DMG MORI

AKTIENGESELLSCHAFT

ADDITIVE MANUFACTURING

DIGITIZATION

AUTOMATION

TECHNOLOGY EXCELLENCE

DMG MORI QUALIFIED PRODUCTS

dynamic

EXCELLENCE

ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

OF DMG MORI AKTIENGESELLSCHAFT

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MANAGEMENT REPORT FOR THE FINANCIAL YEAR 2018 OF DMG MORI AKTIENGESELLSCHAFT

Basis of the Company

DMG MORI AKTIENGESELLSCHAFT, Bielefeld, and its controlled companies pursuant to Section 17 of the German Stock Corporation Act (AktG) form the DMG MORI group (hereinafter 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 recognized for the parent company comprise primarily 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, Nara, 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 the income and expenses resulting from the holding functions.

The present management report refers exclusively to DMG MORI AKTIENGESELLSCHAFT as the parent company. A detailed presentation of the DMG MORI group is provided in our 2018 Annual Report 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 on the internet under → en.dmgmori-ag.com.

Strategy and Management System

DMG MORI AKTIENGESELLSCHAFT, which has its headquarters in Bielefeld, manages the group centrally and across all functions as a management holding company. It comprises all cross-divisional key functions of the group.

The global manufacturing industry is characterized primarily by the trends of automation and digitization. As a consequence, the industry faces a market environment which is driven by innovation and is highly dynamic. Production in the future will not only require digital, networked manufacturing but also agile, dynamic and lean processes. Customer demand for continous complete solutions – including machinery, software, process, periphery and services – is increasing. Digital networking and parallel, virtual imaging of automated production are to enable a consistent process and cost transparency along the entire value chain and throughout the entire product life cycle. Moreover, traditional manufacturing processes and technologies are increasingly being supplemented by ADDITIVE MANUFACTURING.

The technological innovations resulting from these requirements are causing a fundamental change in the markets and business models. At the same time, the change towards electromobility and hybrid drive formats is influencing the machine tool industry. New competitors from other industries and regions are entering the market, whereas the complexity of machine tools continues to increase and innovation cycles are getting shorter and shorter.

DMG MORI considers these challenges as an opportunity to further expand its current market position as one of the world's leading suppliers of integrated premium solutions and as sustainable and global innovator for the manufacturing industry. Our goal: Actively promote innovations and offer even better integrated solutions to meet dynamic customer demands in the future. We want to be Number 1 for our customers worldwide with our holistic offer of machine tools, automation and digitization solutions and our DMQP: from development to production, through to the global sales and services of forward-looking machine tools.

The Executive Board of DMG MORI AKTIENGESELLSCHAFT manages the group via a rigidly defined organizational and management structure, as well as by operative goals, the achievement of which is monitored by pre-defined key figures. With the help 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. Main key internal target and control variables are order intake, sales revenues, earnings before interest and taxes (EBIT), free cash flow and investments. In terms of the key result figure, we implemented a change from earnings before taxes (EBT) to EBIT to enable comparison with DMG MORI COMPANY LIMITED as of 1 January 2018. 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.

DMG MORI AKTIENGESELLSCHAFT successfully concluded financial year 2018. The forecasts were essentially met. Sales revenues were below budget due to adjustments made to offset cost allocations to subsidiaries. EBIT exceeded the forecast in financial year 2018 largely due to savings in consulting costs. Investments in intangible assets and particularly in fixed assets were slightly higher than planned. The investments in modernization and expansion measures at the Bielefeld site. The number of employees decreased slightly compared to the previous year.

Corporate Governance Statement pursuant to section 289 f of the German Commercial Code (HGB)

Corporate Governance

The Executive Board and Supervisory Board of DMG MORI AKTIENGESELLSCHAFT always act in accordance with good corporate governance and report in accordance with Section 3.10 of the German Corporate Governance Code on corporate governance at DMG MORI. 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 2018, the Executive Board and Supervisory Board once again issued a compliance statement that confirmed the group's compliance with all recommendations of the "Government Commission on the German Corporate Governance Code" in the version of the code of 7 February 2017 since its publication in the electronic Federal Gazette (Bundesanzeiger)

KEY FINANCIAL PERFORMANCE INDICATORS OF DMG MORI AKTIENGESELLSCHAFT (GERMAN COMMERCIAL CODE – HGB)

	actual 2017	plan 2018	actual 2018
Sales revenues	€ 16.0 million	around € 16.0 million	€ 14.4 million
EBIT	€ -32.4 million	around € -32.0 million	€ -31.0 million
Investments in fixed assets / Intangible assets	€ 1.0 million	around € 2.4 million	€ 2.6 million
Number of employees (annual average)	84	nearly unchanged	82

on 24 April 2017 without reservation. 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. DMG MORI also complies with the suggestions of the German Corporate Governance Code except for two exceptions regarding the Annual General Meeting. For organizational and cost reasons, we have waived the Internet transmission and the accessibility of the representatives for the instruction-bound exercise of the voting rights of shareholders during the Annual General Meeting.

The current declaration of conformity and the Corporate Governance report are permanently accessible on our website – as well as the declaration of conformity of previous years.
→ en.dmgmori-ag.com/corporate-communications/corporate-governance

Pursuant to Section 317 para. 2 (6) of the German Commercial Code (HGB), the purpose of the audit of the statements of the group declaration on corporate management pursuant to Section 289 f para. 2 and 5 and Section 315 d of the HGB is limited to determining whether such statements have been made.

D&O insurances (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 the 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

In our opinion, the comprehensive and systematic management of opportunities and risks within corporate management is a part of good corporate governance. The opportunities and risk management system of DMG MORI AKTIENGESELLSCHAFT is integrated in the existing opportunity and risk management systems of the group.

Within DMG MORI'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 group-wide risk management system includes an early risk identification system, an internal control system (ICS) according to German and Japanese statutory requirements, 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 main elements:

› The company-specific manual on risk management;
› The central risk management officer on the level of DMG MORI AKTIENGESELLSCHAFT;
› Decentralized risk management officers in each group company;
› Division-specific risk-management systems, which assess and prioritize individual risks;
› The risk reporting system at group level and for each individual company with the accompanying ad-hoc reporting system for material risks.

The structure of the early risk identification system in the DMG MORI group is designed in such a way that material risks are systematically defined, assessed, aggregated, monitored and reported on a group-wide basis.

Risks in individual business units are identified according to prescribed risk areas on a quarterly basis. All potential risks thus recorded are analyzed and assessed according to quantitative variables; measures to reduce risks area also taken into account in this process. Any risks threatening the business as a going concern are reported immediately, including outside the periodic reporting.

To be able to present the overall risk situation of the group, we determine and aggregate the individual local and central risks, as well as the group effects. The expected accumulated value from 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 regularly informed about the resulting current risk situation of the group and 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) of the German Stock Corporation Act (AktG) is examined by the auditors, is continuously developed within the group and is adapted to suit changing circumstances on an ongoing basis.

