DMG MORI AKTIENGESELLSCHAFT, Bielefeld, and its controlled companies pursuant to Section 17 AktG (Stock Corporation Act) form the DMG MORI group (hereafter DMG MORI). DMG MORI AKTIENGESELLSCHAFT is the parent company. The purpose of the company is to function as a managing holding company (executive, service and holding functions). The sales revenues recognised for the parent company comprise almost exclusively income from performing holding and service functions for the group as well as from rental income. The ultimate parent company of DMG MORI AKTIENGESELLSCHAFT is DMG MORI COMPANY LIMITED, Nagoya, Japan.

The earnings position of DMG MORI AKTIENGESELLSCHAFT differs from that of the group in terms of level and structure. The earnings result essentially from control and profit and loss transfer agreements with two domestic subsidiaries and from income and expenses resulting from the holding functions.

A pivotal event in financial year 2016 was the increase in the interest of DMG MORI COMPANY LIMITED in DMG MORI AKTIENGESELLSCHAFT at the beginning of April to 76.03% and the conclusion of a control and profit transfer agreement with the DMG MORI GmbH. The agreement entered into force following approval at the 114th Annual General Meeting on 15 July and entry into the commercial register on 24 August.

The present management report refers exclusively to DMG MORI AKTIENGESELLSCHAFT as the parent company. A detailed presentation of the DMG MORI group is given in our Annual Report 2016 and in the Consolidated Financial Statements and group Management Report contained therein, which were prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU.

The group annual report is published in the Internet under www.ag.dmgmori.com.

## STRATEGY AND MANAGEMENT SYSTEM

DMG MORI AKTIENGESELLSCHAFT as the management holding company as part of the entire corporate strategy of DMG MORI. The corporate strategy is directed to further consolidate DMG MORI's current market position as one of the world's leading supplier of premium solutions for the manufacturing industry. Together with our Japanese parent company, DMG MORI COMPANY LIMITED, our goal as a 'Global One Company', is to focus on our core business with machine tools and Services. With innovative machine tools, automation solutions, outstanding service and cutting-edge software, we provide our customers with complete technology solutions along the entire value-added chain.

In order to be in an ideal position to meet market demands and respond to these challenges, we have implemented various realignment measures in the reporting period. These measures serve in the concentration on our core business with machine tools and services while they also help reduce complexity and raise the customer benefit.

We have realigned our global sales and services structures. Since the beginning of the year 2017, DMG MORI AKTIENGESELLSCHAFT is managing the home market Germany, the EMEA region (Europe, Middle East, Africa) as well as the markets in China and India. DMG MORI COMPANY LIMITED is responsible for its home market Japan, the USA as well as the remaining regions of Asia and America.

We have also streamlined our global Key Account Management (KAM) structures. KAM is now specifically focusing on around 100 large international customers.

Moreover, we have also realigned our pricing structure in our services business. The new 'Smart Pricing-Concept' allows us to offer our customers high-quality service at fair prices. DMG MORI's offer includes inter alia exclusive best price guarantee for spare or wear parts and transparent flat service call-out rates.

Together with DMG MORI COMPANY LIMITED, we are working on the consistent optimisation of the product portfolio. In parallel, we are developing both joint platforms as well as key components for our machines. Through the use and production across series of these key components, we raise efficiency advantages in development, production and service. We reduce complexity through standardisation. Therefore, the optimisation of our product portfolio will also continue to be a focus of our activities in the future.

In China, we realigned the production capacities. Instead of the assembly of entry-level machines, focus is now placed on complete technology solutions at our site in Shanghai. Sales and service will likewise be integrated on the group's own property. Pooling these resources and application technology area under one roof creates an additional benefit for the customers. Machine tools are still being produced locally at the production plant of DMG MORI COMPANY LIMITED in Tianjin. This measure enables us to strengthen our future viability on the Chinese market and meet customer demands for complete technology solutions.

In conclusion, these structural changes ensure decisions are made promptly and respond to market demands. They create efficiency benefits, not just for DMG MORI, but also especially for our customers.

The Executive Board of DMG MORI AKTIENGESELLSCHAFT manages the group via a rigidly defined organisational and management structure, as well as by operative goals, the achievement of which is monitored by predefined key figures. With the aid of our internal controlling and management system, as well as our standard reporting system, we monitor and manage the attainment of key-performance indicators and the efficient use of our capital. In particular, key internal target and control variables are order intake, sales revenues, earnings before taxes (EBT), free cash flow and capital expenditure. We manage the activities of the group and individual companies sustainably and with a focus on value.

The following table provides an overview of key financial and performance indicators of DMG MORI AKTIENGESELLSCHAFT:

| KEY FINANCIAL PERFORMANCE INDICATORS OF DMG MORI AKTIENGESELLSCHAFT (HGB) | actual 2015 € K | plan 2016 € K | actual 2016 € K |
|---|---|---|---|
| Sales revenues | 20,550 | around 22,500 | **21,569** |
| EBT before the transfer of profits | 82,913 | nearly constant | **79,315** |
| Investments in fixed assets / Intangible assets | 5,285 | around 8,000 | **3,391** |
| Number of employees (annual average) | 123 | slight decrease | **105** |

DMG MORI AKTIENGESELLSCHAFT has concluded the 2016 financial year with a satisfactory result. The sales revenues was slightly below the targeted figure. EBT before profit transfers was marginally below the previous year's figure and thus closely missed the projection. This is largely the effect from a onetime severance payment to a former member of the Management Board in the amount of € 7.9 million. Counteracting effects within the personnel expenses due to a reduced number of employees. The reduction mainly results due to transfers to other subsidiaries.

Investments in intangible assets and particularly, in fixed assets were lower than planned; the reduction results from savings.

## CORPORATE GOVERNANCE STATEMENT PURSUANT TO SECTION 289a OF THE GERMAN COMMERCIAL CODE (HGB)

### Corporate Governance

The Executive Board and Supervisory Board report in accordance with Section 3.10 of the German Corporate Governance Code on corporate governance at DMG MORI. The Executive Board and Supervisory Board of DMG MORI AKTIENGESELLSCHAFT always act in accordance with good corporate governance. This is reflected in responsible and transparent corporate management and corporate control. Good corporate governance is an essential element of strategic thinking and acting at all levels of the group. DMG MORI follows the recommendations of the German Corporate Governance Code.

In November 2016, the Executive Board and Supervisory Board once again issued a declaration of conformity that confirmed without reservation compliance with all recommendations of the 'Government Commission on the German Corporate Governance Code' in the version of 5 May 2015 and its publication in the electronic Federal Gazette (Bundesanzeiger) on 12 June 2015. The Executive Board and Supervisory Board likewise confirm that the recommendations of the 'Government Commission on the German Corporate Governance Code' will also be complied with in the future.

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

At DMG MORI D&O insurance (directors' and officers' liability insurance) and legal protection insurance have been taken out for members of the Supervisory Board, all the Executive Board members and managing directors. The D&O insurance contains the deductible provided for in the Code and in the pertinent statutory provisions, respectively.

## Description of the work of the Executive Board and Supervisory Board and their committees

### Responsible Management of Opportunities and Risks

For us, part of good corporate governance is the comprehensive and systematic management of opportunities and risks within corporate management. The opportunities and risk management system of DMG MORI AKTIENGESELLSCHAFT is integrated in the opportunities and risk management system of the group.

Within the DMG MORI group's opportunity management system, our main focus is on significant individual opportunities, macroeconomic and industry-specific opportunities, as well as opportunities relating to corporate strategy and business performance.

Our risk management system includes an early risk identification system, an internal control system (ICS), and the central insurance management. Our group-wide early risk identification system allows us to identify and control future development risks using a forward-looking approach. The recorded, assessed and controlled risks in question are circumstances which contain an inherent element of potential risk due to the prevailing environmental situation, and which are recorded, assessed and controlled in an adequate manner.

Our early risk identification system consists of five basic elements: the company specific manual on risk management, the central DMG MORI AKTIENGESELLSCHAFT risk management officer, decentralised risk management officers in each group company, area-specific risk management systems, which assess and prioritise individual risks, and the risk reporting system on corporate level and for each individual company with the accompanying ad hoc reporting system for material risks.

The early risk identification system at the DMG MORI group is structured in such a way that significant risks are systematically identified, assessed, aggregated, monitored and notified.

Risks in individual company divisions will be identified once per quarter according to prescribed risk areas. All potential risks thus recorded are analysed and assessed according to quantitative variables; hereby measures to reduce risks are also taken into account. Any risk which threat the continuation of business is reported immediately, also outside of the periodic reporting.

To be able to present the overall risk situation of the group, we determine the individual local and central risks as well as the group effects. The expected accumulated value from the risks identified and assessed for the group is offset against current group equity, thus determining the risk bearing capacity. This is a key risk control indicator.

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. They discuss the causes of the current risk position and the corresponding measures taken in-depth.

The early risk identification system set up by the Executive Board pursuant to Section 91(2) German Stock Corporation Act (AktG) is examined by the auditors, is continuously being further developed within the group and is adapted to suit changing circumstances on an ongoing basis.

The existing internal control system of the DMG MORI group serves to minimise or eliminate controllable risks in day-to-day business processes. Based on an analysis and documentation of basic business processes, which is updated annually, controllable risks are registered and eliminated or minimised to an acceptable level by arranging the organisational structure and workflow management accordingly, and by implementing suitable control measures. This is supported by existing internal guidelines and instructions as part of the ICS. The effectiveness of the ICS is judged by annual self-assessments. The self-assessment results are reported to the Executive and Supervisory Boards. The ICS of DMG MORI AKTIENGESELLSCHAFT is designed to comply with both the legal requirements of the German Stock Corporation Act and applicable requirements of the 'Japanese Financial Instruments and Exchange Act' (J-SOX / Naibutousei).

To minimise or eliminate risks, the DMG MORI group also deploys central insurance management. This determines the group-wide insurance strategy, and is responsible for the operational implementation.

**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 reasons therefore given. The Executive Board forwards the half-year and quarterly reports to the Finance and Audit Committee and discusses the reports in detail with the Finance and Audit Committee before their publication.

The articles of association and the rules of procedure provide for the right of consent of the Supervisory Board to a wide range of business transactions proposed by the Executive Board.

**Objectives in the Composition of the Supervisory Board**

In its meeting on 22 September 2015, the Supervisory Board passed a resolution on the voluntary commitment pursuant to Section 5.4.1 DCGK (German Corporate Governance Code):

- The Supervisory Board should be staffed with the same number of owners' representatives with experience in managing or governing companies with global operations;
- Employees from key DMG MORI sectors should be taken into consideration as employee representatives;
- Knowledge about DMG MORI and key markets for DMG MORI, as well as knowledge about technical contexts and technology management should be taken into consideration;
- Specialist knowledge and experience in the use of accounting principles, internal monitoring procedures and compliance processes should be taken into consideration;
- At least two male and two female Supervisory Board members should be elected for both the owners' and the employees' sides, as soon as possible, but no later than the election of the new Supervisory Board in 2018;
- At least 50% of all Supervisory Board members should be independent;
- Conflicts of interest should be avoided;
- An upper age limited of 70 years at the time of election to the Supervisory Board should be observed;
- Nominations for future staffing of the Supervisory Board should also look, in particular, to the interests of the company, while observing the objectives mentioned above.

A resolution was also passed on a maximum limit of five terms of office. The appointment of Irene Bader as a member of the Supervisory Board at the 114th Annual General Meeting was an important step towards implementing our voluntary commitment within the group.

**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 business opportunities that the company is entitled to, nor may they grant any unjustified benefits to any other persons. Any conflicts of interest that arise out of these or any other situations must be notified to the Supervisory Board without delay and must be assessed and, as necessary, authorised by the Supervisory Board. The Supervisory Board reports to the Annual General Meeting on any conflicts of interest and on how they are dealt with.

**Shareholders and Annual General Meeting**

Our shareholders exercise their rights at the Annual General Meeting. The Annual General Meeting passes resolutions, inter alia, on the approval of the actions of the Supervisory Board and Executive Board, as well as on the election of the annual auditor or any changes to the articles of association. Shareholders may exercise their voting right in person. Shareholders who are unable to attend the Annual General Meeting personally are given the opportunity of 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 instruction.

In addition, it is possible to obtain information about the Annual General Meeting timely via the Internet. All documents and information are made available to shareholders in good time on our website.

**Transparency**

We strive to ensure that our corporate communication offers the best possible transparency and relevance for all stakeholders, such as shareholders, capital lenders, business partners and employees, as well as for the general public. Anyone interested in obtaining further information on the group's current position, can access our website at any time. Press releases, business and quarterly reports, as well as a detailed financial calendar in both German and English are published on our website.

**Compliance**

We are aware of our responsibility towards our business partners, shareholders and employees, as well as to the environment and to society. We therefore specifically undertake to uphold clear principles and values. In particular, this includes observing and upholding legal requirements and regulatory standards as well as voluntary commitments and our own internal guidelines. Our compliance management system is designed to safeguard our principles and values. In the reporting year, we have again successfully subjected our Compliance Management System to an extensive audit of effectiveness. Further information on our Compliance Management System is available on our website.

**Statutory Gender Quota / Diversity Requirements**

Based on the Act on Equal Participation of Women and Men in Executive Positions in the Private and Public Sector adopted on 24 April 2015, the Supervisory Board already defined quotas for the percentage of women on the Executive Board in 2015. In 2015, the Executive Board also defined targets for the percentage of women at senior management levels below Executive Board level.

- Considering this legal framework, the Supervisory Board passed a resolution on 22 September 2015 specifying that a quota of 20% for the Executive Board of DMG MORI AKTIENGESELLSCHAFT should be occupied by female members of staff by 30 June 2017.
- As a result of flat hierarchies, at DMG MORI AKTIENGESELLSCHAFT only one management level exists below that of the Executive Board. The target quota set by the Executive Board on 9 September 2015 for this management level was 6% for women. This target figure should be achieved by 30 June 2017.

With regard to the Supervisory Board, the statutory 30% quota has so far not been met, as there have been no suitable vacancies within the Board. The shareholders' and employees' representatives have decided to meet these legal requirements separately from each other. Currently, both the shareholders' and employees' representatives have a female member on the Supervisory Board. With regard to future vacancies, the Supervisory Board will take into consideration the increase in the quota for female members.

**Financial Accounting and Annual Audit**

We have again agreed with the annual auditors, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, for this reporting period that the chairman of the Supervisory Board and the chairman of the Finance and Audit Committee have to be informed without delay of any grounds for exclusion or bias that may arise during the audit insofar as these cannot be eliminated. In addition, the auditor shall also immediately report any findings and events that arise during the audit of the financial statements and consolidated financial statements that have a significant bearing on the work 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.

**Share Ownership of the Executive Board and Supervisory Board Members**

Only one member of the Supervisory Board is an indirect shareholder in DMG MORI AKTIENGESELLSCHAFT. The Supervisory Board member Dr.-Ing. Masahiko Mori holds shares in DMG MORI COMPANY LIMITED (Nagoya, Japan). DMG MORI COMPANY LIMITED, according to the notifications of voting rights disclosed until 31 December 2016 indirectly held a 76.03% share of voting rights in the share capital of DMG MORI AKTIENGESELLSCHAFT. Hence, Dr.-Ing. Masahiko Mori is indirectly a shareholder of DMG MORI AKTIENGESELLSCHAFT.

Pursuant to Section 15a of the German Securities Trading Law (WpHG), members of the Supervisory Board or Executive Board, and other individuals subject to reporting requirements, must notify both the company and the Federal Financial Supervisory Authority (BaFin) whenever they buy or sell company shares or other company securities. The company is then legally required to publish such notification without delay. According notifications made by DMG MORI AKTIENGESELLSCHAFT can be viewed on the company website at all times.

**Suggestions of the German Corporate Governance Codex**

DMG MORI also complies with the suggestions of the German Corporate Governance Codex to a large extent. Deviations arise at present in the area of the Annual General Meeting. The Code suggests that it should be possible to contact the proxy exercising the shareholder's voting rights as instructed by the shareholder during the Annual General Meeting. For organisational reasons, no provision has been made to livestream the entire Annual General Meeting.

**Supervisory Board and Committees**

Pursuant to the articles of association, the Supervisory Board comprises twelve members. In accordance with the German Codetermination Act (Mitbestimmungsgesetz), in addition to the six owners' representatives there are six employee representatives, one of whom represents the executive staff, on the Supervisory Board. The term of office of the incumbent Supervisory Board expires upon the end of the Annual General Meeting 2018.

The members of the Supervisory Board are named in the notes.

The Supervisory Board held seven meetings in the financial year 2016. The Supervisory Board also reported on the scope of its work in the Report of the Supervisory Board in the group annual report.

In financial year 2016 the Supervisory Board of DMG MORI AKTIENGESELLSCHAFT held meetings with the following six committees: the Finance and Audit Committee, the Personnel-, Nominations and Remuneration Committee, Shareholder Business Relationships Committee (AfGA), the Nominations Committee, the Technology and Development Committee and the Capital Market Committee. The Supervisory Board explains the scope of its work in the committees in its report in the group annual report.

The Shareholder Transaction (AfGA) and Capital Issues committees were dissolved at the Supervisory Board meeting on 20 September 2016.