The existing internal control system (ICS) of DMG MORI group serves to minimize or eliminate controllable risks in day-to-day business processes. Based on an annually updated analysis and documentation of basic business processes, controllable risks are recorded and eliminated or minimized to an acceptable level by arranging the organizational structure and workflow management accordingly, and by implementing suitable control measures. This is supported by existing internal guidelines and instructions as a part of the ICS. The effectiveness of the ICS is evaluated through annual management testing. The results are reported to the Executive and the 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).

DMG MORI also employs a central insurance management to minimize or eliminate risks. In close cooperation with the DMG MORI COMPANY LIMITED insurance management, we determine and operationally implement a global, harmonized insurance strategy.

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 upon 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 reports and quarterly releases to the Finance and Audit Committee and discusses these reports and releases with the Finance and Audit Committee before their publication. The Articles of Association and the rules of procedure empower the Supervisory Board to consent to a wide range of business transactions proposed by the Executive Board. The remuneration of the members of the Supervisory Board and also of the Executive Board are described in detail in the remuneration report.

Objectives in the Composition of the Supervisory Board

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

- › The Supervisory Board should be staffed with the same number of shareholder representatives with experience in managing or governing companies with global operations;
- › Employees from key DMG MORI sectors should be considered 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 shareholders' 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 limit of 70 years at the time of election to the Supervisory Board should be observed; limit of five terms of office;
- Nominations for future staffing of the Supervisory Board should also be made primarily with the interests of the company in mind, while observing the objectives mentioned above.

The re-election of the Supervisory Board meant that the Supervisory Board again complied with its voluntary obligation of setting a gender quota in financial year 2018. It also again complied with its voluntary obligation to ensure the independence of at least 50 % of the Supervisory Board members.

Diversity

The diversity culture lived at DMG MORI empowers our employees to support international group projects. This cultural exchange promotes personnel diversity and increases performance. At DMG MORI, all employees and job applicants are held in high esteem irrespective of their nationality or ethnic origin, sex, age, religion, sexual orientation or physical impairments. The Executive Board emphasizes this equal opportunity through the DMG MORI Code of Conduct.

Statutory Gender Quota Requirements

Taking into account the Act on Equal Participation of Men and Women in Executive Positions in Private Business and the Public Sector, the Supervisory Board passed a resolution on 30 November 2017 specifying that a quota of 20 % of the Executive Board of DMG MORI AKTIENGESELLSCHAFT is to be occupied by female members of staff by 30 June 2022.

As a result of flat hierarchies, there is only one management level below that of the Executive Board at DMG MORI AKTIENGESELLSCHAFT. The target quota set by the Executive Board on 18 October 2017 for this management level was 10 % for women. This target is to be achieved by 30 June 2022. With regard to the Supervisory Board, the statutory 30 % quota has been met since the Supervisory Board elections 2018. The shareholders' and employees' representatives have decided to meet these legal requirements separately from each other. Since the Supervisory Board elections, there have been two female Supervisory Board members among the shareholders' representatives. Since the Supervisory Board elections, there have been three female Supervisory Board members among the employees' representatives.

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, assessed and authorized by the Supervisory Board as necessary. The Supervisory Board reports to the Annual General Meeting on any conflicts of interest and on how they are addressed.

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 to exercise their voting right by proxy through an authorized 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 in a timely manner 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 is as transparent and as relevant as possible for all stakeholders, such as shareholders, capital lenders, business partners and employees, as well as for the general public. Our website provides further information at any time on the group's current position, and this is also where press releases and quarterly reports, annual reports and a detailed financial calendar are published.

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 obligations and our own internal guidelines. Our Compliance Management System is designed to safeguard our principles and values. Further information about our Compliance Management System can be found in the Sustainability Report 2018 and on our website.

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 Chairwoman of the Finance and Audit Committee must 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 has a substantial indirect holding in DMG MORI AKTIENGESELLSCHAFT. Dr. Eng. Masahiko Mori holds shares in DMG MORI COMPANY LIMITED (Nara, Japan). DMG MORI COMPANY LIMITED indirectly holds a 76.03 % share of voting rights in the share capital of DMG MORI AKTIENGESELLSCHAFT. Hence, Dr. Eng. Masahiko Mori is indirectly a shareholder of DMG MORI AKTIENGESELLSCHAFT. Pursant to section 19 MMVO (German Misuse of Power Regulation), 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. The corresponding notifications made by DMG MORI AKTIENGESELLSCHAFT can be viewed on the company website at all times.

Supervisory Board and Committees

Pursuant to the articles of association, the Supervisory Board comprises twelve members. In accordance with the German Codetermination Act (Mitbestimmungsgesetz), there are six employee representatives, one of whom represents the executive staff, in addition to the six shareholders' representatives on the Supervisory Board. The term of office of the incumbent Supervisory Board expires upon the end of the Annual General Meeting 2019.

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

The Supervisory Board held five meetings in financial year 2018. 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 2018, four committees of the Supervisory Board of DMG MORI AKTIENGESELLSCHAFT held meetings: the Finance and Audit Committee, the Personnel-, Nominations and Remuneration Committee, the Nomination Committee and the Technology and Development Committee. The Supervisory Board reports on the scope of its work in the committees in its report in the group annual report.

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.

Supervisory Board Remuneration

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

In financial year 2018, 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). Fixed remuneration totaled € 718,604 (previous year: € 894,905).

Remuneration for committee work totaled € 228,870 (previous year: € 373,413) and included the work done in the Finance and Audit Committee, the Personnel, Nominations and Remuneration Committee as well as the Technology and Development Committee until 4 May 2018. 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 2018 amounted to € 144,000 (previous year: € 229,500).

In financial year 2018, total remuneration for the Supervisory Board amounted to € 1,091,474 (previous year: € 1,497,818).

Executive Board Remuneration

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. The indirect remuneration component primarily consists of pension plan expenses. The direct remuneration of members of the Executive Board of DMG MORI AKTIENGESELLSCHAFT includes 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 primarily include the responsibilities of the respective Executive Board members, their personal performance, the performance of the entire Executive Board, also the business situation, the success and the future prospects of the company within its comparative environment.

The Supervisory Board meeting on 24 November 2016 and the Annual General Meeting resolution from 5 May 2017 confirmed the existing structure of Executive Board remuneration comprising a fixed component, STI, individual and performance-oriented remuneration, LTI and contributions to pension plans. The LTI was adjusted to a three-year period starting from 2017. Furthermore, as of the 2017 – 2019 tranche, the LTI will no longer take the share price into account, but rather be guided by the result of DMG MORI AKTIENGESELLSCHAFT as the key indicator, including 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 totaled € 10,078 K (previous year: € 8,659 K). Of this sum, fixed salaries accounted for € 2,478 K (previous year: € 2,100 K), and STI accounted for € 3,349 K (previous year: € 2,880 K). The individual remuneration amounted to € 2,063 K (previous year: € 1,750 K). The value of the LTI totaled € 1,283 K (previous year: € 1,272 K). Benefits in kind amounted to € 105 K (previous year: € 57 K). The pension plan expense amounted to € 800 K (previous year: € 600 K).

The following table shows the remuneration of the Executive Board in accordance with the German Corporate Governance Codex (DCKG). The table "Allocated grants" shows the awarded remuneration levels for members of the Executive 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.