**Remuneration Report**

Pursuant to Section 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 DMG MORI AKTIENGESELLSCHAFT**

The Supervisory Board's remuneration is set by the Annual General Meeting and governed by Article 12 of the Articles of Association of DMG MORI AKTIENGESELLSCHAFT. The components of the remuneration for the Supervisory Board include the fixed remuneration that each member of the Supervisory Board receives, remuneration for committee work and attendance fees for meetings.

In financial year 2016, the fixed remuneration for each individual member of the Supervisory Board was € 60,000; the chairman received 2.5-times that amount (€ 150,000) and the deputy chairman 1.5-times that amount (€ 90,000). The fixed remuneration therefore totalled € 893,361 (previous year: € 900,000).

Remuneration for committee work totalled € 480,884 (previous year: € 434,022) and took account of the work carried out by the Finance and Audit Committee, the Personnel, Nominations and Remuneration Committee, the Technology and Development Committee, the Committee for Capital Market Issues in 2016 and the Shareholder Business Relationships Committee. The individual committee members each received € 18,000. The chairperson of a committee also received an additional fixed remuneration of a further € 18,000 and the deputy chairperson a further € 6,000.

The members of the Supervisory Board and its committees receive an attendance fee of € 1,500 for each Supervisory Board and committee meeting that they participate in as a member. In total, attendance fees for financial year 2016 amounted to € 255,000 (previous year: € 267,000).

The Supervisory Board remuneration in 2016 was made up as follows:

**REMUNERATION OF THE SUPERVISORY BOARD OF DMG MORI AKTIENGESELLSCHAFT**

| | Fixed remuneration in € | Committee remuneration: Finance and Audit Committee (F&A) in € | Committee remuneration: Personnel, Nominations and Remuneration Committee (PNR) in € | Committee remuneration: Technology and Development Committee (T&D) in € | Committee remuneration: Committee for Capital Market Matters (15 April 2016 to 20 Sep. 2016) in € | Committee remuneration: Shareholder Business Relationships Committee (until 20 Sep. 2016) in € | Meeting attendance fees in € | **Total in €** |
|---|---|---|---|---|---|---|---|---|
| Prof. Dr.-Ing. Raimund Klinkner<br>Chairman SB<br>Chairman T&D<br>Chairman PNR | 150,000 | 18,000 | 36,000 | 36,000 | 15,541 | 0 | 33,000 | 288,541 |
| Dr. Helmut Rothenberger<br>Deputy chairman SB<br>(SB member until 30 April 2016) | 29,754 | 0 | 5,951 | 0 | 0 | 5,951 | 10,500 | 52,156 |
| Irene Bader<br>Member PNR since 02 June 2016<br>(SB member since 24 May 2016) | 36,230 | 0 | 10,426 | 0 | 0 | 0 | 9,000 | 55,656 |
| Ulrich Hocker<br>Deputy chairman SB<br>since 02 June 2016<br>Chairman Shareholder Business Relationships Committee | 77,377 | 0 | 18,000 | 0 | 7,770 | 25,967 | 25,500 | 154,614 |
| Prof. Dr. Edgar Ernst<br>Chairman F&A<br>Chairman capital market | 60,000 | 36,000 | 0 | 0 | 7,770 | 0 | 22,500 | 126,270 |
| Dr.-Ing. Masahiko Mori | 60,000 | 18,000 | 0 | 18,000 | 0 | 0 | 21,000 | 117,000 |
| Prof. Dr.-Ing. Berend Denkena | 60,000 | 0 | 0 | 18,000 | 0 | 0 | 15,000 | 93,000 |
| Dr. Constanze Kurz* | 60,000 | 18,000 | 18,000 | 18,000 | 7,770 | 0 | 27,000 | 148,770 |
| Dietmar Jansen* | 60,000 | 0 | 0 | 0 | 0 | 0 | 9,000 | 69,000 |
| Mario Krainhöfner*<br>Deputy chairman SB | 90,000 | 0 | 18,000 | 0 | 0 | 12,984 | 10,500 | 131,484 |
| Matthias Pfuhl | 60,000 | 18,000 | 0 | 18,000 | 0 | 0 | 22,500 | 118,500 |
| Peter Reinoss* | 60,000 | 0 | 0 | 0 | 7,770 | 0 | 15,000 | 82,770 |
| Hermann Lochbihler<br>Deputy chairman SB | 90,000 | 18,000 | 18,000 | 18,000 | 0 | 12,984 | 34,500 | 191,484 |
| **Total** | **893,361** | **126,000** | **124,377** | **126,000** | **46,621** | **57,886** | **255,000** | **1,629,245** |

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

For financial year 2016, the total remuneration of the Supervisory Board was € 1,629,245 (previous year: € 1,601,022).

### Remuneration of the Executive Board of DMG MORI AKTIENGESELLSCHAFT

The remuneration of the Executive Board is discussed and decided by a plenary meeting of the Supervisory Board.

Members of the Executive Board receive direct and indirect remuneration components. The indirect remuneration component primarily consist of pension plan expenses. The direct remuneration of members of the Executive Board of DMG MORI 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). The remuneration components are designed in such a way that they present 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, primarily, 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, the success and the future prospects of the company within its comparative environment.

The Supervisory Board meeting on 24 November 2016 confirmed the existing structure of Executive Board remuneration consisting of a fixed component, STI, individual and performance-oriented remuneration, LTI and contributions to pension plans. The STI considers company-related targets for the respectively relevant financial year. The personal and performance-oriented remuneration includes personal goals for each member of the Board. The LTI was adjusted so that it will have a period of three years starting from 2017. Furthermore, the LTI 2017–2019 will no longer take the share price but the result of DMG MORI AKTIENGESELLSCHAFT into account as the key indicator, inclusively a bottom threshold for the result. The Supervisory Board has set caps on the overall direct remuneration of the Executive Board.

The total remuneration received by the Executive Board totalled € 10,498 K (previous year: € 11,102 K). Of this sum, fixed salaries accounted for € 2,134 K (previous year: € 2,063 K) and STI accounted for € 4,638 K (previous year: € 3,889 K). Individual performance-based remuneration accounted for € 371 K (previous year: € 3,400 K). The value of the LTI totalled € 2,665 K (previous year: € 827 K). Benefits in kind amounted to € 65 K (previous year: € 84 K). The expense for pension plan amounted to € 625 K (previous year: € 839 K). The total remuneration received by the Executive Board in the year 2016 was as follows:

| EXECUTIVE BOARD DIRECT REMUNERATION (IN € K) | Fixum (€ K) | | STI (€ K) | | LTI (€ K) | | Performance remuneration (€ K) | | Perquisite (€ K) | | Pension Plan (€ K) | | Total (€ K) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2015 | 2016 | 2015* | 2016** | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | **2016** |
| Christian Thönes Chairman as of 15 April 2016 | 420 | 759 | 972 | 2,138 | 236 | 636 | 100 | 171 | 21 | 21 | 120 | 210 | 1,869 | 3,935 |
| Dr. Maurice Eschweiler | 318 | 547 | 972 | 1,250 | 236 | 429 | 100 | 100 | 16 | 18 | 50 | 150 | 1,692 | 2,494 |
| Björn Biermann Executive Board Member since 27 Nov. 2015 | 25 | 503 | – | 1,250 | – | – | – | 100 | 1 | 17 | 50 | 100 | 76 | 1,970 |
| Dr. Rüdiger Kapitza, Chairman until 06 April 2016 | 1,300 | 325 | 1,945 | – | 355 | 1,600 | 3,200 | – | 46 | 9 | 619 | 165 | 7,465 | 2,099 |
| **Total** | **2,063** | **2,134** | **3,889** | **4,638** | **827** | **2,665** | **3,400** | **371** | **84** | **65** | **839** | **625** | **11,102** | **10,498** |

* Fair-value of the LTI at the date of grant

** Value of the LTI-Tranche 2013–2016

A severance payment arising from the termination of the contract with the former CEO, Dr. Rüdiger Kapitza, resulted in the amount of € 7,933 K. Dr. Rüdiger Kapitza holds a continued entitlement to the subsequent LTI tranches for 2013 – 2016, 2014 – 2017 and 2015 – 2018.

The former Executive Board member André Danks received a payment of € 331 K as direct remuneration in the financial year 2016 until 31 December 2016. Contribution under the pension plan amounted to € 50 K. The employment contract concluded with André Danks, which has a term until 10 March 2017, remains unaffected for the time being.

The following table shows the remuneration of the board in accordance with the German Corporate Governance Codex (DCKG). The table 'Allocated grants' shows the granted remuneration levels for members of the Board for the financial year in question, including minimum and maximum salaries. The table 'Inflow for the financial year' details the salaries paid to the members of the Executive Board for the financial year in question.

**ALLOCATED GRANTS** (IN € K)

| | | | | 2015 | 2016 | 2016 (MIN) | 2016 (MAX) |
|---|---|---|---|---|---|---|---|
| Mr. Thönes | Chairman | since | Fixum | 420 | 759 | 759 | 759 |
| | | 15 April 2016 | Perquisite | 21 | 21 | 21 | 21 |
| | Executive Board member | since | **Sum** | **441** | **780** | **780** | **780** |
| | | 01 Jan. 2012 | STI | 600 | 855 | 0 | 2,138 |
| | | | Performance remuneration | 100 | 171 | 0 | 171 |
| | | | LTI 2015 – 2018 | 236 | – | – | – |
| | | | LTI 2016 – 2019 | – | 517 | 0 | 1,800 |
| | | | **Sum** | **936** | **1,543** | **0** | **4,109** |
| | | | Pension [1] | 120 | 210 | 210 | 210 |
| | | | **Total** | **1,497** | **2,533** | **990** | **5,099** |
| Dr. Eschweiler | Executive Board | since | Fixum | 318 | 547 | 547 | 547 |
| | Industrial Services | 01 April 2013 | Perquisite | 16 | 18 | 18 | 18 |
| | | | **Sum** | **334** | **565** | **565** | **565** |
| | | | STI | 600 | 500 | 0 | 1,250 |
| | | | Performance remuneration | 100 | 100 | 0 | 100 |
| | | | LTI 2015 – 2018 | 236 | – | – | – |
| | | | LTI 2016 – 2019 | – | 517 | 0 | 1,200 |
| | | | **Sum** | **936** | **1,117** | **0** | **2,550** |
| | | | Pension [1] | 50 | 150 | 150 | 150 |
| | | | **Total** | **1,320** | **1,832** | **715** | **3,265** |
| Mr. Biermann | Executive Board | since | Fixum | 25 | 503 | 503 | 503 |
| | Finance | 27 Nov. 2015 | Perquisite | 1 | 17 | 17 | 17 |
| | | | **Sum** | **26** | **520** | **520** | **520** |
| | | | STI | – | 500 | 0 | 1,250 |
| | | | Performance remuneration | – | 100 | 0 | 100 |
| | | | LTI 2015 – 2018 | – | – | – | – |
| | | | LTI 2016 – 2019 | – | 517 | 0 | 1,200 |
| | | | **Sum** | **–** | **1,117** | **0** | **2,550** |
| | | | Pension [1] | 50 | 100 | 100 | 100 |
| | | | **Total** | **76** | **1,737** | **620** | **3,170** |

1) Payments for pension provisions as defined contribution

**ALLOCATED GRANTS** (IN € K)

| | | | | 2015 | 2016 | 2016 (MIN) | 2016 (MAX) |
|---|---|---|---|---|---|---|---|
| Dr. Kapitza | Chairman | until | Fixum | 1,300 | 325 | 325 | 325 |
| | | 06 April 2016 | Perquisite | 46 | 9 | 9 | 9 |
| | Executive Board member | from 01 Jan. | **Sum** | **1,346** | **334** | **334** | **334** |
| | | 1992 to | STI | 1,200 | – | – | – |
| | | 06 April 2016 | Performance remuneration | 3,200 | – | – | – |
| | | | LTI 2015 – 2018 | 355 | – | – | – |
| | | | LTI 2016 – 2019 | – | – | – | – |
| | | | **Sum** | **4,755** | – | – | – |
| | | | Pension 2) | 619 | 165 | 165 | 165 |
| | | | **Total** | **6,720** | **499** | **499** | **499** |
| Dr. Schmidt | Deputy chairman | until | Fixum | 500 | – | – | – |
| | | 31 Dec. 2015 | Perquisite | 30 | – | – | – |
| | Executive Board member | from | **Sum** | **530** | – | – | – |
| | | 01 Oct. 2006 | STI | 600 | – | – | – |
| | | to 31 Dec. 2015 | Performance remuneration | 100 | – | – | – |
| | | | LTI 2015 – 2018 | 236 | – | – | – |
| | | | LTI 2016 – 2019 | – | – | – | – |
| | | | **Sum** | **936** | – | – | – |
| | | | Pension 1) | 120 | – | – | – |
| | | | **Total** | **1,586** | – | – | – |
| Mr. Danks | Executive Board Finance | Since 11 March 2014 Revocation of the appointment to the Executive Board on 26 Nov. 2015 | Fixum | 288 | – | – | – |
| | | | Perquisite | 13 | – | – | – |
| | | | **Sum** | **301** | – | – | – |
| | | | STI | 542 | – | – | – |
| | | | Performance remuneration | 90 | – | – | – |
| | | | LTI 2015 – 2018 | – | – | – | – |
| | | | LTI 2016 – 2019 | 213 | – | – | – |
| | | | **Sum** | **845** | – | – | – |
| | | | Pension 1) | 45 | – | – | – |
| | | | **Total** | **1,191** | – | – | – |
| **Total** | | | Fixum | 2,252 | 2,134 | 2,134 | 2,134 |
| | | | Perquisite | 127 | 65 | 65 | 65 |
| | | | **Sum** | **2,978** | **2,199** | **2,199** | **2,199** |
| | | | STI | 3,542 | 1,855 | 0 | 4,638 |
| | | | Performance remuneration | 3,590 | 371 | 0 | 371 |
| | | | LTI 2015 – 2018 | 1,276 | 0 | 0 | 0 |
| | | | LTI 2016 – 2019 | – | 1,551 | 0 | 4,200 |
| | | | **Sum** | **8,408** | **3,777** | **0** | **9,209** |
| | | | Pension | 1,004 | 625 | 625 | 625 |
| | | | **Total** | **12,390** | **6,601** | **2,824** | **12,033** |

1) Payments for pension provisions as defined contribution

2) Pro-rata amount of service costs

**INFLOW FOR THE FINANCIAL YEAR** (IN € K)

| | | | | 2015 | 2016 |
|---|---|---|---|---|---|
| Mr. Thönes | Chairman | since | Fixum | 420 | 759 |
| | | 15 April 2016 | Perquisite | 21 | 21 |
| | Executive Board member | since | **Sum** | **441** | **780** |
| | | 01 Jan. 2012 | STI | 972 | 2,138 |
| | | | Performance remuneration | 100 | 171 |
| | | | LTI 2012 – 2015 | 489 | – |
| | | | LTI 2013 – 2016 | – | 636 |
| | | | **Sum** | **1,561** | **2,945** |
| | | | Pension [1] | 120 | 210 |
| | | | **Total** | **2,122** | **3,935** |
| Dr. Eschweiler | Executive Board Industrial Services | since | Fixum | 318 | 547 |
| | | 01 April 2013 | Perquisite | 16 | 18 |
| | | | **Sum** | **334** | **565** |
| | | | STI | 972 | 1,250 |
| | | | Performance remuneration | 100 | 100 |
| | | | LTI 2012 – 2015 | – | – |
| | | | LTI 2013 – 2016 | – | 429 |
| | | | **Sum** | **1,072** | **1,779** |
| | | | Pension [1] | 50 | 150 |
| | | | **Total** | **1,456** | **2,494** |
| Mr. Biermann | Executive Board Finance | since 27 Nov. 2015 | Fixum | 25 | 503 |
| | | | Perquisite | 1 | 17 |
| | | | **Sum** | **26** | **520** |
| | | | STI | – | 1,250 |
| | | | Performance remuneration | – | 100 |
| | | | LTI 2012 – 2015 | – | – |
| | | | LTI 2013 – 2016 | – | – |
| | | | **Sum** | **–** | **1,350** |
| | | | Pension [1] | 50 | 100 |
| | | | **Total** | **76** | **1,970** |
| Dr. Kapitza | Chairman | until 06 April 2016 | Fixum | 1,300 | 325 |
| | | | Perquisite | 46 | 9 |
| | Executive Board member | from | **Sum** | **1,346** | **334** |
| | | 01 Jan. 1992 | STI | 1,945 | – |
| | | to | Performance remuneration | 3,200 | – |
| | | 06 April 2016 | LTI 2012 – 2015 | 1,468 | – |
| | | | LTI 2013 – 2016 | – | 1,600 |
| | | | **Sum** | **6,613** | **1,600** |
| | | | Pension [2] | 619 | 165 |
| | | | **Total** | **8,578** | **2,099** |

1) Payments for pension provisions as defined contribution
2) Pro-rata amount of service costs

**INFLOW FOR THE FINANCIAL YEAR** (IN € K)

| | | | | 2015 | 2016 |
|---|---|---|---|---|---|
| Dr. Schmidt | Deputy chairman | until 31 Dec. 2015 | Fixum | 500 | – |
| | | | Perquisite | 30 | – |
| | Executive Board member | from | **Sum** | **530** | – |
| | | 01 Oct. 2006 | STI | 972 | – |
| | | to | Performance remuneration | 100 | – |
| | | 31 Dec. 2015 | LTI 2012 – 2015 | 978 | – |
| | | | LTI 2013 – 2016 | – | 1,000 |
| | | | **Sum** | **2,050** | **1,000** |
| | | | Pension [1] | 120 | – |
| | | | **Total** | **2,700** | **1,000** |
| Mr. Danks | Executive Board Finance | Since 11 March 2014 Revocation of the appointment to the Executive Board on 26 Nov. 2015 | Fixum | 288 | – |
| | | | Perquisite | 13 | – |
| | | | **Sum** | **301** | – |
| | | | STI | 879 | – |
| | | | Performance remuneration | 90 | – |
| | | | LTI 2012 – 2015 | – | – |
| | | | LTI 2013 – 2016 | – | – |
| | | | **Sum** | **969** | – |
| | | | Pension [1] | 45 | – |
| | | | **Total** | **1,315** | – |
| Mr. Bachmann | Executive Board production and technology | until 31 Dec. 2013 | Fixum | – | – |
| | | | Perquisite | – | – |
| | | | **Sum** | – | – |
| | | | STI | – | – |
| | | | Performance remuneration | – | – |
| | | | LTI 2012 – 2015 | 900 | – |
| | | | LTI 2013 – 2016 | – | 900 |
| | | | **Sum** | **900** | **900** |
| | | | Pension [1] | – | – |
| | | | **Total** | **900** | **900** |
| **Total** | | | Fixum | 2,851 | 2,134 |
| | | | Perquisite | 127 | 65 |
| | | | **Sum** | **2,978** | **2,199** |
| | | | STI | 5,740 | 4,638 |
| | | | Performance remuneration | 3,590 | 371 |
| | | | LTI 2012 – 2015 | 3,835 | – |
| | | | LTI 2013 – 2016 | – | 4,565 |
| | | | **Sum** | **13,165** | **9,574** |
| | | | Pension | 1,004 | 625 |
| | | | **Total** | **17,147** | **12,398** |

1) Payments for pension provisions as defined contribution

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

The STI is based on targets relating to key figures. In 2016 the earnings after taxes (EAT) provided the reference value used. The target figures are on a sliding scale and are specified anew each year. In addition, the STI includes a ceiling limit (CAP) in an amount of € 1,250 K for 2016 for a full member of the Executive Board. The CAP is likewise fixed anew every year. As a pre-condition for the payment of the STI, the sustainability factor of the group (total of expenses for R&D and corporate communication, 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 long-term remuneration component, the LTI combines targets in relation to the EAT of the company with the performance of the company's share. A cap has been set at twice 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, no LTI payment is 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 any third party. The tranches awarded at the beginning of each year have a term of four years. Each tranche is defined by an assumed amount of money that is converted into a number of performance units using the average share price. Following expiry of the relevant period, the amount to be paid out is calculated from the number of units. From the LTI tranche 2013 – 2016, which was awarded on 31 December 2016 and will be paid out in 2017, the resulting payment totals € 4,565 K (previous year's tranche 2012 – 2015: € 3,835 K).

With respect to the provisions of the German Act on the Appropriateness of Management Board Remuneration (VorstAG) in 2009, the Supervisory Board passed a resolution extending the term of a tranche of four years and specifying the EAT (earnings after taxes) as the success factor.

The tranches awarded for financial year 2016 will be allocated on 31 December 2019 and will be paid out in 2020, taking into account the average EAT (earnings after taxes) achieved of the last four years and the respective share price. Due to the control and profit transfer agreement between a subsidiary of DMG MORI COMPANY LIMITED and DMG MORI AKTIENGESELLSCHAFT, in 2016, the Supervisory Board of DMG MORI AKTIENGESELLSCHAFT adopted a resolution to guarantee a stable calculation basis for LTI. Imputed values were defined for the EAT parameter and share price for the LTI between 2013 – 2016, 2014 – 2017, 2015 – 2018 and 2016 – 2019.

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 LTI, as well as the individual performance remuneration, are variable, which means these are not a secure remuneration.

Remuneration in kind arises mainly from the value to be assessed in accordance with applicable tax regulations for the use of company cars 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 benefits plan existed for the former chairman of the Executive Board, Dr. Rüdiger Kapitza.

The special purpose payments to the defined contribution pension plan amounted in total to € 460 K (previous year: € 385 K). The expense for the financial year just ended amounted to € 625 K (previous year: € 1,004 K).

Advances in favour of members of the Executive Board – as for the rest also in favour of members of the Supervisory Board – were not granted. Companies in the DMG MORI AKTIENGESELLSCHAFT group did not pay any remuneration directly to members of governing bodies for services personally rendered, in particular consulting and introduction services. During the reporting year, expenses accrued for consulting services of the Institute for Manufacturing Excellence GmbH, where Prof. Dr.-Ing. Raimund Klinkner is managing partner, in the amount of € 1,726 K (previous year: € 1,529 K). As of 31 December 2016, the pending liabilities amounted to € 0 K (previous year: € 109 K).

Former members of the Executive Board and their surviving dependants were paid € 1,088 K in pensions (previous year: € 605 K).

This also includes an amount of € 49 K (gross) that was paid in the financial year 2016 to the former chairman of the Executive Board, Dr. Rüdiger Kapitza, from insurance benefits financed by the salary conversion of variable remuneration.

The amount of pension obligations for former members of the Executive Board and their surviving dependants amounted to € 24,488 K (previous year: € 9,863 K).

## RESEARCH AND DEVELOPMENT

The DMG MORI AKTIENGESELLSCHAFT is responsible for research and development strategy. All research and development activities within the group are coordinated by the executive portfolio of product development, production and technology. The implementation is carried out at the group company level.

As an innovation and technology leader, we stand out from our competitors in particular through our wide range of innovative machines, technology and automation solutions, software products and services. We thereby focus on automation, digitisation and ADDITIVE MANUFACTURING. We have the expertise and products to make the benefits of Industrie 4.0 available to our customers.

Focal points of the research and development work are:

- Development of innovative machines (world premieres) as well as adjustment and consolidation of the product portfolio (Streamlining),
- Further expansion of the product portfolio with cutting-edge manufacturing technologies particularly in ADDITIVE MANUFACTURING,
- Intelligent automation of machines and plants,
- Sustainable shaping of digitisation in the production area by DMG MORI Software Solutions (CELOS, DMG MORI Technologiecycles DMG MORI POWERTOOLS) and ISTOS,
- Standardisation of components (SCOPE) and increase in value chain depth for core components (DMG MORI COMPONENTS),
- Technology excellence through industry-specific development of future-oriented and complete production solutions at our cross-plant Technology Excellence Centres (Aerospace, Die & Mold and Medical).

At € 46.8 million, expenses for research and development (R&D) were around 2.0% above the previous year's figure (€ 45.9 million). Together with DMG MORI COMPANY LIMITED, in the reporting year, we presented 8 world premieres at 73 national and international trade fairs, as well as at open house exhibitions, thus demonstrating our innovative capacity. This included seven of our own new developments and one joint development. The group's research and development activities are decentralised and are coordinated with each other through a central product development body. The close cooperation with DMG MORI COMPANY LIMITED is geared towards developing and merging our joint product portfolio. For this purpose, we are conducting cooperation developments and discontinuing the marketing and production of selected products. This has reduced the number of machines within our portfolio by around 30 machines (corresponds to −14% compared to the previous year). You can find more detailed information on research and development in the group management report.

MANAGEMENT REPORT

# Report on Economic Position

P. 21 ____ Opportunities and Risk Management Report
P. 26 ____ Forecast Report

**Overall Economic Development**

According to preliminary calculations by the Institute for World Economics (IFW) of Kiel University, economic growth in 2016 rose by +3.1%.

## DEVELOPMENT OF THE MACHINE TOOL BUILDING INDUSTRY

**International Development**

According to the information of the German Machine Tool Builders' Association (VDW), the global machine tool market declined overall in the year 2016. The world consumption decreased by −2.5% to € 67.8 billion (previous year: € 69.5 billion). Asia recorded a decline of −2.8% (previous year: +5.2%). In North and South America, the development was likewise declining by −3.3% in 2016 (previous year: +10.4%). In Europe, demand for machine tools rose moderately by 2.4% (previous year: +8.9%).

In China, the worldwide largest market, the consumption of machine tools fell by 0.5% to € 21.8 billion (previous year: € 21.9 billion). The USA, being the second most important market for machine tools, recorded a reduction by −1.6% to € 7.8 billion (previous year: € 7.9 billion). In the third largest market Germany, consumption rose by 6.3% to € 6.2 billion (previous year: € 5.8 billion). With an increase of 10.9%, Japan was the strongest growing market and came in fourth at € 5.4 billion (previous year: € 4.8 billion). South Korea remained fifth largest market despite a decline of −21.1% to € 3.2 billion (previous year: € 4.0 billion). The ten most important consumption markets accounted in total for 79% of the machine tool consumption worldwide.

The VDW calculated for global production a volume of € 67.8 billion (previous year: € 69.5 billion). At +3.9%, China was again worldwide largest producer of machine tools in the year 2016 with a volume of € 17.2 billion (previous year: € 16.6 billion). Germany surpassed Japan with a production volume of € 11.3 billion (+0.4%; previous year: € 11.2 billion). Production in Japan decreased by −8.4% to € 11.1 billion (previous year: € 12.1 million). The ten key production countries account for 91% of all machine tools worldwide.

**German Machine Tool Industry**

The ifo business climate index for trade and industry is the leading indicator for economic development in Germany. The survey indicates for the main buyer industries (mechanical engineering, road vehicle manufacturing and electrical engineering) index values for the most part that are above the level of the previous year and improved to the highest level since February 2012.

In 2016, the German machine tool industry recorded growing order intake, increasing production as well as increasing sales revenues. At € 15.9 billion, the order intake of plants in Germany were above the level of the previous year (previous year: € 14.9 billion). This corresponds to an increase of 6.8%. Domestic demand, however, stagnated (+0.2%; previous year: −1.4%). Demand from abroad rose by 10.1% (previous year: +1.7%). The VDW reports that order intake for cutting machines increased by 7.0% (previous year: +3.0%). This was decisively influenced by large projects from North America. Machining orders from the domestic market decreased by 4.0%. In the forming machines area, order intake increased by 5.0% (previous year: −6.0%). Order intake at foreign plants of German manufacturers is not included in this figure.

Sales revenues of German machine tool manufacturers rose slightly by 1.0% compared to the previous year period (previous year: +3.0%).

## RESULTS OF OPERATIONS, NET WORTH AND FINANCIAL POSITION

The earnings of DMG MORI AKTIENGESELLSCHAFT were essentially determined by income from financial assets in the amount of € 115.0 million (previous year: € 86.1 million), which arise from the profit and loss transfers from DMG Vertriebs und Service DECKEL MAHO GILDEMEISTER of € 17.5 million (previous year: € 26.7 million) and of GILDEMEISTER Beteiligungen GmbH of € 97.5 million (previous year: € 57.0 million).

DMG MORI AKTIENGESELLSCHAFT closes the year with € 79.3 million (previous year: € 83 million) in EBT before the transfer of profits and a net profit after taxes in the amount of 41.1 million € (previous year: 47.1 million €), which will be transferred to DMG MORI GmbH.

Taking into account the profit carryforward of the previous year, net profits totalled € 1.5 million (previous year: € 48.8 million).

In the reporting year sales revenues (group cost allocations and rents) were € 21.6 million (previous year: € 20.6 million). The sales revenues figures of the previous year are not comparable because of the revised version of Section 277(1) HGB German Accountig Directive Implementation Act (hereinafter BilRUG). The hypothetical application of Section 277(1) HGB in its BilRUG-version would have resulted in a slight sales revenues increase in the previous year (€ 0.1 million). Other operating income fell in the same period by € 7.2 million to € 21.0 million (previous year: € 28.2 million). This decline is primarily due to lower exchange rate gains from the valuation of receivables and liabilities in foreign currencies and from the valuation of forward exchange contracts. The exchange rate gains are contrasted with the corresponding losses. These effects result from the hedging contracts concluded by the DMG MORI AKTIENGESELLSCHAFT on behalf of group companies.

Expenses incurred for purchased services mainly cover maintenance of the grounds and premises at the Bielefeld site. These amounted to € 1.8 million, or around € 2.0 million below the previous year's figure (€ 3.8 million).

Personnel expenses fell by € 0.7 million to € 34.8 million (previous year: € 35.5 million). This includes severance payments for a former member of the Executive Board in the amount 7.9 million €. Countervailing effects were due to the reduced number of employees.

Other operating expenses amounted to € 43.5 million and were thus € 9.9 million below the previous year's figure (€ 53.4 million). In 2016, lower exchange rate losses were incurred from the valuation of assets and liabilities in foreign currency and lower valuation losses were incurred from forward exchange contracts than in the previous year, as these contracts were compensated by offsetting effects in other operating income, as described above.

Income from investments rose from € 86.1 million in the previous year to € 115 million in the reporting year. The financial result fell to € 4.8 million (previous year: € 45.8 million). In the previous year, € 37.8 million was generated in earnings from the sale of shares to DMG MORI COMPANY LIMITED.

The tax expense recognised in an amount of € 38.2 million (previous year: € 35.6 million) is mainly attributable to current tax expense in the amount of € 31.5 million (previous year: € 36.7 million), deferred taxes and tax expenses for previous years.

The balance sheet total as of 31 December 2016 increased by 3.3% to € 1,531.2 million (previous year: € 1,482.4 million). Fixed assets rose on the balance sheet from € 647.8 million to € 697.8 million. Capital inflow to financial assets is mainly attributable to the contribution to capital reserves at the subsidiary, DMG Sales and Service GmbH DECKEL MAHO GILDEMEISTER (€ 50.9 million). Investments in fixed assets primarily include further modernisation of our heating and air conditioning devices at the Bielefeld location.

Current assets fell marginally by € 0.7 million to € 818.4 million compared to the previous year. Receivables from affiliated companies rose by € 131.4 million. Essentially, the loan agreement between DMG MORI AKTIENGESELLSCHAFT and DMG MORI GmbH for € 120.0 million should be mentioned here, which has been paid out in the full amount Bank balances decreased by € 135.4 million to € 231.9 million. In terms of liabilities, equity fell from € 968.5 million to € 921.2 million. The reduction essentially results from the dividend payment in July for the financial year 2015.

The equity ratio amounted to 60.2% (previous year: 65.3%). The share capital has remained unchanged at € 204,926,784.40 and is divided into 78,817,994 no-par shares. Provisions rose slightly from € 58.0 million to € 61.3 million compared to last year. These mainly comprise personnel and tax provisions. Liabilities rose to € 548.7 million (previous year: € 455.9 million). These mainly comprise liabilities to affiliated companies, which rose by € 102.7 million to € 539.8 million. These are primarily liabilities from finance offsets in the amount of € 524.6 million (previous year: € 427.3 million). This includes the profit transfer to DMG MORI GmbH in the amount of € 41.1 million and trade payables to affiliates in the amount of € 15.2 million (previous year: € 9.8 million). As in the previous year, there were no liabilities to banks. The DMG MORI AKTIENGESELLSCHAFT covers its capital requirements from the transfer of profit agreements of group companies and from intra-group cash pooling. The amount of the agreed financing lines totalled € 773.0 million in financial year 2016. This mainly comprised a syndicated credit line of € 500.0 million concluded in February 2016 and with a term until February 2021. This consists of a € 200 million cash tranche, € 300 million aval tranche, € 53.2 million in other aval lines and € 167.5 million in factoring agreements. The cash tranche was not used at the end of the business year.

The new syndicated credit facility was concluded on improved conditions with a consortium of international banks.

The syndicated credit agreement requires us to comply with a standard market covenant. We complied with the covenant as of 31 December 2016. Off-balance sheet operating lease agreements have been added to the company's financing plan. This financing mix gives us adequate financing lines, which provide us with the necessary liquid funds for our business.

DMG MORI group financing is carried out centrally. Only if group financing is not advantageous due to the legal framework is local financing concluded in individual cases. Cash pooling is used to utilise the liquidity surpluses of subsidiaries cost-effectively within the group. The risks refering to derivates are stated in the notes.

DMG MORI AKTIENGESELLSCHAFT and Haimer GmbH entered into a cooperation agreement on 7 December 2016. Its objective is the development of future joint products. The cooperation agreement gives rise to an off-balance sheet obligation to take delivery for both companies.

## EMPLOYEES

On 31 December 2016, DMG MORI AKTIENGESELLSCHAFT had 99 employees (previous year: 125 employees).

As of 31 December 2016, DMG MORI AKTIENGESELLSCHAFT was organised in three executive units, which are as follows:

- Mr. Christian Thönes: Sales / Product Development / Production / Purchasing / Corporate Public Relations / Internal Audit,
- Mr. Björn Biermann: Controlling/Finance/Accounting / Taxes / Risk Management / Investor Relations / Compliance,
- Dr. Maurice Eschweiler: Industrial Services / Human Resources / Legal / Information Technology

## OVERALL STATEMENT OF THE EXECUTIVE BOARD ON FINANCIAL YEAR 2016

In financial year 2016, the business performance of DMG MORI AKTIENGESELLSCHAFT was generally satisfactory. The sales revenues was slightly below the targeted figure due to adjustments made to offset cost allocations. EBT of € 79.3 millions before profit transfers was marginally below the previous year's figure and thus closely missed the projection. This is largely the effect from a onetime severance payment to a former member of the Management Board in the amount of € 7.9 million and counteracting effects for reason of the reduced number of employees. DMG MORI AKTIENGESELLSCHAFT closes the year with € 41.1 million in earnings after taxes (previous year: € 47.1 million). Taking into account the profit carry forward from the previous year, net profit amounts to € 1.5 million (previous year: € 48.8 million).