REMUNERATION OF THE SUPERVISORY BOARD OF DMG MORI AKTIENGESELLSCHAFT

in €	Fixed remuneration	Committee remuneration: Finance and Audit Committee (F&A)	Committee remuneration: Personnel-, Nominirations and Remuneration Committee (PNR)	Committee remuneration: Technology and Development Committee (T&D)	Meeting attendance fees	Total
current SB members (since 4 May 2018)						
Dr. Eng. Masahiko Mori Chairman SB (since 4 May 2018) Chairman PNR (since 4 May 2018)	–	–	–	–	–	0
Since 4th May 2018 Dr. Eng. Mori has waived any Supervisory Board Remuneration. Any remuneration up to the time of the waiving was assigned and paid to DMG MORI COMPANY LIMITED, Japan. Dr. Eng. Mori has not personally received any remuneration for his activities as Supervisory Board member for 2018. The expense of DMG MORI AKTIENGESELLSCHAFT until 4th May 2018 amounted to € 40,114, of which € 20,384 was fixed remuneration, € 7,500 the attendance fee and committees € 6,115 (F&A), € 0 (PNR) and € 6,115 (T&D).						
Ulrich Hocker Deputy chairman SB	90,000	0	18,000	0	12,000	120,000
Irene Bader	–	–	–	–	–	0
Since 4th May 2018 Mrs. Bader has waived any Supervisory Board Remuneration. Any remuneration up to the time of the waiving was not paid to Mrs. Bader personally, but was assigned and paid to DMG MORI GmbH, Germany. Mrs. Bader has not personally received any remuneration for her activities as Supervisory Board member for 2018. The expense of DMG MORI AKTIENGESELLSCHAFT until 4th May 2018 amounted to € 32,499, of which € 20,384 was fixed remuneration, € 6,000 the attendance fee and committees € 0 (F&AP), € 6,115 (PNR) and € 0 (T&D).						
Prof. Dr.-Ing. Berend Denkena	60,000	0	0	6,115	9,000	75,115
Prof. Dr. Annette Köhler Chairman F&A	60,000	36,000	0	0	16,500	112,500
James Victor Nudo SB member (since 4 May 2018)	–	–	–	–	–	0
As of the beginning of his appointment to the Supervisory Board, James Victor Nudo has fully waived any Supervisory Board remuneration.						
Mario Krainhöfner * 1st Deputy chairman SB	90,000	3,945	18,000	0	13,500	125,445
Stefan Stetter Deputy chairman SB (since 4 May 2018) SB member (since 4 May 2018)	59,425	11,885	0	0	10,500	81,810
Tanja Fondel * SB member (since 4 January 2018)	56,877	0	11,885	0	9,000	77,762
Dietmar Jansen *	60,000	11,885	3,945	0	13,500	89,330
Larissa Schikowski ** SB member (since 4 May 2018)	39,616	0	11,885	0	6,000	57,501
Michaela Schroll * SB member (since 4 May 2018)	39,616	11,885	0	0	9,000	60,501
former SB member (until 4 May 2018)						
Prof. Dr.-Ing. Raimund Klinkner Chairman SB (until 4 May 2018) Chairman T&D (until 4 May 2018) Chairman PNR (until 4 May 2018)	50,959	6,115	12,230	12,230	10,500	92,034
Hermann Lochbihler dep. chairman SB (until 4 May 2018)	30,575	6,115	6,115	6,115	9,000	57,920
Matthias Pfuhl	20,384	6,115	0	6,115	7,500	40,114
Peter Reinoss *	20,384	0	0	3,945	4,500	28,829
Total ***	**718,604**	**100,060**	**88,175**	**40,635**	**144,000**	**1,091,474**

* These employees' representatives transfer the majority of their remuneration for Supervisory Board duties to the Hans-Böckler-Stiftung, Düsseldorf, Germany.
** Larissa Schikowski transfers part of her remuneration for Supervisory Board activities to various charitable institutions.
*** The total amount corresponds to the expenses of DMG MORI AKTIENGESELLSCHAFT for 2018.

EXECUTIVE BOARD DIRECT REMUNERATION

in € K	Fixum 2017	Fixum 2018	STI 2017	STI 2018	LTI 2017 *	LTI 2018 *	Performance remuneration 2017	Performance remuneration 2018	Perquisite 2017	Perquisite 2018	Pension Plan 2017	Pension Plan 2018	Total 2017	Total 2018
Christian Thönes Chairman since 15 April 2016	900	900	1,380	1,380	636	647	750	750	21	24	300	300	3,987	4,001
Dr. Maurice Eschweiler	600	600	750	750	636	636	500	500	18	20	150	150	2,654	2,656
Björn Biermann	600	600	750	750	–	–	500	500	18	19	150	200	2,018	2,069
Michael Horn Executive Board member since 15 May 2018	–	378	–	469	–	–	–	313	–	42	–	150	–	1,352
Total	**2,100**	**2,478**	**2,880**	**3,349**	**1,272**	**1,283**	**1,750**	**2,063**	**57**	**105**	**600**	**800**	**8,659**	**10,078**

* Value of the LTI-Tranche 2014 – 2017 and 2015 – 2018

ALLOCATED GRANTS in € K				2017	2018	2018 (Min)	2018 (Max)
Christian Thönes	Chairman	since 15 April 2016	Fixum	900	900	900	900
			Perquisite	21	24	24	24
	Executive Board member	since 1 Jan 2012	**Sum**	**921**	**924**	**924**	**924**
			STI	690	690	0	1,380
			ind. performance remuneration	690	690	0	750
			LTI 2017 – 2019	300	–	–	–
			LTI 2018 – 2020	–	300	0	360
			Sum	**1,680**	**1,680**	**0**	**2,490**
			Pension [1]	300	300	300	300
			Total	**2,901**	**2,904**	**1,224**	**3,714**
Dr. Maurice Eschweiler	Executive Board member	since 1 April 2013	Fixum	600	600	600	600
			Perquisite	18	20	20	20
			Sum	**618**	**620**	**620**	**620**
			STI	375	375	0	750
			ind. performance remuneration	377	377	0	500
			LTI 2017 – 2019	200	–	–	–
			LTI 2018 – 2020	–	200	0	240
			Sum	**952**	**952**	**0**	**1,490**
			Pension [1]	150	150	150	150
			Total	**1,720**	**1,722**	**770**	**2,260**
Björn Biermann	Executive Board member	since 27 Nov 2015	Fixum	600	600	600	600
			Perquisite	18	19	19	19
			Sum	**618**	**619**	**619**	**619**
			STI	375	375	0	750
			ind. performance remuneration	377	377	0	500
			LTI 2017 – 2019	200	–	–	–
			LTI 2018 – 2020	–	200	0	240
			Sum	**952**	**952**	**0**	**1,490**
			Pension [1]	150	200	200	200
			Total	**1,720**	**1,771**	**819**	**2,309**
Michael Horn	Executive Board member	since 15 May 2018	Fixum	–	378	378	378
			Perquisite	–	42	42	42
			Sum	**–**	**420**	**420**	**420**
			STI	–	234	0	469
			ind. performance remuneration	–	236	0	313
			LTI 2017 – 2019	–	–	–	–
			LTI 2018 – 2020	–	125	0	150
			Sum	**–**	**595**	**0**	**931**
			Pension [1]	–	150	150	150
			Total	**–**	**1,165**	**570**	**1,501**
Total			Fixum	2,100	2,478	2,478	2,478
			Perquisite	57	105	105	105
			Sum	**2,157**	**2,583**	**2,583**	**2,583**
			STI	1,440	1,674	0	3,349
			ind. performance remuneration	1,444	1,680	0	2,063
			LTI 2017 – 2019	700	–	–	–
			LTI 2018 – 2020	–	825	0	990
			Sum	**3,584**	**4,179**	**0**	**6,401**
			Pension [1]	600	800	800	800
			Total	**6,341**	**7,562**	**3,383**	**9,784**