MANAGEMENT REPORT

# Opportunities and Risk Management Report

*P. 26 ____ Forecast Report*
*P. 28 ____ Notes for the financial year 2016 of* DMG MORI AKTIENGESELLSCHAFT

In its business activities, the DMG MORI AKTIENGESELLSCHAFT 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 company and that of the individual business units.

DMG MORI AKTIENGESELLSCHAFT is integrated in the opportunities and risk management of the DMG MORI group.

**Opportunities Management System (CMS)**
Opportunities are identified and analysed within the opportunities and risk management system of the DMG MORI group. With our Marketing Information System (MIS) we identify significant individual opportunities by compiling customer data worldwide and evaluating market and competitor data. On this basis we measure, assess and check all sales and service activities and other activities for effectiveness and cost-efficiency. We continuously monitor our markets and can thereby identify any broader economic and industry-specific opportunities early on. 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 on expected customer orders per machine type and sales region.

As the holding company, DMG MORI AKTIENGESELLSCHAFT shares in the opportunities of its subsidiaries. These are described in detail in the group management report. If the subsidiaries are able to make use of their opportunities, this has a positive effect on income from financial assets and thus on the earnings of DMG MORI AKTIENGESELLSCHAFT.

**Risk Management System (RMS)**
The risk management system of the DMG MORI group is comprised of the early risk identification system, the internal control system (ICS) and the central insurance management.

In our early risk identification system, we record and control the risks in the future development of the DMG MORI group. The recorded, assessed and controlled risks in question are circumstances which contain an inherent element of potential risk due to the prevailing environmental situation, and which are registered, assessed and controlled in an adequate manner. Our early risk identification system consists of five elements:

1. the company-specific Risk Management Manual, in which the system is defined,
2. central risk management officer, who develops, implements and monitors the present risk management concept, updates the related software systems, and coordinates the measures for risk reduction or risk elimination,
3. local risk officers in any group company, who are responsible for the decentralised recording, analysis and communication of existing risks,
4. area-specific, quarterly risk assessments according to predefined risk fields and an inventory of related measures for risk reduction or risk elimination with a quantitative assessment and prioritisation by means of the value-at-risk dimension,
5. risk reporting at the level of the group and the individual companies with ad-hoc reporting of relevant risks.

The early risk identification system is based on the generally accepted COSO framework.

The objectives of the risk management system are the complete and reliable recording throughout the group of existing potential risks within the following 12 months, a comprehensive risk summary and evaluation, the retrieval and setting up of effective measures to reduce risk, continuous risk monitoring and comprehensive risk reporting.

The strategy of the existing early risk identification system therefore comprises a group-wide systematic identification, assessment, aggregation, monitoring and notification of existing risks and the related measures needed to reduce or eliminate them. These risks are identified in an IT-supported, standardised periodic process in the individual business units every quarter. The identified risk potentials are analysed and assessed in a gross approach and in consideration of the maximum risks and probabilities of occurrence, in order to then coordinate or develop in supplementation the measures for risk reduction or risk elimination. Based on the existing net risks after measures were taken, reporting is provided by the affiliates of the group to the group Risk Management Division.

Risks threatening the continuation of business are reported immediately, also outside of the periodic reporting.

The structure of the early risk identification system is designed in such a way that 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 e.g. group financing risks.
› Group effects usually arise from consolidation requirements; this includes, for example, the double counting of risks, which have then to be adjusted correspondingly.

Risk bearing capacity, defined as the relation of the expected accumulated value of all risks identified after the elimination of current group effects and total group equity, is a key risk indicator.

The Executive Board and the Supervisory Board are informed regularly about the risk situation of the group and that of the DMG MORI AKTIENGESELLSCHAFT. They discuss the causes of the current risk position and the corresponding measures taken in-depth.

The early risk identification system set up by the Executive Board pursuant to Section 91(2) German Stock Corporation Act (AktG) is examined by the auditors, is continuously being further developed within the group and is adapted to suit changing circumstances on an ongoing basis.

The internal control system (ICS) of the DMG MORI group is an integral part of the group-wide risk management system. It conforms to both the German statutory requirements of the German Corporation Act (AktG) and the Japanese statutory requirements of the 'Japanese Financial Instruments and Exchange Acts' in the form of documentation which conforms to J-SOX / Naibutousei.

The goal of our ICS is to ensure the consistent implementation of strategic and operative directives from the Executive Board within DMG MORI AKTIENGESELLSCHAFT and at all group companies, the achievement of operative efficiency targets, and the compliance with all legal, norm and value-related requirements demanded of our group.

In addition, the accounting-related ICS serves the purpose of ensuring the completeness, correctness and reliability of our consolidated financial statements according to IFRS, and the local financial statements, as well as the books underlying them.

It covers all organisational, control and monitoring structures to ensure the legally compliant recording, processing and consideration of business matters, and their subsequent adoption in the relevant financial statements.

Within our ICS, building on an annually updated analysis and the documentation of significant business processes, the controllable risks are recorded and eliminated through the definition of the structural and procedural organisation, as well as suitable control activities or the risks are reduced to an appropriate level. Our ICS meanwhile includes both preventive as well as detecting control activities, which also includes authorisations and releases, plausibility checks, reviews and the four-eyes principle, etc. in different variations. In addition, a suitable design of the structural and procedural organisation of business processes ensures an appropriate separation of functions.

This is supported by the existing internal guidelines and instructions as a part of the ICS.

The accounting-related ICS comprises, in supplementation, the principles, procedures and measures for ensuring the propriety of the annual company accounts and Management Reports. For this purpose, we analyse new laws, accounting standards and other public notices with respect to their effect on the annual financial statements. We standardise relevant regulations through-out the group in accounting-related guidelines, for example, those contained in the accounting manual. These accounting-related guidelines and the financial statements calendar form the basis for the preparation of the financial statements. As required, the DMG MORI AKTIENGESELLSCHAFT 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 effectiveness of ICS in the company is assessed based on annual management testing of the central departments of DMG MORI AKTIENGESELLSCHAFT. The results of these effectiveness tests are reported regularly to the Executive Board and the Supervisory Board.

In addition, the effectiveness of the ICS is reviewed and analysed in random tests by the internal audit department. The results of these effectiveness tests are reported regularly to the Executive Board and the Supervisory Board.

As a further component of the risk management, the DMG MORI group has a central insurance management in place. The groupwide insurance strategy is determined and implemented for economically appropriate and insurable risks.

As a holding company, the DMG MORI AKTIENGESELLSCHAFT is also affected by the risks of its subsidiaries. This is described in detail in the group management report. Risks of the subsidiaries can have a negative effect on the revenue from financial investments and / or cause expenses to financial investments from write-offs and thus affect the result of DMG MORI AKTIENGESELLSCHAFT.

In addition, the following risks arise directly from the company, stemming from the DMG MORI AKTIENGESELLSCHAFT'S activities as a holding company:

Corporate strategic risks lie mainly in false estimations of future market development and in possible misjudgements in technological developments. We counteract these risks through intensive monitoring of the market and competition, regular strategy discussions with customers and suppliers, a comprehensive trade fair presence in all of the important markets and through constant enhancement of MIS, our early warning system. We estimate any possible losses arising out of corporate strategic risks at about € 10.5 million with a low probability of occurrence (0% – 20%). In this respect, the control and profit transfer agreement concluded between the two companies incurs risks, so that the company's business development could be potentially affected by any instructions from DMG MORI GmbH. These do not solely need to be in the interests of DMG MORI AKTIENGESELLSCHAFT, but are issued in the interests of the group.

Procurement and purchasing risks are those that we are particularly exposed to due to price increases for materials in the machine tools business. Further risks exist in possible supplier shortfalls and quality problems. We counteract these risks through the standardisation of structural parts and components as well as through international sourcing with a minimum of two suppliers for essential materials. We quantify potential losses from the procurement and purchasing risk at € 8.0 million with a low probability of occurrence.

Due to our continuous need for highly qualified management staff and employees, risks may arise through not being able to attract and retain these employees in sufficient numbers and this may restrain the group's development. We counteract these risks through intensive programmes to offer vocational training, attract new employees, increasing the qualifications of existing employees and through performance-related remuneration with a profit-based incentive scheme, as well as through deputising arrangements that cushion the loss of specialists and managers, and through early successor planning. The necessary availability at any one time of highly qualified managers and staff could also be negatively affected by a high rate of illness. We counteract this risk in particular through a preventive occupational health care scheme. On the basis of the above-mentioned measures, we consider the probability of occurrence of estimated losses of about € 4.6 million as slight.

Financial risks result inter alia from our international activities in the form of currency-related risks that we assess and hedge by means of our currency strategy. At the present time, we expect currency related risks in the amount of about € 2.3 million.

The essential components of the financing of DMG MORI AKTIENGESELLSCHAFT are: a syndicated loan, which comprises a cash and aval tranche and is firmly agreed until February 2021, and factoring programmes. All financing agreements include an agreement on compliance with standard covenants. The liquidity of the

DMG MORI AKTIENGESELLSCHAFT is considered sufficient. In principle, DMG MORI AKTIENGESELLSCHAFT bears the risk of bad debt, which may result in value adjustments or in individual cases may even result in default.

Possible losses from financial risks, including currency-related risks mentioned above, amount in total to € 8.8 million. The probability of occurrence of any loss is low (0% – 20%).

Risks with respect to the assets of DMG MORI AKTIENGESELLSCHAFT arise mainly through the accounting and assessment of financial assets. Financial assets are accounted for at acquisition cost or with the lower fair value. The value retention of financial assets is determined annually with the aid of the capitalised income value calculation, which is based on the budget overview of the associated companies. Due to the values determined, there was no need for downwards adjustment at the reporting date. In the event that the planned results are not achieved, adjustment to the lower fair value may be required. The current existing budget overview gives no reason for impairment in 2016. Insofar as deferred tax assets on loss carry forwards or interest carry forwards are not impaired, it is assumed in the planning period that this potential tax reduction can be used against 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 assessed any possible losses arising out of tax risks at € 2.2 million with a low probability of occurrence.

We consider the risks to be manageable and do not consider them to jeopardize the continued existence of DMG MORI AKTIENGESELLSCHAFT as a going concern. In comparison with the previous year, the risks have increased overall.

## Disclosures required by Section 289(4) German Commercial Code (HGB) as amended by the Takeover Directive Implementation Act (Übernahmerichtlinie-Umsetzungsgesetz)

### As to Section 289(4)(1) German Commercial Code (HGB)

The share capital of DMG MORI AKTIENGESELLSCHAFT amounts to € 204,926,784.40 and is divided into 78,817,994 no-par value bearer shares. The no-par shares respectively hold a calculatory € 2.60 in the subscribed capital.

### As to Section 289(4)(3) German Commercial Code HGB

DMG MORI COMPANY LIMITED, according to the notifications of voting rights disclosed until 31 December 2016, indirectly held a 76.03% share of voting rights in the share capital of DMG MORI AKTIENGESELLSCHAFT.

### As to Section 289(4)(6) German Commercial Code HGB

Pursuant to Section 84 of the German Stock Corporation Act (AktG), the appointment and dismissal of the members of the Executive Board is within the responsibility of the Supervisory Board. This authorisation is specified in § 7(2) of the Articles of Association of DMG MORI AKTIENGESELLSCHAFT, to the effect that the Supervisory Board appoints the Executive Board members, determines their number and regulates the allocation of responsibilities.

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 procedural rules accordingly specified are defined in Sections 179, 181 of the German Stock Companies Act (AktG), in conjunction with Article 15(4) of the Articles of Association of DMG MORI AKTIENGESELLSCHAFT.

**As to Section 289(4)(7) German Commercial Code HGB**
Pursuant to Article 5(3) of the Articles of Association, the Executive Board is authorised to increase the share capital of the company to up to nominal € 102,463,392.20 within the period until 15 May 2019 with the agreement of the Supervisory Board by way of a single or several issues of up to 39,408,997 new shares against contribution in cash and / or in kind (authorised capital). At the same time, the Executive Board is empowered to issue shares in the value of € 5,000,000 subject to the exclusion of pre-emptive rights, to employees of the company and to affiliates of the company.

The Executive Board is furthermore authorised, with the approval of the Supervisory Board, to exclude the statutory subscription right in certain specifically defined cases according to the Articles of Association (authorised capital).

**As to Section 289(4)(8) German Commercial Code HGB**
The relevant financing agreements of DMG MORI AKTIENGESELLSCHAFT concluded in early 2016 are subject to the condition of a change of control (meaning the acquisition either of (i) 30% or more of the voting rights in DMG MORI AKTIENGESELLSCHAFT, if the participation interests of DMG MORI COMPANY LIMITED in DMG MORI AKTIENGESELLSCHAFT is or falls below 50%, or (ii) 50% or more of the voting rights in DMG MORI AKTIENGESELLSCHAFT (except by DMG MORI COMPANY LIMITED) or (iii) 50% or more of the voting rights in DMG MORI COMPANY LIMITED). Thus, a change of control is precluded for as long as DMG MORI COMPANY LIMITED holds more than 50% of the voting rights in DMG MORI AKTIENGESELLSCHAFT.

Pursuant to Section 289(4) of the German Commercial Code (HGB), the Executive Board makes the following explanatory statements:

- As at 31 December 2016, the share capital of the company amounted to € 204,926,784.40 divided into 78,817,994 no-par value bearer shares. Each share entitles to one vote and is decisive for the share in profits. The company may not exercise voting rights vested in treasury shares and may not participate pro-rata in the profits.
- The last amendment of the Articles of Association was made in May 2015; in this process, Article 1 (1) and Article 12 (1 – 7) of the Articles of Association were rephrased.
- The Executive Board has not used the mentioned authorisations during the reporting year.
- The change of control conditions comply with the agreements common in the market. They do not entail an automatic termination of the aforementioned agreements, but merely provide our contractual partners the possibility to cancel them in the event of a change of control.

MANAGEMENT REPORT

# Forecast Report

*P. 28 ____ Notes for the financial year 2016 of DMG MORI AKTIENGESELLSCHAFT*

Although the earnings position of DMG MORI AKTIENGESELLSCHAFT differs from that of the group in terms of level and structure, nevertheless it is significantly affected by the group results. Therefore in the following the group forecast will initially be detailed.

The IfW forecasts a growth by 3.5% of the global economy for the current year.

The global machine tool market is expected to grow again in 2017. The VDW and Oxford Economics believe that the global market volume will increase by 2.1%. However, due to the rising global insecurities, it is becoming more and more difficult to arrive at reliable forecasts. For China, it is expected that consumption will increase by 2.0% and the South Korean market is expected to grow by 3.6%. The development of the Japanese machine tool consumption is expected to decline by −5.6%. For the USA, a plus of 1.6% is forecast.

DMG MORI intends to expand further its market position as one of the world's leading supplier of premium solutions for the manufacturing industry. Together with our Japanese parent company, DMG MORI COMPANY LIMITED, our goal as a "Global One Company", is to focus on our core machine tool and service business. In this respect, we will optimise our product portfolio. In parallel, we are developing both joint platforms as well as key components for our machines. Here, we benefit from the group wide standardisation (SCOPE) and raise efficiency advantages in development, production and service. Through the expansion of industry-oriented complete technology solutions at our cross-plant Technology Excellence Centres, we are solidifying our position in growth sectors such as 'Aerospace', 'Die & Mold' and 'Medical'. Furthermore, we see significant potentials in particular in automation, digitisation and ADDITIVE MANUFACTURING.

In the beginning of the year 2017, the order intake developed better than in the previous year. In the first quarter 2017, we are expecting order intake of around € 630 million (previous year: € 591.6 million) – despite the strategic realignment measures, such as the modified sales and service structure in Asia and America. For the complete year, we are planning order intake of around € 2.3 billion. At around € 520 million, sales revenues in the first quarter will be slightly below the previous year's level (€ 541.4 million), due to the realignment. For the complete year, we are planning sales revenues of around € 2.25 billion. In the first quarter, EBT will be at around the previous year´s level (€ 25.8 million). In the complete year, EBT shall amount to around € 130 million. For the financial year 2017, we are expecting a free cash flow of around € 40 million.

In the financial year 2017, our agreed financing framework will cover the necessary liquidity. Therefore, we have sufficient financial headroom within the company. By the end of the year, we expect a moderately increasing level for the market interest rates.

There are no plans for strategic financing measures. Thus, the group's financing structure remains virtually unchanged. Seasonal liquidity requirements are covered by current financial resources.