1) Payments for pension provisions as defined contribution

INFLOW FOR THE FINANCIAL YEAR
in € K

				2017	2018
Christian Thönes	Chairman	since 15 April 2016	Fixum	900	900
			Perquisite	21	24
	Executive Board member	since 1 Jan 2012	**Sum**	**921**	**924**
			STI	1,380	1,380
			ind. performance remuneration	750	750
			LTI 2014 – 2017	636	–
			LTI 2015 – 2018	–	647
			Sum	**2,766**	**2,777**
			Pension [1]	300	300
			Total	**3,987**	**4,001**
Dr. Maurice Eschweiler	Executive Board member	since 1 April 2013	Fixum	600	600
			Perquisite	18	20
			Sum	**618**	**620**
			STI	750	750
			ind. performance remuneration	500	500
			LTI 2014 – 2017	636	–
			LTI 2015 – 2018	–	636
			Sum	**1,886**	**1,886**
			Pension [1]	150	150
			Total	**2,654**	**2,656**
Björn Biermann	Executive Board member	since 27 Nov 2015	Fixum	600	600
			Perquisite	18	19
			Sum	**618**	**619**
			STI	750	750
			ind. performance remuneration	500	500
			LTI 2014 – 2017	–	–
			LTI 2015 – 2018	–	–
			Sum	**1,250**	**1,250**
			Pension [1]	150	200
			Total	**2,018**	**2,069**
Michael Horn	Executive Board member	since 15 May 2018	Fixum	–	378
			Perquisite	–	42
			Sum	**–**	**420**
			STI	–	469
			ind. performance remuneration	–	313
			LTI 2014 – 2017	–	–
			LTI 2015 – 2018	–	–
			Sum	**–**	**782**
			Pension [1]	–	150
			Total	**–**	**1,352**

1) Payments for pension provisions as defined contribution

INFLOW FOR THE FINANCIAL YEAR
in € K

				2017	2018
Dr. Rüdiger Kapitza	Chairman	until 6 April 2016	Fixum	–	–
	Executive Board member	from 1 Jan 1992 to 6 April 2016	Perquisite	–	–
			Sum	**–**	**–**
			STI	–	–
			ind. performance remuneration	–	–
			LTI 2014 – 2017	1,216	–
			LTI 2015 – 2018	–	871
			Sum	**1,216**	**871**
			Pension	–	–
			Total	**1,216**	**871**
Dr. Thorsten Schmidt	Deputy chairman	until 31 Dec 2015	Fixum	–	–
	Executive Board member	from 1 Oct 2006 to 31 Dec 2015	Perquisite	–	–
			Sum	**–**	**–**
			STI	–	–
			ind. performance remuneration	–	–
			LTI 2014 – 2017	903	–
			LTI 2015 – 2018	–	647
			Sum	**903**	**647**
			Pension	–	–
			Total	**903**	**647**
André Danks	Executive Board Finance	since 11 March 2014 Revocation of the appointment to the Executive Board on 26 Nov 2015	Fixum	–	–
			Perquisite	–	–
			Sum	**–**	**–**
			STI	–	–
			ind. performance remuneration	–	–
			LTI 2014 – 2017	515	–
			LTI 2015 – 2018	–	–
			Sum	**515**	**–**
			Pension	–	–
			Total	**515**	**–**
Total			Fixum	2,100	2,478
			Perquisite	57	105
			Sum	**2,157**	**2,583**
			STI	2,880	3,349
			ind. performance remuneration	1,750	2,063
			LTI 2014 – 2017	3,906	–
			LTI 2015 – 2018	–	2,801
			Sum	**8,536**	**8,213**
			Pension [1]	600	800
			Total	**11,293**	**11,596**

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 2018, the reference values used were the volume of the order intake and EBIT ("Earnings Before Interest and Taxes"). The target figures are on a sliding scale and are respecified every year. As a precondition for the payment of the STI, the group's sustainability factor (total expenditures for research and development, corporate communication incl. marketing as well as for further training in relation to total sales revenues) for the respective financial year must reach or exceed a certain specified minimum value. This promotes sustainability-focused corporate governance.

As a long-term remuneration component, the LTI takes into account the results of DMG MORI AKTIENGESELLSCHAFT as the key indicator, including a bottom threshold for the results.

The individual performance remuneration considers how well the individual Executive Board members have met their individually set goals. The STI, the LTI and the individual performance remuneration are variable, which means they do not represent secure remuneration.

The delayed LTI tranches for 2015 – 2018 and 2016 – 2019 represent a performance units model and do 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. After expiration of the relevant period, the amount to be paid out is calculated from the number of units. From the LTI tranche 2015 – 2018, which was awarded on 31 December 2018 and will be paid out in 2019, the resulting payment totals € 2,801 K (previous year's tranche 2014 – 2017: € 3,906 K). The subsequent LTI tranches combine 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.

Due to the domination and profit transfer agreement between a subsidiary of DMG MORI COMPANY LIMITED and DMG MORI AKTIENGESELLSCHAFT, the Supervisory Board of DMG MORI AKTIENGESELLSCHAFT adopted a resolution to guarantee a stable calculation basis for the LTI in 2016. Imputed values were defined for the EAT parameters and share price for the LTI between 2015 – 2018 and 2016 – 2019.

Benefits in kind arise mainly from the values 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 benefits in kind, which may vary depending on their personal situation and are subject to tax payable by each Executive Board member. Pension commitments for current members of the Executive Board are implemented through a defined contribution pension plan. The expenses for the financial year just ended amounted to € 800 K (previous year: € 600 K). An amount of € 2,181 K was paid to the former Chief Financial Officer André Danks as part of the final settlement of the contract.

Advances in favor of members of the Executive Board – and also in favor of members of the Supervisory Board – were not granted. The DMG MORI AKTIENGESELLSCHAFT group companies did not pay any remuneration directly to members of governing bodies for services personally rendered, in particular consulting and mediation services.

Former members of the Executive Board and their surviving dependents were paid € 1,271 K in pensions (previous year: € 1,339 K). The pension obligations for former members of the Executive Board and their surviving dependents amounted to € 24,956 K (previous year: € 24,780 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 portfolios of product development, production and technology. The implementation is carried out at the group company level.

The purpose of DMG MORI's research and development is to sustainably increase the value of our products for our customers. As innovation and technology leader, we provide a forward-looking offer of machinery, technology and automation solutions, software products and services for our customers.

We attach special value to:

› intelligent automation of machines and plants,
› end-to-end digital processes with DMG MORI Software Solutions (CELOS, DMG MORI Technology Cycles, DMG MORI Powertools),
› highly efficient production planning with ISTOS,

› intelligent maintenance processes with WERKBLiQ,
› the further development of global standards in the digitization of machine and plant building industry with ADAMOS,
› expansion of the portfolio with cutting-edge manufacturing technologies particularly in ADDITIVE MANUFACTURING,
› Technology Excellence through industry-specific development of future-oriented and integrated production solutions (Aerospace, Die & Mold, Medical and Additive Manufacturing),
› consolidation of our product portfolio (streamlining),
› standardization of components (SCOPE) and increase in value-added depth for core components (DMG MORI COMPONENTS).

At € 57.9 million, expenses for research and development were above the previous year's figure (+15 %; € 50.4 million).The increase in comparison to the previous year shows the once more enhanced dynamic by which we have advanced our strategic future topics – in particular Automation and Digitization. A total of 581 employees worked on developing our products (previous year: 525 employees). As in the previous year, this represents 15 % of the factories' workforce. The innovation ratio in the "Machine Tools" segment was 4.0 % (previous year: 3.9 %). Investments in new products are listed in explanations of segments as capitalized development costs.

As "Global One Company" together with DMG MORI COMPANY LIMITED we presented 10 world premieres during the reporting year, three of which were internal and two joint developments, on 54 national and international trade fairs and Open House exhibitions. In addition, we presented a wide range of new technology solutions from our five strategic future topics – Automation, Digitization, ADDITIVE MANUFACTURING, Technology Excellence and DMG MORI Qualified Products – and consistently promoted our "First Quality" strategy. The value of our industrial property rights, defined by the market value method, amounts to around € 608.8 million in total (previous year: € 570.6 million).

Research and development activities are decentralized and coordinated by a central product development body. This structure enables the development of the highest level of product competence, while at the same time opening up synergy effects through cross-plant cooperation. We are generating additional synergies with our worldwide annual developer conference, the "Global Development Summit". In October 2018, more than 200 international experts from highly varied company segments met at FAMOT in Poland to develop and advance new ideas.

Report on Economic Position

Overall economic development

After a swinging start to 2018, the world economy became less dynamic during the course of the year. According to preliminary calculations of the Institute for World Economics (IfW) at Kiel University, the global economy remained stable during the first half of the year at the previous year's level with +3.7 %.

Development of the Machine Tool Building Industry

International Development

According to the information of the German Machine Tool Builders' Association (VDW), and the British economic research institute Oxford Economics, the global machine tool market developed positively as a whole in 2018. World consumption increased by +8.5 % (April forecast: 5.9 %). However, these preliminary figures did not take into account currency effects and possible consequences of geopolitical uncertainties. Adjusted for currency effects, the global consumption of machine tools went up by +5.2 % to € 75.1 billion on a euro basis and thus showed first tendencies towards reduced dynamics (April forecast: +6.1 %).

In Europe, demand for machine tools rose significantly by +11.5 % (previous year: +8.2 %). Asia only recorded an increase of +1.4 % (previous year: +4.2 %). In North and South America, the development was again very positive at +6.4 % (previous year: 7.5 %).

In China, the world's largest market, the consumption of machine tools decreased by -1.1 % to € 22.9 billion (previous year: € 23.2 billion). As the second most important market for machine tools with € 8.9 billion, the USA recorded two-digit growth of +12.3 % (previous year: € 7.9 billion). In the third largest market, Germany, consumption rose significantly by +15.0 % to € 6.9 billion (previous year: € 5.9 billion). After a decline last year, Japan now saw an increase of +11.3 % again and came in fourth globally at € 5.4 billion (previous year: € 4.8 billion). Italy recorded strong growth of +25.9 % to € 4.6 billion (previous year: € 3.7 billion) and came in fifth ahead of South Korea with € 3.0 billion (previous year: € 3.4 billion). Like last year, the ten most important consumption markets accounted in total for around 80 % of the machine tool consumption worldwide.

The VDW calculated a volume of € 75.1 billion (previous year: € 71.5 billion) for global production. According to preliminary estimates, China was again the worldwide largest producer of machine tools with a volume of € 17.4 billion (previous year: € 17.9 billion) in 2018. Germany and Japan follow in second and third place with € 12.7 billion (previous year: € 11.8 billion) and € 12.4 billion (previous year: € 11.4 billion), respectively. Altogether, the ten key production countries account for more than 90 % of all machine tools worldwide (previous year: 90 %).

German Machine Tool Industry

In 2018, the German machine tool industry developed as follows: At € 17.4 billion, the order intake of plants in Germany was only +1.0 % above the level of the previous year (previous year: € 17.2 billion). Domestic demand improved by +5.0 % (previous year: +10.1 %). Demand from abroad stagnated (previous year: +7.0 %). The order intake for cutting machines remained constant at the level of the previous year. Machining orders in the domestic market increased by +3.0 %, and decreased by -2.0 % in orders from abroad. In the forming machines area, order intake increased by +7.0 % (previous year: +6.0 %). Order intake at foreign plants of German manufacturers is not included in these figures.

Sales revenues of German machine tool manufacturers rose by +7.0 % year-on-year (previous year: +5.0 %). Production once again reached a volume of € 15.6 billion and was thus +7.0 % above the previous year's level (€ 14.6 billion).

Machines with a value of € 10.6 billion were exported (+3.5 %; previous year: € 10.2 billion). The export ratio fell by almost three percentage points to 67.4 %. The most important export market for German machine tools was once again China with € 2.3 billion (previous year: € 2.2 billion). This represents 22 % of German machine tool exports (previous year: 21 %).

As in the previous year, the USA took second place with an export volume of € 1.3 billion (export share: 12.3 %). Italy was the third most important export market with € 0.6 billion and an export share of 5.6 % before Poland. The import of machine tools rose by +10.7 % to € 3.9 billion (previous year: € 3.6 billion). Accounting for an import share of 30 %, almost every third imported machine tool came from Switzerland. This was followed by Japan (11 %) and Italy (8 %).

Domestic consumption of machines, parts and equipment increased by +13.8 % to € 9.0 billion. Over the course of the year, the capacity utilization of German machine tool producers increased by more than 2 percent points. The capacity utilization of producers of cutting machines was 93.9 % (previous year: 91.6 %).

Averaged across the year, the number of employees in German machine tool companies rose to a total of around 73,550 (previous year: 70,937).

The ifo business climate index for trade and industry is the leading indicator for economic development in Germany. According to the ifo publication from February 2019, the German economy was experiencing an downturn. The business climate deteriorated notably in nearly all important manufacturing industries (mechanical engineering, manufacturing of metal products and electrical equipment).

Results of Operations, Net Worth and Financial Position

The result of DMG MORI AKTIENGESELLSCHAFT was essentially determined by the income from financial assets amounting to € 170.9 million (previous year: € 152.9 million). These resulted from profit transfers of DMG MORI Vertriebs und Service GmbH in the amount of € 42.8 million (previous year: € 50.3 million) and GILDEMEISTER Beteiligungen GmbH in the amount of € 128.1 million (previous year: € 102.6 million).