The following table provides an overview of the budgeted values of the financial 2017 and key performance indicators of the DMG MORI AKTIENGESELLSCHAFT:

| FINANCIAL AND KEY PERFORMANCE INDICATORS OF DMG MORI AKTIENGESELLSCHAFT (HGB) | Actual 2015 | Actual 2016 | Plan 2017 |
|---|---|---|---|
| Sales revenues | 20,550 | 21,569 | around 18,000 € K |
| EBT before the transfer of profits | 82,913 | 79,135 | around 80,000 € K |
| Investments in fixed assets / Intangible assets | 5,285 | 3,391 | 500 € K |
| Number of employees (annual average) | 123 | 105 | slight decrease |

Sales revenues are adjusted and reduced accordingly due to a lower allocation base of around € 18 million. It is planned with an earnings before taxes and profit transfer of around € 80 million. After finalising the modernisation of our heating and air conditioning devices at the Bielefeld location no major investments are planned for the year 2017.

### Overall Statement of the Executive Board on Future Business Development 2017

For the financial year 2017, we are expecting that market conditions for machine tools will remain challenging. According to forecasts by the German Machine Tool Builders' Association (VDW) and the British Economic Research Institute, Oxford Economics, world consumption should grow by 2.1%. However, the global economy continues to be marked by mayor uncertainties. It is difficult to predict the impacts on our business development at present. Taking into account our strategic realignment measures – particularly the modified sales and service structure in Asia and America – we are planning around € 2.3 billion in order intake and around € 2.25 billion in sales revenues. EBT shall amount to around € 130 million. For the financial year 2017, we are expecting a cash flow of around € 40 million. Investments in property, plant and equipment and in intangible assets shall amount to around € 45 million and are to be financed largely from own funds. Together with DMG MORI COMPANY LIMITED, we are concentrated as 'Global One Company' on the core business with machine tools and services.

With a total of 157 national and international sales and service locations and worldwide 14 production plants, we have a strong global presence, a high innovation power and technological expertise.

For this purpose, we will specifically optimise our product portfolio. At DMG MORI AKTIENGESELLSCHAFT, we are expecting income from investments to be on a par with the previous year, due to economic conditions in 2017. We are also expecting total earnings before taxes and profit transfer of around € 80 million. In 2017, we are not anticipating any significant changes in net worth and financial position.

NOTES

# Notes for the Financial Year 2016 of DMG MORI AKTIENGESELSCHAFT

## A. GENERAL DECLARATION

The annual financial statements of DMG MORI for the year ending 31 December 2016 were prepared in compliance with the regulations stipulated in the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). The presentation format, particularly the classification of balance sheet and income statement items, was prepared in accordance with the implementation of BilRUG (German Accounting Directive Implementation Act) in July 2015 and pursuant to Section 275 (2) HGB (German Commercial Code). Disclosures on the lack of comparability due to the implementation of BilRUG for the previous year's figures for sales revenues, other operating income and other operating expense can be found in the corresponding text in the notes. The registered office of DMG MORI AKTIENGESELLSCHAFT is in Bielefeld and the company is registered at the Bielefeld District Court, department B, under the registration number HRB 7144. The income statement is drawn up according to the total cost method of accounting. DMG MORI COMPANY LIMITED, Nagoya, is the ultimate parent company within the DMG MORI group. During the financial year, DMG MORI AKTIENGESELLSCHAFT and DMG MORI GmbH concluded a control and profit transfer agreement, which entered into force on 24 August 2016.

## B. ACCOUNTING AND VALUATION PRINCIPLES

The intangible assets acquired against payment and tangible fixed assets were recognised at their acquisition costs and, if applicable, reduced by amortisation and depreciation. In the case of a possible impairment, special write-downs are made to the lower fair value. For depreciation the straight-line method was applied in accordance with the useful life expectancy.

**USEFUL LIFE OF ASSETS**

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

Amortisation and depreciation of additions to intangible assets and fixed assets was carried out in the year of acquisition pro rata temporis according to the straightline method. Additions with procurement costs of € 150 to € 1,000 were combined in a compound item and were amortised and depreciated over five years. 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 building, and factory and office equipment. Financial assets are recognised on 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 recognised in the year or less were translated at the average spot exchange rate pursuant to Section 256a HGB (Commercial Code). Insofar as there are indications for impairment, receivables and other assets are measured at lower fair market value.

The valuation of bank balances was based on the nominal value. The valuation of bank balances in foreign currency is based on the average spot exchange rate. Measurement of internal and external derivatives is made at market value. Assets that are not accessible to other creditors and may only be used to cover pension commitments or comparable long-term obligations (so-called plan assets) are recognised in the income statement at fair market value and are offset against these liabilities. Moreover, existing assets are shown on the DMG MORI

AKTIENGESELLSCHAFT balance sheet. Reinsurance policies for pension obligations or claims from life assurance policies under plan assets are measured at the lower of cost or market and thus at fair value within the meaning of Section 255(4)(4) German Commercial Code (HGB) corresponding to the so-called actuarial reserves of the insurance policy specified in the business plan plus any existing credit from contribution refunds (so-called irrevocable distributed profit participation). This value is also consistent with the taxable asset value.

Pursuant to Section 250(1) HGB, prepaid expenses include expenses before the reporting date that represent expense to be incurred during a specific period after this date. Equity items are shown at their nominal value.

Other Provisions with a remaining term of more than one year are discounted at the average market interest rate of the past seven financial years corresponding to their remaining term. Pension provisions are discounted over ten years at the historical average market interest rate. As a result of an amendment to the HGB by the Law on the Implementation of the Residential Property Loans Directive and on the Modification of Commercial Law Regulations of 11 March 2016, the average period used for the valuation of pension obligations was adjusted from seven years to 10 years. For pension provisions or comparable long-term obligations a flat discounting rate is applied at an average market interest rate resultant under the assumption of a remaining term of 15 years. Provisions with a remaining term of exactly one year or less are not liable to discount. They are not discounted.

The measurement of pension commitments was carried out by the Projected-Unit-Credit-Method (PUC method) based on an accounting interest rate of 4.01% (previous year: 3.89%) over an average 10-year period. For this purpose, the reference tables of Prof. Klaus Heubeck published in July 2005 were taken as a basis. Externally funded pension benefits are measured at the fair value of the plan assets. Provisions for obligations arising from partial retirement agreements include expenses for wage and salary payments to employees during the pre-retirement passive phase and for top-up payments. Furthermore, the provisions include top-up payments, which the employer cannot avoid due to a collective pay agreement or a works agreement. These provisions are accumulated proportionally from the start of the active phase of the partial retirement and measured at present value, based on an actuarial interest rate of 1.80% (previous year: 2.46%). Partial retirement claims are safeguarded against possible insolvency within the framework of a two-way trust relationship. To safeguard these claims, liquid funds are transferred to a contractual trust arrangement and set off against provisions for partial retirement. The remaining provisions and tax provisions were calculated so that they allow for all identifiable risks and contingent obligations. The measurements were made on the basis of prudent business judgement. In each case the expected probable settlement amount was taken into account. Provisions for payments on the occasion of employee jubilees are discounted at an interest rate of 4.01% p.a. (previous year: 3.89%).

Pursuant to Section 250(2) HGB, deferred income includes income before the reporting date that represents income to be generated during a specific period after this date.

Liabilities are recognised at their settlement amounts. Liabilities in foreign currency are measured at the average spot exchange rate.

Deferred taxes are calculated for temporary differences between the fiscal and commercial valuation of assets, liabilities and deferred income and expenses. At DMG MORI AKTIENGESELLSCHAFT, this not only includes differences from the company's own balance sheet items, but also those relating to subsidiaries which are tax entities. Deferred taxes are calculated based on the combined income tax rate for the tax entities of DMG MORI AKTIENGESELLSCHAFT, which is currently 29.8% (previous year: 29.6%). The combined income tax rate includes corporation, trade and solidarity taxes. Any resulting overall tax charge would be reflected in the balance sheet as deferred tax liabilities and any tax relief as deferred tax assets.

In recognising hedges for foreign currency, the gross hedge presentation method has been used.

## C.
## NOTES ON THE INDIVIDUAL BALANCE SHEET ITEMS

### Assets

#### 1. INTANGIBLE ASSETS AND FIXED ASSETS

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

The value disclosed for industrial property rights and similar rights includes mainly data processing software.

#### 2. FINANCIAL ASSETS

The changes in financial assets of DMG MORI AKTIENGESELLSCHAFT are set out in the balance sheet supplementory to the notes. The companies included in the 'Shares in affiliated companies' item, and the corresponding information on registered office, equity, capital shares and results as of 31 December 2016 are set out in a separate summary at the end of the notes.

No impairments of financial assets were carried out in the financial year.

DMG MORI AKTIENGESELLSCHAFT has concluded control and profit and loss transfer agreements with the following companies:

- GILDEMEISTER Beteiligungen GmbH, Bielefeld
- DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld
- DMG MORI GmbH, Bielefeld

#### 3. RECEIVABLES AND OTHER ASSETS

Receivables owed by affiliated companies of € 573,442 K (previous year: € 442,043 K) primarily arose from receivables from profit and loss transfer agreements and financial clearing in the amount of € 546,206 K (previous year: € 415,154 K) and trade account receivables of € 27,237 K (previous year: € 26,889). The receivables from affiliated companies include € 120,000 K from the loan agreement between DMG MORI AKTIENGESELLSCHAFT and DMG MORI GmbH. The loan bears interest at market rates. Other assets amounted to € 13,030 K (previous year: € 9,705 K). In addition, they include receivables from derivatives of € 5,562 K (previous year: € 2,916 K) and tax refund claims of € 4,344 K (previous year: € 6,286 K) amongst others. Receivables and other assets to the value of € 15 K (previous year: € 17 K) include receivables with a remaining term of more than one year.

#### 4. CASH ASSETS, BANKS BALANCES

The disclosure refers to credit balances with banks and the cash in hand value and fell to € 231,877 K (previous year: € 367,257 K). The decline results primarily from the loan agreement between DMG MORI AKTIENGESELLSCHAFT and DMG MORI GmbH in the amount of € 120,000 K, which has completely been paid out. In addition, a dividend for the financial year 2015 in the amount of € 47,059 K was distributed in July 2016.

#### 5. PREPAID EXPENSES

The prepaid expenses under assets relates to payments amounting to € 336 K (previous year: € 153 K) before the reporting date which are expenses for the following years.

#### 6. DEFERRED TAX ASSETS

Deferred tax assets totalling € 11,083 K (previous year: € 9,840 K) arise as of 31 December 2016 from temporary differences in the carrying amount between the financial statements and the tax accounts. Temporary differences in the carrying amount exist at the reporting date in provisions for receivables from subsidiaries and for tax consolidated companies essentially through differences in carrying amounts in provisions. In determining deferred tax assets, an average tax rate of 29.8% has been taken as a basis (previous year: 29.6%).

#### 7. EXCESS OF PLAN ASSETS OVER PENSION LIABILITY

DMG MORI AKTIENGESELLSCHAFT has taken out appropriate reinsurance policies for certain pension obligations. As these are plan assets, the fair value of the assets were netted against the pension obligation. The costs of acquisition of the offset assets are € 16,429 K (previous year: € 16,108 K). The settlement amount of the provision is € 13,422 K (previous year: € 11,312 K); of which € 638 K (previous year: € 718 K) pursuant to Section 67(1) Introductory Act to the Commercial Code (EGHGB – Einführungsgesetz zum Handelsgesetzbuch) have not yet been recognised as a provision as of 31 December 2016. In conformity with the offsetting of assets and debts, income of € 695 K and expenses of € 802 K are shown balanced in interest expenses.

## Equity and liabilities

### Subscribed capital

### 8. EQUITY

The share capital of DMG MORI AKTIENGESELLSCHAFT amounts as in the previous year to € 204,926,784.40 and is fully paid up.

It is divided into 78,817,994 no par value bearer shares with a theoretical par value of € 2.60 per share.

The following statements have essentially been taken from the articles of association of DMG MORI AKTIENGESELLSCHAFT (version 30 June 2015).

The Executive Board is authorised, with the approval of the Supervisory Board, to increase the share capital by up to a nominal amount of € 102,463,392.20 until 15 May 2019 through the issue of up to 39,408,997 new no par value bearer shares for contributions in cash and / or in kind (authorised capital). This authority can be exercised once or several times in partial amounts.

The new shares may be taken over by one or more banks or companies, designated by the Executive Board, with the obligation to offer them to the shareholders (indirect pre-emptive right) in the sense of Section 186(5) (1) of the German Corporation Act (AktG).

The Executive Board is authorised, with the consent of the Supervisory Board, to disapply shareholders' statutory pre-emptive rights in the following cases:

a) with respect to a partial amount of € 5,000,000 for the issue of share of company employees and companies affiliated with the company
b) capital increases through contribution in kind so as to acquire in suitable cases companies, parts of companies or interests in companies, or other assets in return for shares,
c) for capital increases against cash contributions, if the issuing price of the new shares is not significantly lower, in accordance with Section 203, (1) and (2), and Section 186(3)(4) of the German Stock Corporation Act, than the stock market price on the final effective date of the issuing price determined by the Executive Board and if the total pro rata amount of the share capital is attributable to the new shares, for which the shareholders' pre-emptive rights are excluded, neither on the effective date nor on the date of exercise of this authorisation exceeds 10% of the share capital. Shares that are issued or sold during the validity of the authorized capital with the exclusion of shareholders' pre-emptive rights, in direct or analogous application of Section 186(3) sentence 4 of the German Stock Corporation Act, are to be included in the maximum limit of 10% of the share capital,
d) to exclude any fractional amounts from the pre-emptive right.

All the shares issued on the basis of the aforementioned authorisation disapplying pre-emptive rights of shareholders pursuant to point b) and c) above may not exceed 20% of the share capital either at the time of the authorisation taking effect or at the time of its utilisation. Included in this 20 per cent limit are those shares that are issued during the term of the aforementioned authorisation from any other authorised capital disapplying the pre-emptive rights of shareholders, excluded from the aforementioned figure is the disapplication of pre-emptive rights to compensate for fractional amounts or the issue of shares to company employees and to affiliated companies.

The Executive Board is authorised, with the approval of the Supervisory Board, to stipulate additional details of the capital increase and its implementation. The Supervisory Board is authorised to amend the articles of association according to the respective utilisation of authorised capital or, if the authorised capital is not utilised or not utilised in full by 15 May 2019, shall cancel this upon the expiry of the term.

### Capital Reserves

The capital reserves of DMG MORI AKTIENGESELLSCHAFT also include the premiums from the issue of shares from past capital increases. As of the reporting date, the capital reserves were unchanged at € 516,197,471 K compared with the previous year.

### Retained earnings

**Statutory reserves**

The statutory reserves of € 680,530 have not changed since the previous year.

**Other retained earnings**

Other retained earnings are € 197,898,830 K (previous year: € 197,898,830 K).

**Control and profit transfer agreement**

DMG MORI AKTIENGESELLSCHAFT closes the year with € 41.1 million (previous year: € 47.1 million) in earnings after taxes. Taking into account the profit carryforward of the previous, net profit totalled € 1.5 million (previous year: € 48.8 million).

The control and profit transfer agreement with DMG MORI GmbH became effective following its approval by the 114th General Meeting on 15 July 2016 and entry into the commercial register on 24 August 2016.

**DEVELOPMENT OF NET RETAINED PROFIT**

| | € K |
|---|---|
| Net retained profit at 31 Dec. 2015 | 48,769 |
| Dividend distribution | 47,291 |
| Annual profit 2016 | 0 |
| **Net retained profit at 31 Dec. 2016** | **1,478** |

Pursuant to Section 253(6) HGB, a distribution bar of € 13,050 K (previous year: € 9,840 K) applies to deferred tax assets amounting to € 11,083 K (previous year: € 9,840 K) in accordance with Section 268(8) HGB and also to the € 2,012 K (previous year: € 0 K) difference from the adjustment in the market rate valuation period for pension provisions from 7 to 10 years (Explanatory note – see number 9: Pension provisions). This only applies, if there are no available sufficient reserves to cover the amount barred from being distributed. As the other available retained earnings of € 197,899 K exceed the amount of deferred tax assets pursuant to Section 301 AktG in conjunction with Section 268(8) HGB, a profit transfer bar does not apply.

## 9. PENSION PROVISIONS

The measurement of pension obligations was carried out by the Projected-Unit-Credit-Method (PUC method). The provisions amount has been determined by taking account of trend assumptions with respect to future development of entitlements or pensions as well as of fluctuation probabilities. An actuarial interest rate of 4.01% p.a. (previous year: 3.89% p.a.) and a pension increase of 2.0% p.a. (previous year: 2.0% p.a.) have been assumed. The provisions for widows' / widowers' entitlements are carried out in accordance with the collective method, in which the probability of marriage that arose from the calculation basis employed was taken as a basis. In principle the contractually agreed pension age was used as the age for ending the financing. Within the framework of implementing the German Accounting Law Modernisation Act (BilMoG) as of 1 January 2010, DMG MORI AKTIENGESELLSCHAFT exercised the option under Art. 67(1)(1) of the Introductory Act on the German Commercial Code (EGHGB). Art. 67(1)(1) EGHGB contains the option to accumulate at least a fifteenth of the allocations to provisions determined on the basis of the revised measurement of current pensions and vested pensions rights at the latest by 31 December 2024 in each financial year. The total allocation determined as of 1 January 2010 was € 3,178 K. Of this, as in the previous year, one-fifteenth (€ 212 K) (previous year: € 212 K). Departing from the previous year, the allocated amount from the financial year 2016 was recognised as part of the other operating expenses as 'Expenses pursuant to Sec. 67(1)(1) EGHGB'. An amount of € 1.694 K remains from this obligation for non-established provisions for subsequent years. As of the reporting date, provisions were € 8,418 K (previous year: € 8,936 K). Through the modification of the German Commercial Code by the Law on the Implementation of the Residential Property Loans Directive and on the Modification of Commercial Law Regulations of 11 March 2016, the average period used for the valuation of pension obligations was adjusted from 7 years to 10 years. This resulted in a difference of € 2,012 K.

## 10. PROVISIONS FOR TAXES

Tax provisions of € 24,758 K (previous year: € 20,618 K) include liabilities for trade tax of € 9,294 K (previous year: € 13,711 K) and for corporation tax of € 15,464 K (previous year: € 6,907 K) for financial year 2016 and – due to tax audits – for previous year.

## 11. OTHER PROVISIONS

Other provisions include anticipated bonus payments of € 16,428 K (previous year: € 17,525 K) and expenses for other personnel expenses in an amount of € 3,766 K (previous year: € 5,070 K), of these severance payments accounted for € 2,877 K (previous year: € 4,023 K). The increase is due to any future payments to a former Executive Board member. Additionally, a provision for anticipated losses due to a negative surplus of derivatives was formed in the amount of € 804 K (previous year: € 0 K).

The provisions accrued in 2016 for outstanding invoices amounts to € 1,750 K (previous year: € 2,102 K). Additionally, other provisions include amounts for legal, advisory and annual financial statement costs of € 1,344 K (previous year: € 1,957 K), provisions for Supervisory Board members' remuneration of € 1,629 K (previous year: € 1,601 K) and other provisions of € 1,025 K (previous year: € 196 K).

## 12. LIABILITIES

| | **Statement of financial position as of 31 Dec. 2016 € K** | Of which residual term up to 1 year € K | Of which residual term 1 to 5 years € K | Of which residual term more than 5 years € K | Statement of financial position as of 31 Dec. 2015 € K |
|---|---|---|---|---|---|
| 1. Trade payables | 1,646 | 1,646 | 0 | 0 | 5,706 |
| Residual terms 31 Dec. 2015 | | 5,706 | 0 | 0 | 5,706 |
| 2. Liabilities to affiliated companies | 539,756 | 539,736 | 0 | 0 | 437,136 |
| Residual terms 31 Dec. 2015 | | 437,136 | 0 | 0 | 437,136 |
| 3. Other liabilities[1] | 7,343 | 7,343 | 0 | 0 | 13,035 |
| Residual terms 31 Dec. 2015 | | 13,035 | 0 | 0 | 13,035 |
| Residual terms 31 Dec. 2016 | 548,745 | 548,745 | 0 | 0 | 455,877 |
| Residual terms 31 Dec. 2015 | | 455,877 | 0 | 0 | 455,877 |

1) Of which from taxes: € 1,455 K (previous year: € 9,433 K), of which € 0 K (previous year: € 11 K) was part of the social security contributions.

The short and medium-term working capital needs of DMG MORI AKTIENGESELLSCHAFT and, as part of the intragroup cash management system, of the majority of domestic subsidiaries, are covered by cash flow from operations as well as by a syndicated loan agreement.

DMG MORI AKTIENGESELLSCHAFT has a syndicated credit line amounting to € 500.0 million in total. It consists of a cash tranche in the amount of € 200.0 million and a guarantee tranche of € 300.0 million. The syndicated credit line was obtained in February 2016 and has a term of five years (until February 2021).

The financing agreements for the syndicated loan require DMG MORI AKTIENGESELLSCHAFT to comply with customary covenants. All covenants had been complied with as of 31 December 2016.

For the financing of the syndicated credit line, the creditor banks have fully waived their right to collateralisation. Various group companies are guarantors for the credit agreements.

The liabilities to affiliated companies in the amount of € 539,756 K (previous year: € 437,136 K) primarily resulted from liabilities from financial clearing € 524,586 K (previous year: € 427,314 K). This includes the transfer of profits to DMG MORI GmbH in the amount of € 41,097 K as well as the amount of trade creditors owed to affiliated companies in the amount of € 15,170 K (previous year: € 9,822 K).

## 13. CONTINGENCIES AND OTHER FINANCIAL OBLIGATIONS

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

| CONTINGENTIES | 31 Dec. 2016 € K | 31 Dec. 2015 € K |
|---|---|---|
| Guarantees | 377,442 | 488,006 |
| Warranties | 60,304 | 47,290 |
| Other off-balance sheet obligations | 14,000 | 0 |
| | **451,746** | **535,296** |
| **OBLIGATIONS FROM TENANCY AND LEASE AGREEMENTS DUE** | | |
| within 1 year | 370 | 467 |
| within 1 to 5 years | 200 | 344 |
| after 5 years | 0 | 0 |
| | **570** | **811** |

The guarantees of DMG MORI AKTIENGESELLSCHAFT include maximum-amount guarantees for affiliated companies of € 16,524 K (previous year: € 16,463 K) and payment sureties of € 75,167 K (previous year: € 76,067 K). The corresponding bank liabilities are valuedated as of 31 December 2016 at € 9,462 K (previous year: € 5,767 K). DMG MORI AKTIENGESELLSCHAFT was jointly and severally liable for liabilities of € 160,000 K (previous year: € 162,050 K) as of the balance sheet date.

An amount of € 60 K (previous year: € 1,549 K) was given as prepayment guarantees to customers of several group companies.

DMG MORI AKTIENGESELLSCHAFT also has a guarantee line, which can be used to guarantee advance payment and warranties of domestic and foreign subsidiaries with secondary liability of DMG MORI AKTIENGESELLSCHAFT. As of 31 December 2016 the amount availed of was € 102,500 K (previous year: € 104,763 K).

Moreover, DMG MORI AKTIENGESELLSCHAFT has issued comfort letters for Sauer GmbH, GILDEMEISTER energy solutions GmbH, DMG MORI Netherlands B.V., DMG MORI Malaysia SDN BHD, FAMOT Pleszew Sp.z o.o., DMG MORI BeLux B.V.B.A. SPRL and DMG MORI Used Machines GmbH totalling € 14,101 K. The liabilities in this respect were valued at € 229 K as at 31 December 2016.

The probability of any imminent claim by the beneficiaries based on previous experience is considered to be very slight in our estimation.

DMG MORI AKTIENGESELLSCHAFT and Haimer GmbH entered into a cooperation agreement on 7 December 2016. Its objective is the development of future joint projects. The cooperation agreement gives rise to an obligation to accept delivery for both companies, the financial liabilities of DMG MORI AKTIENGESELLSCHAFT in the amount of € 14,000 K are met by the equivalent value of the products of Haimer GmbH.

## 14. DERIVATIVE FINANCIAL INSTRUMENTS

The nominal and market values of the derivative financial instruments existing on the reporting date present as follows:

| DERIVATIVE FINANCIAL INSTRUMENTS OF THE DMG MORI AKTIENGESELLSCHAFT | Nominal volume | | Fair market value | |
|---|---|---|---|---|
| | 31 Dec. 2016 € K | 31 Dec. 2015 € K | 31 Dec. 2016 € K | 31 Dec. 2015 € K |
| Forward foreign exchange contracts | 359,811 | 271,957 | −252 | 1,166 |
| | **359,811** | **271,957** | **−252** | **1,166** |

The notional amount corresponds to the total of all absolute sale and purchase amounts of derivative financial transactions. The fair market values disclosed correspond with the price at which third parties would assume the rights or obligations arising from the financial instruments. The fair market values are the current values of the derivative financial instruments excluding any adverse trends in value from underlying transactions. The fair market values of the derivative financial instruments used are determined on the basis of quoted market prices or through accrual methods based on customary models.

The fair market values of the forward foreign exchange contracts are balanced at € −252 K (previous year: € 1,166 K) and comprise positive market values of € 6,114 K (previous year: € 4,326 K) and negative market values of € 6,366 K (previous year: € 3,160 K).

The DMG MORI AKTIENGESELLSCHAFT concludes intra-group forward exchange contracts in the amount of the expected cash flows from order intake, as well as trade payables for group subsidiaries. The term of these transactions is normally less than a year.

The expected cash flows from these intra-group forward exchange contracts and from loan receivables from group companies in foreign currencies are hedged externally with banks.

The conclusion and settlement of derivative financial instruments is based on binding internal regulations defining scope, responsibilities, reporting and monitoring. The forward foreign exchange contracts concluded show a residual term of up to one year as of the balance sheet date and serve to hedge foreign currency receivables from group companies mainly in USD, JPY, GBP and PLN.

In cases where the requirements were met, the forward exchange contracts were summarised to evaluation units per currency. In doing so, the direct posting method was applied, so that € 5,562 K were recorded in other assets from derivatives and € 5,562 K in other liabilities. Additionally, a provision for anticipated losses due to a negative surplus of derivatives was formed in the amount of € 804 K (previous year: € 0 K).

The hedge is in place for the entire duration of the underlying transaction. The dollar offset method is used to determine the effectiveness.

In the previous financial year, DMG MORI AKTIENGESELLSCHAFT had two types of valuation units:

**TYPES OF HEDGES OF THE DMG MORI AKTIENGESELLSCHAFT**

| No. | Underlying transaction | Nominal amount of underlying transaction in € K | Hedged risks in € K (net) |
|---|---|---|---|
| 1 | Internal forward exchange programs (not offset): Cash flow hedges from order intake and subsidiaries' debts to suppliers | 148,964 | −4,204 |
| 2 | Internal group foreign currency loans (not offset) | 59,507 | 0 |

On the one hand, valuation units from external forward exchange transactions and the intragroup external forward exchange transactions with a nominal volume of € 148,964 K are formed in order to secure order intakes and payments to suppliers. The secured risk as of 31 December 2016 amounted to € −4,204 K. On the other hand, valuation units from external forward exchange transactions and intragroup foreign currency loans with a nominal volume of € 59,507 K are formed the secured currency risk as of 31 December 2016 amounted to € 0 K.

## 15. TRANSACTIONS WITH RELATED COMPANIES AND PERSONS

In financial year 2016, DMG MORI AKTIENGESELLSCHAFT only concluded transactions at customary market conditions with related companies and persons. In the reporting year, the Institute for Manufacturing Excellence GmbH (IMX GmbH) invoiced a net expense of € 1,726 K (previous year: € 1,529 K) for consulting services. As at the end of the financial year 2016, the outstanding items with respect to IMX GmbH amounted to € 0 K (previous year: € 109 K). The institute was founded by Prof. Dr.-Ing. Klinkner, who is also managing partner.

## D.
## NOTES TO INDIVIDUAL ITEMS IN THE INCOME STATEMENT

### 16. SALES REVENUES

Sales revenues of € 21,569 K (previous year: € 20,550 K) essentially involve sales arising from the group-wide holding and services functions. Of this, Germany had € 18,295 K (previous year: € 17,359 K), the rest of Europe € 1,468 K (previous year: € 1,377 K), and the rest of world € 1,806 K (previous year: € 1,814 K).

The sales revenues figures of the previous year are not comparable because of the revised version of Section 277(1) HGB by the BilRUG. The hypothetical application of Section 277(1) HGB in its BilRUG-version would have resulted in sales revenues of € 20,592 K. The deviation of sales revenues following application of the BilRUG on 31 Dec. 2015 is essentially the result from the reclassification of services with an exchange of services from the other operating income.

### 17. OTHER OPERATING INCOME

Other operating income of € 21,006 K (previous year: € 28,151 K) includes exchange rate gains from the valuation of receivables and liabilities in foreign currencies and from the valuation of forward exchange contracts amounting to € 14,580 K (previous year: € 22,943 K) which break down into realised foreign exchange and currency gains of € 8,827 K (previous year: € 18,146 K) and foreign exchange and currency gains from valuation amounting to € 5,752 K (previous year: € 4,797 K). This also includes income from cost refunds of € 3,178 K (previous year: € 3,993 K). Income unrelated to the accounting period amounts to € 2,398 K (previous year: € 738 K). This includes € 1,988 K (previous year: € 656 K) from the reversal of provisions. The other operating income would have been € 28,109 K if the BilRUG had been applied as of 31 Dec. 2015.

### 18. PERSONNEL EXPENSES

For financial year 2016, the employee pension plan expense totalled € 2,780 K (previous year: € 2,226 K). Direct remuneration of the members of the Executive Board, was € 10,498 K (previous year: € 13,584 K). Of this, € 2,134 K was allocated to the fixed remuneration (previous year: € 2,851 K), € 4,638 K (previous year € 5,740 K) to the STI. The individual remuneration for services rendered amounted to € 371 K (previous year: € 3,590 k) and included a payment for the extraordinary and successful work of the Executive Board Chairman for an important group project. The STI takes account of the target achievement of the Executive Board. The fair value of LTI on the granting date was € 2,655 K (previous year: € 1,276 K). Benefits in kind accounted for € 65 K (previous year: € 127 K).

Former members of the Executive Board and their surviving dependents received € 1,088 K (previous year: € 605 K) in pensions. The amount of pension obligations (entitlement cash value of future pension commitments or defined benefit obligation) for former executive board members and their surviving dependants was € 24,488 K (previous year: € 9,863 K).

An expense of relevance according to section 285 No. 31 of the German Commercial Code is a severance payment arising from the termination of the contract with the former CEO, Dr. Rüdiger Kapitza, resulted in the amount of € 7,933 K.

Advances and loans to members of governing bodies were not granted. No liability arrangements were entered into in favour of any members of governing bodies (Section 285(9c)HGB). Further details on executive board remuneration can be found in the remuneration report in the management report.

In comparison with the previous year, the average number of employees has changed as follows:

EMPLOYEE DEVELOPMENT

| | 2016 | 2015 |
|---|---|---|
| Salary earners (annual average) | 105 | 123 |

### 19. DEPRECIATION OF FIXED ASSETS AND PLANT, PROPERTY AND EQUIPMENT

Past investments have resulted in a decrease in depreciation to € 2,937 K (previous year: € 5,183 K) from the previous year. Depreciation in the previous year included an extraordinary depreciation amounting to € 2,037 K.

### 20. OTHER OPERATING EXPENSES

Other operating expenses resulted among other things from other external services amounting to € 8,956 K (previous year: € 10,292 K), expenses for legal and consultancy fees and costs for the preparation of the annual accounts of € 8,641 K (previous year: € 9,522 K), travel and entertaining expenses of € 1,845 K (previous year: € 3,074 K), Insurance contributions of € 2,395 K (previous year: € 2,936 K) and rental and lease expenses of € 844 K (previous year: € 888 K).

Exchange and currency losses in the amount of € 11,427 K (previous year: € 22,510 K) break down in exchange and currency losses in the amount of € 6,910 K (previous year: € 15,051 K) and exchange and currency losses from valuation in the amount of € 4,517 K (previous year: € 7,459 K). These were offset against € 14,580 K (previous year: € 22,943 K) exchange and currency gains, which are reported in other operating income.

The other operating expenses contain expenses pursuant to Sec. 67(1, 2) EGHGB amount € 212 K (Explanatory note – see number 9: pension provisions). The amount of this expense (€ 212 K) was recognised as extraordinary expenses in 2015. This was adjusted in 2016.

**Auditor's fees and services**

In the financial year 2016, the fees of the auditor of the financial statements, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, were recognised as expense in the amount of € 589 K (previous year: € 559 K) and include the fees and expenses for the statutory audit of the annual and consolidated financial statements and other audit services.

Also, € 641 K in other attestation services were recognised in expenses (previous year: € 760 K), as were € 412 K for tax consulting services (previous year: € 410 K), and € 874 K for other services (previous year: € 951 K).

**Remuneration of the Supervisory Board**

In the financial year 2016, € 1,629 K (previous year: € 1,601 K) were allocated to provisions for Supervisory Board members' remuneration. Further details of the remuneration of the Supervisory Board are given in the Management Report.

## 21. INCOME FROM PROFIT AND LOSS TRANSFER AGREEMENTS

DMG MORI AKTIENGESELLSCHAFT achieved income from profit and loss transfer agreements of € 115,041 K (previous year: € 83,694 K) from GILDEMEISTER Beteiligungen GmbH and from DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER.

## 22. OTHER INTEREST AND SIMILAR INCOME

In the reporting period, interest and guarantee commissions were invoiced to related companies in the amount of € 13,241 K (previous year: € 15,450 K).

## 23. INTEREST AND SIMILAR EXPENSES

The interest expense of € 8,712 K (previous year: € 7,578 K) includes interest of € 2,832 K (previous year: € 4,314 K), which has been charged by affiliated companies as well as an interest expense from addition of accrued interest from provisions of € 116 K (previous year: € 529 K). The remaining part of interest expense was primarily interest and commitment fees for liabilities to banks.

## 24. TAX ON INCOME AND EARNINGS

Taxes on income and earnings include expenses unrelated to the accounting period in an amount of € 7,910 K (previous year: € 690 K) as well as tax expenses of € 31,551 K (previous year: € 36,687 K). In addition, an amount of € 1,242 K deferred tax revenue is included (previous year: € 1,735 K deferred tax expenses).

## 25. EXPENSES FROM PROFIT TRANSFER AGREEMENTS

The control and profit transfer agreement between DMG MORI AKTIENGESELLSCHAFT and DMG MORI GmbH resulted in the recognition of expenses of € 41,097 K.