Overall, DMG MORI AKTIENGESELLSCHAFT finished the year with EBIT of € -31.0 million (previous year: € -32.4 million) and EBT before profit transfer of € 143.1 million (previous year: € 125.1 million). EAT amounted to € 99.3 million (previous year: € 89.9 million), which will be transferred to DMG MORI GmbH due to the domination and profit transfer agreement. The tax expense of € 43.7 million (previous year: € 35.2 million) comprises the taxes incurred by DMG MORI GmbH, Bielefeld, amounting to € 43.5 million (previous year: € 30.0 million) as a result of the tax compensation agreement.

In the reporting year, sales revenues (group cost allocations and rents) amounted to € 14.4 million (previous year: € 16.0 million). The decrease is primarily due to lower cost allocations to subsidiaries and an adjustment made to the offset cost allocation. Other operating income fell slightly by € 0.1 million to € 20.5 million (previous year: € 20.6 million). Other operating income comprises 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 DMG MORI AKTIENGESELLSCHAFT.

Expenses incurred for the purchased services mainly cover maintenance of the grounds and premises at the Bielefeld site. These amounted to € 3.0 million, or around € 0.7 million above the previous year's figure (€ 2.3 million).

Personnel expenses increased slightly by € 0.8 million to € 22.5 million (previous year: € 21.7 million). The increase was caused by the establishment of a new executive portfolio as well as general remuneration adjustments at DMG MORI AKTIENGESELLSCHAFT.

We were able to reduce other operating expenses € 3.5 million from € 41.1 million to € 37.6 million in the reporting period. Savings on consulting expenses of € 1.6 million and a reduction in exchange rate losses from € 2.8 million to € 12.3 million (previous year: € 15.1 million) were achieved due to the valuation of receivables and liabilities in foreign currency and valuation losses from forward exchange contracts, which were compensated by offsetting effects in other operating income. On balance, the result in the reporting year was a profit in the amount of € 2.7 million (previous year: loss in the amount of € 0.5 million.

Income from investments due to the profit and loss transfer agreements with the subsidiaries rose from € 152.9 million in the previous year to € 170.9 million in the reporting year.

Due to an increase in the financial investments made by the subsidiaries, the financial result on the financial statement decreased by € 1.5 million to € 3.1 million (previous year: € 4.6 million).

The reported tax expense of € 43.7 million (previous year: € 35.2 million) is primarily attributable to expenses resulting from tax allocations in the amount of € 43.5 million (previous year: € 30.0 million), income resulting from deferred tax allocations of € 3.5 million (previous year: loss in the amount of € 1.9 million) and taxes for previous years.

The balance sheet total as of 31 December 2018 increased by 5.6 % to € 1,867.5 million (previous year: € 1,769.2 million).

Fixed assets on the balance sheet increased from € 758.7 million to € 794.9 million.

The increase results primarily from a contribution to the capital reserves of DMG MORI Vertriebs- und Service GmbH in the amount of € 36.7 million. A further contribution to the capital reserves of DMG MORI Vertriebs- und Service GmbH in the amount of € 79.0 million resulted from the transfer of a long-term loan to DMG MORI Sales and Service Holding AG from financial year 2017 in the form of a great-grandparent-company contribution.

Current assets increased by € 58.9 million to € 1,056.0 million compared to the previous year. Receivables owed by affiliated companies increased by € 250.8 million to € 964.8 million. The increase results from an increase in the loan to DMG MORI GmbH, Bielefeld, in the amount of € 250.0 million. Bank balances decreased by € 192.8 million to € 80.3 million. This decrease is due primarily to the increase in the loan.

Equity remained unchanged at € 921.2 million on the liabilities and shareholders' equity side. The equity ratio amounted to 49.3 % (previous year: 52.1 %). The share capital has remained unchanged at € 204,926,784.40 and is divided into 78,817,994 no-par shares.

Provisions decreased from € 4.3 million to € 33.5 million (previous year: € 37.8 million) compared to the previous year. The decrease is primarily the result of tax provisions € 2.6 million). Provisions for pensions decreased by € 1.2 million to € 6.9 million (previous year: € 8.1 million) and other provisions decreased by € 0.5 million to € 24.0 million (previous year: € 24.5 million).

Liabilities rose to € 912.8 million (previous year: € 810.2 million). These mainly comprise liabilities to affiliated companies, which rose by € 103.2 million to € 908.2 million. The increase was primarily the result of the financial clearing, which increased by € 101.5 million from € 791.4 million to € 892.9 million in the reporting period. This includes the profit transfer to DMG MORI GmbH amounting to € 99.3 million (previous year: € 89.9 million). With effect from 1 January 2017, a tax sharing agreement was concluded between DMG MORI GmbH and DMG MORI AKTIENGESELLSCHAFT. The resulting liabilities in the amount of € 43.5 million (previous year: € 30.0 million) are also included in this item. The item also comprises trade debts to affiliated companies amounting to € 15.3 million (previous year: € 13.7 million). As in the previous year, there were no liabilities to banks.

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 external financing lines totaled € 849.2 million in financial year 2018. Its material components were a syndicated credit line in the amount of € 500.0 million concluded in February 2016 with a term until February 2021, which consists of a € 200.0 million cash tranche, and a € 300.0 million aval tranche, other aval lines of € 138.7 million, and factoring agreements for subsidiaries of € 167.5 million. The syndicated credit agreement with the banks was renewed in January 2018 by one year until February 2022. As in the previous year, the cash tranche was not used.

The syndicated credit agreement requires us to comply with a standard market covenant. The covenant was complied with as of 31 December 2018. Off-balance-sheet operating lease agreements supplement the financing. This financing mix gives us adequate financing lines which provide us with the necessary liquid funds for our business at any time.

DMG MORI group's 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 deploy the liquidity surpluses of subsidiaries cost-effectively within the group. The risks referring to derivatives are presented in the notes.

Employees

On 31 December 2018, DMG MORI AKTIENGESELLSCHAFT had 84 employees (previous year: 84 employees).

As of 31 December 2018, DMG MORI AKTIENGESELLSCHAFT was organised in three executive units, which are as follows:

- Mr. Christian Thönes (Chairman): Product Development / Sales / Purchasing / Corporate Public Communications / Internal Audit
- Mr. Björn Biermann: Finance / Controlling / Taxes / Risk Management / Investor Relations / Compliance
- Mr. Dr. Maurice Eschweiler: Industrial Services / Human Resources / Legal
- Mr. Michael Horn: Production / Logistics / Quality and Information Technologies

Overeall Statement of the Executive Board on Financial Year 2018

DMG MORI AKTIENGESELLSCHAFT successfully concluded financial year 2018. Sales revenues were below budget due to adjustments made to offset cost allocations to subsidiaries. EBIT improved to € -31.0 million (Previous year: € -32.4 million) compared to the previous year. It was also possible to significantly increase the earnings of the subsidiaries in financial year 2018, which saw greater profit transfer to DMG MORI AKTIENGESELLSCHAFT. DMG MORI AKTIENGESELLSCHAFT closes the year overall with € 99.3 million in earnings after taxes (previous year: € 89.9 million), which are transferred to DMG MORI GmbH.