# E.

# OTHER DISCLOSURES

## 26. STATUTORY NOTIFICATION PURSUANT TO SECTION 26 WPHG

DMG MORI COMPANY LIMITED, Nagoya (Japan), according to the notifications of voting rights disclosed until 31 December 2016, indirectly held a 76.03% share of voting rights in the share capital of DMG MORI AKTIENGESELLSCHAFT. Furthermore, according to its notifications of voting rights disclosed until 31 December 2016, the following two shareholders have more than 3% of the voting rights reported: Elliott International Limited and affiliated companies held 5.07% of the share capital as at the date of their last notification of voting rights. Bank of America Corporation and affiliated companies held altogether a 5.84% share of voting rights as at the date of their notification of voting rights, which is structured in the following way: voting rights based on (financial/other) instruments pursuant to sec. 25 (1) no. 1 WpHG: 5.35% as well as voting rights pursuant to sec. 25 (1) no. 2 WpHG: 0.23% and voting rights pursuant to sec. 21, 22 WpHG: 0.26%.

## 27. DECLARATION OF CONFORMITY WITH THE CORPORATE GOVERNANCE CODE OF PRACTICE

The latest declaration of conformity in accordance with Section 161 of the German Stock Corporate Act (AktG) was issued in November 2016 – just as the declarations of conformity of the previous years – and has been made permanently accessible on our website at www.de.dmgmori.com

## 28. SUPPLEMENTARY REPORT

Based on the realignment of global sales and service, DMG MORI AKTIENGESELLSCHAFT is managing the home market, Germany, EMEA region (Europe, Middle East, Africa) as well as the markets in China and India. DMG MORI COMPANY LIMITED is responsible for its domestic market, Japan, the USA and the remaining regions of Asia and America. The management and control of the foreign subsidiaries in the regions Asia and America have therefore been transferred to DMG MORI COMPANY LIMITED. They will be consolidated and reported by it starting in the financial year 2017.

## 29. GROUP AFFILIATION

DMG MORI COMPANY LIMITED, Nagoya (Japan), is the ultimate parent company of DMG MORI AKTIENGESELLSCHAFT. DMG MORI AKTIENGESELLSCHAFT is included in the consolidated financial statements of DMG MORI COMPANY LIMITED, Nagoya (Japan). The consolidated financial statement can be found on the company website, www.dmgmori.co.jp.

**F.**

## 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

**Prof. Dr.- Ing. Raimund Klinkner,**
Munich, born in 1965,
Chairman,
Managing partner,
INSTITUTE FOR MANUFACTURING EXCELLENCE GmbH
* Terex Corporation, Westport Connecticut, USA, Member of Board of Directors
* ebm pabst Mulfingen GmbH & Co. KG, Mulfingen, Member of the Advisory Board

**Hermann Lochbihler,**
Vils, born in 1956,
1st Deputy Chairman,
Director of purchaising for DECKEL MAHO Pfronten GmbH,
Senior Executives' representative

**Mario Krainhöfner,**
Pfronten, born in 1964,
Deputy Chairman,
Group Works Counsil Chairman of
DMG MORI AKTIENGESELLSCHAFT,
Chairman of the Works Counsil at
DECKEL MAHO Pfronten GmbH

**Dr. Helmut Rothenberger,**
Frankfurt, born in 1949,
Member and Deputy Chairman until 30 April 2016,
Chairman of the management of
Dr. Helmut Rothenberger Holding GmbH,
• AUTANIA AG, Chairman of the Supervisory Board,
• ROTHENBERGER AG, Chairman of the Supervisory Board,
• LEISTRITZ AG, Member of the Supervisory Board

**Prof. Dr. Edgar Ernst,**
Bonn, born in 1952,
President of Deutschen Prüfstelle für
Rechnungslegung DPR e.V.,
• Deutsche Postbank AG, Bonn, Member of the Supervisory Board,
• Vonovia SE, Bochum, Member of the Supervisory Board,
• TUI AG, Hannover, Member of the Supervisory Board,

**Ulrich Hocker,**
Düsseldorf, born in 1950,
Member and Deputy Chairman since 2 June 2016
General Manager of Deutsche Schutzvereinigung für
Wertpapierbesitz e.V.,
• FERI AG, Bad Homburg, Deputy Chairman of Supervisory Board,
* Phoenix Mecano AG, Stein am Rhein, Switzerland, Member of the Administration Board, Independent Lead Director

**Prof. Dr.-Ing. Berend Denkena,**
Wedemark, born in 1959,
Director of the Institute of Production
Engineering and Machine Tools (IFW) at
Leibniz University Hannover

**Dr.-Ing. Masahiko Mori,**
Nara, born in 1961,
President of DMG MORI COMPANY LIMITED

**Irene Bader,**
Feldafing, born in 1979,
Member since 24 May 2016,
Director Global Marketing
of DMG MORI Global Marketing GmbH, Wernau

**Dietmar Jansen,**
Memmingen, born in 1965,
1st Director and Treasurer of IG Metall office Allgäu,
* AGCO GmbH, Marktoberdorf, Deputy Chairman of the Supervisory Board

**Dr. Constanze Kurz,**
Gerlingen, born in 1961,
Consultant for the Group and General Works Council,
Robert Bosch GmbH, Stuttgart

**Matthias Pfuhl,**
Schmerbach, born in 1960,
Supply Technician,
Member of the Works Council at
DECKEL MAHO Seebach GmbH

**Peter Reinoss,**
Bergisch Gladbach, born in 1958,
Electronic service technician,
Chairman of the General Works Council
of DMG MORI Academy

### EXECUTIVE BOARD

**Dipl.-Kfm. Christian Thönes,**
Bielefeld,
Chairman since 15 April 2016

**Dipl.-Kfm. Björn Biermann,**
Bielefeld

**Dipl.-Kfm. Dr. Maurice Eschweiler,**
Bielefeld

**Dipl.-Kfm. Dr. Rüdiger Kapitza,**
Vaduz, Liechtenstein,
Chairman until 06 April 2016,
• LEISTRITZ AG, Nürnberg, Chairman of the Supervisory Board
* Zumtobel AG, Dornbirn, Austria, Member of the Supervisory Board

## LIST OF SHAREHOLDINGS OF THE COOPERATIONS

| PRODUCTION PLANTS, SALES AND SERVICE COMPANIES | National currency | Equity [1] | € K | Participation quota in % | Earnings of financial year 2016 [1] € K |
|---|---|---|---|---|---|
| GILDEMEISTER Beteiligungen GmbH, Bielefeld [2/3/4] | | | 273,866 | 100.0 | 0 |
| DECKEL MAHO Pfronten GmbH, Pfronten [3/5/6] | | | 83,427 | 100.0 | 0 |
| SAUER GmbH, Stipshausen / Idar-Oberstein [3/7/8] | | | 12,455 | 100.0 | 0 |
| Alpenhotel Krone GmbH & Co., Pfronten [3/7] | | | 2,629 | 100.0 | 122 |
| Alpenhotel Krone Beteiligungsgesellschaft mbH, Pfronten [3/7] | | | 28 | 100.0 | 0 |
| GILDEMEISTER DREHMASCHINEN GmbH, Bielefeld [3/5/6] | | | 24,000 | 100.0 | 0 |
| GILDEMEISTER Partecipazioni S.r.l., Brembate die Sopra (Bergamo), Italy [5] | | | 94,600 | 100.0 | −4,771 |
| GILDEMEISTER Italiana S.p.A., Brembate di Sopra (Bergamo), Italy [9] | | | 33,823 | 100.0 | −1,368 |
| GRAZIANO Tortona S.r.l., Tortona, Italy [9] | | | 29,726 | 100.0 | 2,697 |
| DMG MORI Global Service Turning S.r.l., Brembate di Sopra (Bergamo), Italy [9] | | | 1,520 | 100.0 | 303 |
| GILDEMEISTER ENERGY SERVICES ITALIA S.r.l., Milan, Italy [9] | | | 1,502 | 100.0 | 1 |
| CARLINO FTV 3.2 S.R.L., Bozen, Italy [9] | | | 12,303 | 100.0 | −4,407 |
| DECKEL MAHO Seebach GmbH, Seebach [3/5/6] | | | 43,000 | 100.0 | 0 |
| DMG MORI Software Solutions GmbH, Pfronten [3/5/6] (previously: DMG Electronics GmbH) | | | 1,100 | 100.0 | 0 |
| DMG MORI Spare Parts GmbH, Geretsried [3/4/5/6] | | | 25,000 | 100.0 | 0 |
| ISTOS GmbH, Bielefeld [3/4/5] | | | 1,000 | 100.0 | 0 |
| Ulyanovsk Machine Tools OOO, Ulyanovsk, Russia [5] | T RUB | 6,822,442 | 106,103 | 100.0 | −521 |
| MITIS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Bielefeld KG, Bielefeld [3] | | | 73 | 100.0 | 20 |
| MITIS Grundstücks-Vermietungsgesellschaft mbH, Bielefeld [3] | | | 143 | 100.0 | 14 |
| DMG Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER, Bielefeld [2/3/4] | | | 276,422 | 100.0 | 0 |
| DMG MORI Management GmbH, Bielefeld [3/4/10] | | | 24 | 100.0 | −1 |
| DMG MORI Deutschland GmbH, Leonberg [3/4/10/11] | | | 63,968 | 100.0 | 0 |
| DMG MORI Munich GmbH, Munich [3/4/12/13] | | | 5,000 | 100.0 | 0 |
| DMG MORI Hilden GmbH, Hilden [3/4/12/13] | | | 4,200 | 100.0 | 0 |
| DMG MORI Bielefeld GmbH, Bielefeld [3/4/12/13] | | | 2,800 | 100.0 | 0 |
| DMG MORI Berlin GmbH, Berlin [3/4/12/13] | | | 3,400 | 100.0 | 0 |
| DMG MORI Frankfurt GmbH, Bad Homburg [3/4/12/13] | | | 2,700 | 100.0 | 0 |
| DMG MORI Hamburg GmbH, Hamburg [3/4/12/13] | | | 2,100 | 100.0 | 0 |
| DMG MORI Stuttgart GmbH, Leonberg [3/4/12/13] | | | 7,000 | 100.0 | 0 |
| DMG MORI Services GmbH, Bielefeld [3/4/10/11] | | | 29,635 | 100.0 | 0 |
| DMG MORI Global Service Turning GmbH, Bielefeld [3/4/14/15] | | | 1,700 | 100.0 | 0 |
| DMG MORI Global Service Milling GmbH, Pfronten [3/4/14/15] | | | 3,500 | 100.0 | 0 |
| DMG MORI Academy GmbH, Bielefeld [3/4/14/15] | | | 4,000 | 100.0 | 0 |
| DMG MORI Systems GmbH, Wernau [3/4/14/15] | | | 2,600 | 100.0 | 0 |
| DMG MORI Used Machines GmbH, Geretsried [3/4/14/15] | | | 17,517 | 100.0 | 0 |
| DMG MORI Netherlands Holding B.V., Veenendaal, Netherlands [10] | | | 450,301 | 100.0 | −11,642 |
| antiquitas Verwaltungsgesellschaft mbH, Klaus, Austria [16] | | | 6,121 | 100.0 | −4,839 |
| DMG ECOLINE GmbH, Klaus, Austria [22] | | | 2,573 | 100.0 | −276 |

| PRODUCTION PLANTS, SALES AND SERVICE COMPANIES | National currency | Equity [1] | € K | Participation quota in % | Earnings of financial year 2016 [1] € K |
|---|---|---|---|---|---|
| DMG MORI ECOLINE Holding AG, Winterthur, Switzerland [16] | | | 123,140 | 100.0 | 751 |
| DMG MORI ECOLINE AG, Winterthur, Switzerland [27] | | | 2,207 | 100.0 | 980 |
| FAMOT Pleszew Sp. z o. o., Pleszew, Poland [27] | T PLN | 292,406 | 66,301 | 100.0 | 17,878 |
| DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co., Ltd., Shanghai, China [27] | T CNY | 97,595 | 13,332 | 100.0 | −966 |
| DMG MORI Sales and Service Holding AG, Winterthur, Switzerland [16] | T CHF | 295,648 | 275,304 | 100.0 | 2,022 |
| DMG MORI Europe AG, Winterthur, Switzerland [17] | T CHF | 0 | 260,456 | 100.0 | 14,229 |
| DMG MORI Balkan GmbH, Klaus, Austria [18] (previously DMG MORI Austria International GmbH) | | | 1,508 | 100.0 | 191 |
| DMG MORI Austria GmbH, Klaus, Austria [19] | | | 12,597 | 100.0 | 2,260 |
| DMG MORI Netherlands B.V., Veenendaal, Netherlands [18] (previously: DMG MORI BENELUX B.V.) | | | 5,680 | 100.0 | 330 |
| DMG MORI BeLux BVBA - SPRL., Zaventem, Belgium [18] (previously: DMG MORI Benelux BVBA) | | | 3,141 | 100.0 | 354 |
| DMG MORI Czech s.r.o., Brno, Czech Republic [18] | T CZK | 218,017 | 8,068 | 100.0 | 1,420 |
| DMG MORI DENMARK ApS, Copenhagen, Denmark [18] | T DKK | 20,649 | 2,778 | 100.0 | 87 |
| DMG MORI FRANCE SAS, Paris, France [18] | | | 15,158 | 100.0 | 1,185 |
| DMG MORI Hungary Kft., Budapest, Hungary [18] | | | 5,820 | 100.0 | 921 |
| DMG MORI IBERICA S.L., Ripollet, Spain [18] | | | 11,759 | 100.0 | 1,246 |
| DMG MORI Italia S.r.l., Milan, Italy [18] | | | 40,857 | 100.0 | 1,794 |
| TECNO CONTROL S.R.L., Strambino, Italy [21] | | | 768 | 100.0 | 23 |
| DMG MORI MIDDLE EAST FZE, Dubai, United Arab Emirates [18] (previously: DMG MORI SEIKI MIDDLE EAST FZE) | T AED | 7,387 | 1,908 | 100.0 | 127 |
| DMG MORI Israel Ltd., Tel Aviv, Israel [18] | T ILS | 0 | 0 | 100.0 | 0 |
| DMG MORI POLSKA Sp. z o.o., Pleszew, Poland [18] | T PLN | 39,420 | 8,938 | 100.0 | 1,237 |
| DMG MORI Schweiz AG, Winterthur, Switzerland [18] | T CHF | 12,234 | 11,392 | 100.0 | 645 |
| DMG / MORI GREECE M.E.P.E., Thessaloniki, Greece [18] | | | 501 | 100.0 | 99 |
| DMG MORI Sweden AB, Göteborg, Sweden [18] | T SEK | 77,458 | 8,109 | 100.0 | 597 |
| DMG MORI NORWAY AS, Langhus, Norway [18] | T NOK | 9,325 | 1,026 | 100.0 | 14 |
| DMG MORI Finland Oy Ab, Tampere, Finland [18] | | | 2,281 | 100.0 | 159 |
| DMG MORI UK Limited, Luton, Great Britain [18] | T GBP | 21,559 | 25,181 | 100.0 | 1,574 |
| DMG MORI ROMANIA S.R.L., Bukarest, Romania [18] | T RON | 15,601 | 3,437 | 100.0 | 590 |
| DMG MORI BULGARIA EOOD, Sofia, Bulgaria [18] | T BGN | 1,027 | 525 | 100.0 | 86 |
| DMG MORI Management AG, Winterthur, Switzerland [17] | T CHF | 5,135 | 4,782 | 100.0 | 2,226 |
| DMG MORI Istanbul Makine Ticaret ve Servis Limited Sirketi, Istanbul, Turkey [18] | T TRY | 21,023 | 5,671 | 100.0 | 1,825 |
| DMG MORI Rus OOO, Moscow, Russia [18] | T RUB | 2,736,162 | 42,553 | 90.0 | 2,648 |
| DMG Egypt for Trading in Machines Manufactured LLC, Cairo, Egypt [18] | T EGP | 200 | 10 | 100.0 | 0 |
| MORI SEIKI Egypt for Trading in Machines & Equipments LLC, Cairo, Egypt [18] | T EGP | 200 | 10 | 100.0 | 0 |
| DMG MORI Africa for Trading in Machines & Service (S.A.E), Cairo, Egypt [28] (previously: DMG MORI Seiki Egypt for Machines Trading & Services) | T EGP | −4.867 | −255 | 100.0 | −389 |