Opportunities and Risk Management Report

In its business activities, DMG MORI AKTIENGESELLSCHAFT is exposed to various opportunities and risks. Our opportunities and risk management assists us in identifying and assessing these early on. The Executive Board and the Supervisory Board are regularly informed about the current risk situation of the company and of the individual business units.

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

Opportunities Management System (CMS)

Opportunities are systematically identified and analyzed within the opportunities and risk management system of the DMG MORI group. We use our global Customer Relationship Management (CRM) to document and analyze our sales and service activities in machine tools and industrial services. For example, by doing so we can quickly identify the main individual opportunities in Sales and Service and act accordingly. Our CRM is based on a number of operational early indicators such as market potential, order intake, or trade fair evaluations. In this way we manage our sales and service activities in a targeted manner and consistently seize opportunities. Moreover, we continuously monitor our markets and can thereby identify any broader economic and industry-specific opportunities which arise early on.

Additionally, our operational management identifies other opportunities. We derive strategies for the selected opportunities from discussions with the Executive Board.

As the holding company, DMG MORI AKTIENGESELLSCHAFT shares in the opportunities of its subsidiaries. These are described in detail in the Group Business 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)

We are exposed to potential risks through our international business operations as a world-leading manufacturer of machine tools and supplier of holistic technology, automation and digitization solutions. Consequently, active risk management is indispensable for DMG MORI. It provides early detection and as a result begins at every level of the organization to comprise a comprehensive risk awareness. Honest handling of risks is explicitly encouraged and actively promoted at DMG MORI. We have an open corporate culture in order to identify and remedy negative developments at every hierarchy level early on. Every employee is actively involved in risk minimization and elimination at work.

We counter potential risks through a comprehensive, integrated and group-wide risk management system, which we are always developing in technical and organizational terms. It comprises the early risk identification system, the internal control system (ICS) and the central insurance management.

Early Risk Identification System

In our early risk identification system, we record and control the risks in the future development. We define the term risk as a negative deviation from the achievement of our planned earnings target (EBIT) within the next 12 months compared to the rolling-wave planning (RWP). We also consider tax and interest risks. The recorded, assessed and controlled risks in question are circumstances which contain an inherent element of potential risk due to the prevailing environmental situation.

Our early risk identification system consists of five elements:

1. the company-specific risk management manual, in which the system is defined;
2. a central risk management officer, who develops, implements and monitors the present risk management concept and coordinates the measures for risk reduction or risk elimination;
3. local risk officers in individual group companies, who are responsible for the decentralized recording, analysis and communication of existing risks;
4. area-specific, quarterly risk recording according to predefined risk areas and an inventory of related measures for risk reduction or elimination with a quantitative assessment taking into account the group and individual companies' risk-bearing ability;
5. the risk reporting systems at group level and for each individual company with ad-hoc reporting of material risks.

The early risk identification system is based on the generally accepted COSO framework. It aims to completely and reliably capture existing risk potential across the whole group, to extensively summarize and assess risk, to query and develop risk reduction measures, and to continually monitor risk and enable extensive risk reporting.

The strategy of our existing early risk identification system is based on a group-wide systematic identification, assessment, aggregation, monitoring and reporting of existing risks and related measures for risk reduction or elimination. These risks are identified in a standardized process in the individual business units on a quarterly basis.

At DMG MORI, the identified maximum risk potentials (gross risks) are assessed in consideration of their probability of occurrence to then subtract the effect of the risk minimization or elimination measures (net risk). Based on the existing net risks, a report is made to the risk management. For our risk assessment, we use the following assessment categories in ascending order:

PROBABILITY OF OCCURRENCE	
Very low	≤ 5 %
Unlikely	> 5 % to ≤ 25 %
Possible	> 25 % to ≤ 50 %

Risks with a probability of occurrence of more than 50 % are considered with net risk values directly in the ongoing corporate planning or as accruals for the provision of risk. Risks that threaten the continuation of business are reported immediately, also outside of the periodic reporting.

In addition to possible financial effects, risk-bearing capacity is a key performance indicator defined as the relation of the expected accumulated value of all risks identified after adjustment for current group effects and total group equity.

POTENTIAL FINANCIAL EFFECTS	
Immaterial	≤ 10 million €
Moderate	> 10 to ≤ 20 million €
Substantial	> 20 million €

The categorization of potential financial effects was determined by the risk management based on the prescribed risk strategy, taking into account sales revenues, company result (EBIT) and group equity as well as risk-bearing capacity.

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 effects on the group, to present the overall risk situation of the group:

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

The Supervisory Board and the Executive Board are regularly informed about the current overall risk situation of the group and of 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) of the German Stock Corporation Act (AktG) is examined by the auditors, is continuously developed within the group and is adapted to suit changing circumstances on an ongoing basis.

Internal Control System (ICS)

The ICS of the DMG MORI group is a further integral part of the group-wide risk management system. It conforms to both the German statutory requirements of the German Stock Corporation Act (AktG) and the relevant Japanese statutory requirements of the "Japanese Financial Instruments and Exchange Act" in the form of documentation in accordance with the J-SOX / Naibutousei.

The ICS serves to minimize or eliminate controllable risks in daily business processes. The aim is to ensure consistent implementation of the strategic and operative stipulations of the Executive Board, achievement of the operational efficiency targets and compliance with all legal provisions, standards and value-related requirements.

In addition, the ICS ensures the completeness, accuracy and reliability of our Consolidated Financial Statements according to IFRS, and of the local financial statements, as well as the books on which they are based. It covers all organizational, control and monitoring structures to ensure the legally compliant recording, processing and consideration of business matters, as well as their subsequent adoption in the relevant financial statements.

Building on an annually updated analysis and the documentation of significant business processes, the controllable risks are recorded within our ICS and eliminated through the optimization of the structural and procedural organization, as well as suitable control activities, or reduced to an appropriate level. Our ICS includes our existing internal policies and procedures and both preventive as well as detecting control activities, such as authorizations and releases, plausibility checks, reviews and a four-eyes principle. We ensure an appropriate separation of functions during business processes through our transparent operational and organizational structure.

In addition, the ICS comprises the principles, procedures and measures for ensuring the correctness of the Annual Financial Statements and the management report of the company. For this purpose, we analyze new laws, accounting standards and other public notices with respect to their effect on the Annual Financial Statements. We standardize relevant regulations in accounting-related guidelines, for example, in the accounting manual. These guidelines and the respectively valid financial statements calendar form the basis for the preparation of the financial statements. If required, 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, as needed.

The effectiveness of the ICS in the company is assessed based on annual management testing of the central departments of DMG MORI AKTIENGESELLSCHAFT. The management testing results are reported to the Executive and Supervisory Boards.

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

Insurance Management

As a further component of the risk management, DMG MORI has a central insurance management in place. A group-wide insurance strategy for economically appropriate and insurable risks is strategically determined and implemented here in close cooperation with DMG MORI COMPANY LIMITED.

Overview of relevant risk areas

As a holding company, DMG MORI AKTIENGESELLSCHAFT is also affected by the risks of its subsidiaries. These are described in detail in the Group Business Report. Risks of subsidiaries may have a negative effect on the income from financial investments or cause write-off-related expenses to financial investments and thus affect the result of DMG MORI AKTIENGESELLSCHAFT.