| PRODUCTION PLANTS, SALES AND SERVICE COMPANIES | National currency | Equity [1] | € K | Participation quota in % | Earnings of financial year 2016 [1] € K |
|---|---|---|---|---|---|
| DMG MORI SEIKI CANADA INC., Toronto, Canada [17] | T CAD | 17,539 | 12,362 | 51.0 | 205 |
| DMG MORI CANADA INC., Vancouver, Canada [26] (previously: DMG MORI SEIKI ELLISON CANADA INC.) | T CAD | 18,943 | 13,351 | 100.0 | 791 |
| DMG MORI BRASIL COMERCIO DE EQUIPAMENTOS INDUSTRIAIS LTDA., Sao Paulo, Brazil [17] | T BRL | −8,993 | −2,622 | 51.0 | −2,393 |
| DMG MORI Singapore Pte. Ltd., Singapore [17] | T SGD | 20,495 | 13,454 | 51.0 | −3,276 |
| DMG MORI MALAYSIA SDN. BHD., Shan Alam / Selangor, Malaysia [23] | T MYR | 8,937 | 1,890 | 100.0 | −415 |
| DMG MORI Vietnam Co. Ltd., Hanoi, Vietnam [23] | T VND | 9,214,874 | 385 | 100.0 | −319 |
| DMG America Inc., Itasca, USA [17] | T USD | 40,338 | 38,267 | 100.0 | 374 |
| DMG MORI MEXICO S.A. de C.V., Queretaro, Mexico [24] | T MXN | 186,160 | 8,550 | 51.0 | 1,827 |
| DMG Asia Pte. Ltd., Singapore [17] | | | 24,010 | 100.0 | −570 |
| DMG MORI Machine Tools Spare Parts (Shanghai) Ltd., Shanghai, China [17] | T CNY | 32,934 | 4,499 | 100.0 | 570 |
| DMG MORI Taiwan Co. Ltd., Taichung, Taiwan [17] | T TWD | 106,890 | 3,140 | 100.0 | −151 |
| DMG MORI KOREA CO., LTD., Siheung-si / Gyeonggi-do, Korea [17] | T KRW | 26,724,666 | 21,054 | 100.0 | −1,449 |
| DMG MORI India Private Limited, Bangalore, India [17] | T INR | 314,180 | 4,388 | 51.0 | −2,157 |
| DMG MORI Machine Tools Trading Co., Ltd. Shanghai, China [10] (previously: DMG MORI SEIKI Machine Tools Trading Co., Ltd.) | T CNY | 76,058 | 10,390 | 100.0 | −4,092 |
| GILDEMEISTER energy solutions GmbH, Würzburg [3/4/10/11] | | | 52,100 | 100.0 | 0 |
| GILDEMEISTER energy efficiency GmbH, Stuttgart [25] | | | 49 | 60.0 | −55 |
| GILDEMEISTER ENERGY SERVICES IBERICA, SOCIEDAD LIMITADA, Madrid, Spain [25] | | | 32 | 100.0 | −206 |
| Rena Energy S.r.l., Milan, Italy [25] | | | 1,162 | 100.0 | 171 |
| Winch Puglia Foggia S.r.l., Milan, Italy [25] | | | 1,961 | 100.0 | 354 |
| Cucinella S.r.l., Milan, Italy [25] | | | 543 | 100.0 | 177 |
| GILDEMEISTER TURKEY SOLAR ENERJI ANONIM SIRKETI, Istanbul, Turkey [25] | T TRY | 8 | 2 | 100.0 | −1 |
| GILDEMEISTER LSG Beteiligungs GmbH, Würzburg [25] | | | 7 | 51.0 | −18 |
| Magnescale Co. Ltd., Kanagawa, Japan | T JPY | 6,710,000 | 54,376 | 44.1 | 2,597 |
| Magnescale Europe GmbH, Wernau [20] | | | 1,879 | 44.1 | −368 |
| Magnescale Americas, Inc., Davis, USA [20] | T USD | 1,053 | 999 | 44.1 | 37 |
| DMG MORI MANUFACTURING USA, Inc., Davis, USA [20] | | | | 19.0 | −4,203 |
| DMG MORI Australia Pty. Ltd., Clayton Victoria, Australia | T AUD | 5,039 | 3,452 | 50.0 | −183 |

| PRODUCTION PLANTS, SALES AND SERVICE COMPANIES | National currency | Equity [1] | € K | Participation quota in % | Earnings of financial year 2016 [1] € K |
|---|---|---|---|---|---|
| **Associates** | | | | | |
| DMG MORI Finance GmbH, Wernau | | | 23,693 | 42.6 | 1,057 |

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 DMG MORI AKTIENGESELLSCHAFT
3) 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.
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 preparation of a management report.
5) Equity investment of GILDEMEISTER Beteiligungen GmbH
6) Management and profit and loss transfer agreement with GILDEMEISTER Beteiligungen GmbH
7) Equity investment of DECKEL MAHO Pfronten GmbH
8) Management and profit and loss transfer agreement with DECKEL MAHO Pfronten GmbH
9) Equity investment of GILDEMEISTER Partecipazioni S.r.l.
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 Deutschland GmbH
13) Management and profit and loss transfer agreement with DMG MORI Deutschland GmbH
14) Equity investment of DMG MORI Services GmbH
15) Management and profit and loss transfer agreement with DMG MORI Services GmbH
16) Equity investment of DMG MORI Netherlands Holding B.V.
17) Equity investment of DMG MORI Sales and Service Holding AG
18) Equity investment of DMG MORI Europe AG
19) Equity investment of DMG MORI BALKAN GmbH
20) Subsidiary of Magnescale Co. Ltd.
21) Equity investment of DMG Italia S.r.l.
22) Equity investment of antiquitas Verwaltungsgesellschaft mbH
23) Equity investment of DMG MORI Singapore Pte. Ltd.
24) Equity investment of DMG America Inc.
25) Equity investment of GILDEMEISTER energy solutions GmbH
26) Equity investment of DMG MORI SEIKI CANADA INC
27) Equity investment of DMG MORI ECOLINE Holding AG
28) Equity investment of dmg Egypt for Trading in Machines Manufactured llc (50%) and Mori Seiki Egypt for Trading inMachines & Equipments llc (50%)

## INCOME STATEMENT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2016 OF DMG MORI AKTIENGESELLSCHAFT

| | | Notes | 2016 € | 2015 € |
|---|---|---|---|---|
| 1. | Sales revenues | 16 | 21,569,441 | 20,550,320 |
| 2. | Other operating income | 17 | 21,005,523 | 28,151,182 |
| | | | 42,574,964 | 48,701,502 |
| 3. | Cost of materials | | | |
| | Cost of purchased services | | −1,849,481 | −3,828,370 |
| | | | −1,849,481 | −3,828,370 |
| 4. | Personnel expenses | 18 | | |
| | a) Wages and salaries | | −30,661,781 | −31,817,279 |
| | b) Social contributions, pensions and other benefits thereof pension plan expenses: € −2,780 K (previous year: € −2,226 K) | | **−4,094,151** | **−3,708,513** |
| | | | **−34,755,932** | **−35,525,792** |
| 5. | Depreciation and amortization of intangible assets and property, plant and equipment | 19 | −2,936,945 | −5,183,006 |
| 6. | Other operating expenses | | −43,536,907 | −53,436,854 |
| | thereof expenses according to Art. 67 (1, 2) EGHB: € −211.8 K (previous year: € −211.8 K) | 20 | | |
| 7. | Income from profit transfer agreements | 21 | 115,040,505 | 83,693,775 |
| 8. | Income from investments | | 0 | 2,446,306 |
| 9. | Income from the sale of investments | | 0 | 37,840,548 |
| 10. | Other interest receivable and similar income | 22 | 13,491,508 | 15,571,232 |
| 11. | Interest payable and similar expenses | 23 | −8,712,300 | −7,577,802 |
| 12. | Tax on income | 24 | −38,218,621 | −35,642,112 |
| 13. | Earnings after tax | | 41,096,791 | 47,059,427 |
| 14. | Expenses from profit transfer agreements | 25 | −41,096,791 | 0 |
| 15. | Net income | | 0 | 47,059,427 |
| 16. | Profit carryforward from previous year | | 1,477,896 | 1,709,265 |
| **17.** | **Net profit for the year** | | **1,477,896** | **48,768,692** |

## BALANCE SHEET AS AT 31 DECEMBER 2016 OF DMG MORI AKTIENGESELLSCHAFT

| ASSETS | Notes | 31 Dec. 2016 € | 31 Dec. 2016 € | 31 Dec. 2015 € |
|---|---|---|---|---|
| **A. Fixed Assets** | | | | |
| **I. Intangible assets** | 1 | | | |
| Industrial and similar rights and values and licences to such rights and values acquired against payment | | | 101,616 | 169,925 |
| **II. Tangible assets** | 1 | | | |
| 1. Land and buildings | | 23,526,650 | | 23,153,115 |
| 2. Other equipment, factory and office equipment | | 12,605,783 | | 13,066,653 |
| 3. Payments on account and construction in progress | | 1,715,500 | | 3,049,701 |
| | | | **37,847,933** | **39,269,469** |
| **III. Financial assets** | 2 | | | |
| 1. Shares in affiliated companies | | 653,187,290 | | 601,732,790 |
| 2. Investments | | 6,657,493 | | 6,657,493 |
| | | | **697,794,332** | **647,829,677** |
| **B. Current Assets** | | | | |
| **I. Receivables and other assets** | 3 | | | |
| 1. Receivables from affiliated companies | | 573,441,774 | | 442,043,793 |
| 2. Receivables from companies in which participations are held | | 17,145 | | 17,145 |
| 3. Other assets | | 13,030,215 | | 9,705,295 |
| | | | **586,489,134** | **451,766,233** |
| II. Cash assets and bank balances | 4 | | 231,877,394 | 367,257,164 |
| **C. Prepaid Expenses** | 5 | | **336,088** | **153,436** |
| **D. Deferred Tax Assets** | 6 | | **11,082,823** | **9,840,207** |
| **E. Excess of Plan Assets over Pension Liability** | 7 | | **3,639,738** | **5,507,285** |
| | | | **1,531,219,509** | **1,482,354,002** |

| EQUITY AND LIABILITY | Notes | 31 Dec. 2016 € | 31 Dec. 2016 € | 31 Dec. 2015 € |
|---|---|---|---|---|
| **A. Equity** | | | | |
| I. Subscribed capital | 8 | | 204,926,785 | 204,926,785 |
| II. Capital reserves | | | 516,197,471 | 516,197,471 |
| III. Revenue reserves | | | | |
| 1. Statutory reserves | | | 680,530 | 680,530 |
| 2. Other revenue reserves | | | 197,898,830 | 197,898,830 |
| IV. Net profit | | | 1,477,896 | 48,768,692 |
| | | | 921,181,512 | 968,472,308 |
| **B. Provisions** | | | | |
| 1. Pension provisions | 9 | 8,417,614 | | 8,936,200 |
| 2. Tax provisions | 10 | 24,758,293 | | 20,617,859 |
| 3. Other provisions | 11 | 28,095,222 | | 28,450,281 |
| | | | 61,271,129 | 58,004,340 |
| **C. Liabilities** | 12 | | | |
| 1. Trade payables | | 1,645,526 | | 5,705,535 |
| 2. Amounts owed to affiliated companies | | 539,756,419 | | 437,136,354 |
| 3. Other liabilities | | 7,342,697 | | 13,035,465 |
| | | | **548,744,642** | **455,877,354** |
| **D. Prepaid Income** | | | **22,226** | **0** |
| | | | **1,531,219,509** | **1,482,354,002** |

# FIXED ASSET MOVEMENT SCHEDULE AS AT 31 DECEMBER 2016 OF DMG MORI AKTIENGESELLSCHAFT

## ACQUISITION AND PRODUCTION COSTS

| | |
|---|---|
| **I.** | **Intangible assets** |
| | Industrial and similar rights and values and licences to such rights and values acquired against payment |
| **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** |
| | 1. Shares in affiliated companies |
| | 2. Investments |
| **Total fixed assets** | |

## DEPRECIATION AND IMPAIRMENT OF VALUE

| | |
|---|---|
| **I.** | **Intangible assets** |
| | Industrial and similar rights and values and licences to such rights and values acquired against payment |
| **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** |
| | 1. Shares in affiliated companies |
| | 2. Investments |
| **Total fixed assets** | |

| As at 01 Jan. 2016 € | Additions € | Disposals € | Book Transfer € | As at 31 Dec. 2016 € |
|---|---|---|---|---|
| | | | | |
| 17,975,638 | 35,435 | 70,381 | 82,279 | 18,022,971 |
| **17,975,638** | **35,435** | **70,381** | **82,279** | **18,022,971** |
| | | | | |
| 48,535,973 | 1,097,286 | 0 | 727,303 | 50,360,562 |
| 28,792,198 | 569,647 | 379,549 | 553,924 | 29,536,220 |
| 3,049,701 | 1,688,771 | 1,659,466 | −1,363,506 | 1,715,500 |
| **80,377,872** | **3,355,704** | **2,039,015** | **−82,279** | **81,612,282** |
| | | | | |
| 601,732,790 | 51,454,500 | 0 | 0 | 653,187,290 |
| 6,657,493 | 0 | 0 | 0 | 6,657,493 |
| **608,390,283** | **51,454,500** | **0** | **0** | **659,844,783** |
| **706,743,793** | **54,845,639** | **2,109,396** | **0** | **759,480,036** |

| | | | | | CARRYING AMOUNT | |
|---|---|---|---|---|---|---|
| As at 01 Jan. 2016 € | Additions € | Disposals € | Book Transfer € | As at 31 Dec. 2016 € | As at 31 Dec. 2016 € | As at 31 Dec. 2015 € |
| | | | | | | |
| 17,805,713 | 160,478 | 44,836 | 0 | 17,921,355 | 101,616 | 169,925 |
| **17,805,713** | **160,478** | **44,836** | **0** | **17,921,355** | **101,616** | **169,925** |
| | | | | | | |
| 25,382,858 | 1,451,054 | 0 | 0 | 26,833,912 | 23,526,650 | 23,153,115 |
| 15,725,545 | 1,325,413 | 120,521 | 0 | 16,930,437 | 12,605,783 | 13,066,653 |
| 0 | 0 | 0 | 0 | 0 | 1,715,500 | 3,049,701 |
| **41,108,403** | **2,776,467** | **120,521** | **0** | **43,764,349** | **37,847,933** | **39,269,469** |
| | | | | | | |
| 0 | 0 | 0 | 0 | 0 | 653,187,290 | 601,732,790 |
| 0 | 0 | 0 | 0 | 0 | 6,657,493 | 6,657,493 |
| **0** | **0** | **0** | **0** | **0** | **659,844,783** | **608,390,283** |
| **58,914,116** | **2,936,945** | **165,357** | **0** | **61,685,704** | **697,794,332** | **647,829,677** |

MORE INFORMATION

# Responsibility Statement

To the best of our knowledge, and in accordance with the applicable accounting and reporting principles, the financial statement gives a true and fair view of the assets, liabilities, financial position and profit or loss of the DMG MORI AKTIENGESELLSCHAFT, and the management report includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal opportunities and risks associated with the expected development of the company.

Bielefeld, 7 March 2017
DMG MORI AKTIENGESELLSCHAFT
Executive Board

Dipl.-Kfm. Christian Thönes

Dipl.-Kfm. Björn Biermann

Dipl.-Kfm. Dr. Maurice Eschweiler

MORE INFORMATION

# 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 DMG MORI AKTIENGESELLSCHAFT, Bielefeld, for the financial year from 1 January to 31 December 2016. 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 Executive Board. 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 of the German Commercial Code (HGB) and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (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 Executive Board, as well as evaluating the overall presentation of the 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 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, 7 March 2017

KPMG AG
Wirtschaftsprüfungsgesellschaft

Dr. Tonne
Auditor

Bröker
Auditor

## FINANCIAL CALENDAR

| | |
|---|---|
| 09 MARCH 2017 | Press Conference of the Balance Sheet |
| | Publication of the Annual Report 2016 |
| | Analysts' Conference |
| 27 APRIL 2017 | First Quarterly Report 2017 (1 January to 31 March) |
| 05 MAY 2017 | 115th Annual General Meeting |
| 27 JULY 2017 | Second Quarterly Report 2017 (1 January to 30 June) |
| 26 OCT. 2017 | Third Quarterly Report 2017 (1 January to 30 September) |
| 04 MAY 2018 | 116th Annual General Meeting |

Subject to alteration

## 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 DMG MORI AKTIENGESELLSCHAFT differing materially from or being more negative than that those expressly or implicitly assumed or described in these statements. The business activities of DMG MORI AKTIENGESELLSCHAFT are subject to a series of risks and uncertainties, which may result in forward-looking statements estimates or forecasts becoming inaccurate.

DMG MORI AKTIENGESELLSCHAFT 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, DMG MORI AKTIENGESELLSCHAFT 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 in the capital markets and a deterioration in the conditions for the credit business 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 DMG MORI; changes in corporate strategy; interruptions in the supply chain, including the inability of a third party, for example due to natural catastrophes, to supply prefabricated 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 DMG MORI AKTIENGESELLSCHAFT and various other factors.

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 may differ materially from the results stated, expected, anticipated, intended, planned, aimed at, estimated or projected in these statements. DMG MORI AKTIENGESELLSCHAFT neither intends to nor does DMG MORI AKTIENGESELLSCHAFT 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.

There are two companies using the name 'DMG MORI': DMG MORI AKTIENGESELLSCHAFT with registered office in Bielefeld, Germany, and DMG MORI COMPANY LIMITED with registered office in Nagoya, Japan. The DMG MORI AKTIENGESELLSCHAFT is (indirectly) controlled by DMG MORI COMPANY LIMITED. This report refers exclusively to DMG MORI AKTIENGESELLSCHAFT. If reference is made in this report to 'DMG MORI', this refers exclusively to DMG MORI AKTIENGESELLSCHAFT and its controlled companies pursuant to Section 17 AktG (Stock Corporation Act)

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