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

Risk type	Probability of occurrence	Potential financial effects
Corporate strategic risks	Very low	Moderate
Procurement and purchasing risks	Unlikely	Immaterial
Personnel risks	Possible	Immaterial
Financial risks	Very low	Immaterial
Legal risks	Unlikely	Immaterial
Tax risks	Very low	Immaterial
Other risks	No risk	Immaterial

Presentation of individual risk areas:

Corporate strategic risks stem mainly from a misjudgment of future market development and sector-specific 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 and an innovation-oriented company strategy. In this respect, the concluded domination and profit transfer agreement incurs risks to the extent that the company's future business development could potentially be affected by any future instructions given by DMG MORI GmbH. These do not solely need to be in the interest of DMG MORI AKTIENGESELLSCHAFT, but are instead issued in the interests of the group.

We are particularly exposed to **procurement and purchasing risks** in the area of key goods due to price increases for materials in the machine tools business. Times of high workload experienced by our suppliers may also potentially increase costs. Further risks include possible supplier shortfalls and quality problems. We counteract these risks through the standardization of structural parts and components as well as through international sourcing with a minimum of two suppliers for essential materials and increased insourcing of key components.

Due to our continuous need for highly qualified specialists and management staff, **personnel risks** may arise through not being able to attract and retain these employees in sufficient numbers, and have a lasting adverse effect on the group's development. We limit these risks through intensive vocational training and human resource development programs, performance-related remuneration with a profit-based incentive scheme, as well as timely succession planning and deputizing arrangements. The necessary availability of highly qualified employees and managers at any one time could also be impacted by higher rates of illness. We counteract this risk in particular through a preventive occupational healthcare scheme.

Financial risks result from our international activities: We hedge currency-related risks through our currency strategy. Further details on our currency strategy and financial instruments are available in the annex under paragraph 14 "Derivative Financial Instruments."

The essential components of DMG MORI AKTIENGESELLSCHAFT financing are a syndicated loan, which comprises a cash and an aval tranche and is firmly agreed until February 2022, as well as factoring programs. All financing agreements include an agreement in compliance with one standard market covenant. The liquidity of DMG MORI AKTIENGESELLSCHAFT is considered sufficient. In principle, DMG MORI AKTIENGESELLSCHAFT bears the risk of bad debt, which may result in write-downs or in individual cases may even result in the receivable defaulting.

Legal risks arise in particular from legal disputes with suppliers, public authorities and former employees.

Tax risks arise from deferred tax assets which were not value-adjusted from loss or interest carried forward. It is assumed that this potential tax reduction can be used against future taxable income. We also assume that the tax and social insurance declarations that we submitted are complete and correct. Nevertheless, due to differing assessments of the facts, additional charges may arise within the scope of an audit. In the event that availability of the loss or interest carried forward is not given, this could have an adverse effect on the results of operations, financial position and net worth.

Other risks with respect to the assets of DMG MORI AKTIENGESELLSCHAFT arise mainly through the accounting and valuation of financial assets. Financial assets are accounted for at the lower acquisition cost or fair value. The value retention of financial assets is determined annually with the aid of the Discounted-Cash-Flow calculation, which is based on the budget overview of the associated companies. Due to the values determined, there was no need for write-downs on the reporting date. In the event that the planned results are not achieved, an adjustment to the lower fair value may be required. The present budget overview gives no reason for impairment in 2018.

Overall risk assessment

We consider the risks to be manageable and do not foresee that they will jeopardize the continued existence of DMG MORI AKTIENGESELLSCHAFT as a going concern. Compared to the previous year, risks have slightly increased overall. However, in light of the increased business activity, we deem the moderate increase to be reasonable.

DISCLOSURES REQUIRED BY SECTION 289a GERMAN COMMERCIAL CODE (HGB)

As to Section 289a (1) (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 289a (1) (3) German Commercial Code HGB

According to its last notification of voting rights on 6 April 2016, DMG MORI COMPANY LIMITED indirectly held a 76.03 % share of voting rights in the share capital of DMG MORI AKTIENGESELLSCHAFT.

As to Section 289a (1) (6) German Commercial Code HGB

Pursuant to Section 84 of the German Stock Corporation Act (AktG), the Supervisory Board is responsible for appointing and dismissing the members of the Executive Board. This authorization is specified in Section 7 para. 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 para. 1 no. 5 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 AktG, in conjunction with Section 15 para. 4 of the Articles of Association of DMG MORI AKTIENGESELLSCHAFT.

As to Section 289a (1) (7) German Commercial Code HGB

Pursuant to Section 5 para. 3 of the Articles of Association, the Executive Board is authorized 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 (authorized 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 authorized, with the approval of the Supervisory Board, to exclude the statutory subscription right in certain specifically and in detail defined cases according to the Articles of Association (authorized capital).

As to Section 289a (1)(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 a (1) of the German Commercial Code (HGB), the Executive Board provides the following explanatory notes:

- As of 31 December 2018, 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 the bearer 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.
- There were no changes to the Articles of Association in financial year 2018.
- The Executive Board has not used the mentioned authorizations 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 with the possibility to cancel them in the event of a change of control.

Forecast Report

The earnings position of DMG MORI AKTIENGESELLSCHAFT differs from that of the group in terms of level and structure, but is significantly influenced by the control and profit and loss transfer agreements with two domestic subsidiaries. In the following, we will initially take a closer look at the group forecast.

For the current financial year, the Kiel Institute for Economics (IfW) is forecasting global economic growth of +3.4 %. For Germany, an increase in GDP of +1.7 % is estimated for the current year. Overall, the European economy is expected to noticeably lose momentum and GDP is expected to increase by only +1.7 %. With an expected growth rate of +6.2 %, Asia will continue to be the region with the strongest growth in the current year. An increase of +6.1 % is forecast for China. The Japanese economy is expected to grow by +1.0 %. The IfW estimates that economic development in the USA will remain stable at +2.5 %.

Global machine tool consumption is expected to grow at a much slower pace in 2019. Excluding global currency effects, VDW and Oxford Economics forecast an increase of +3.6 % (previous year: +8.5 %). In view of the existing geopolitical uncertainties, it cannot be ruled out that these forecasts of the associations will be adjusted.

While consumption in Europe as a whole is expected to grow by +4.7 %, Great Britain is expected to record a significant decline of -8.3 % due to the Brexit. Consumption in Asia is expected to rise by +3.3 %. At country level, the Chinese and Japanese markets are also expected to grow by +5.1 %. In the USA, VDW and Oxford Economics expect solid growth of +3.0 %. The German machine tool industry started the year with less momentum. Due to the solid order backlog, VDW and Oxford Economics forecast an increase in consumption of +5.2 % in Germany for the whole year.

The worldwide positive trend of recent years seems to continuously weaken. In almost all major industrial nations, economic sentiment has already dampened. In addition to the general economic slowdown, the main risk factors are the trade conflict between the USA and China, the possible disorderly exit of Great Britain from the EU, the current debt situation in Italy, the price development for raw materials and energy as well as the strong exchange rate fluctuations. Due to the existing global uncertainties and economic policy risks, it remains difficult to make reliable forecasts.

The following table provides an overview of the budgeted values 2019 of key financial and performance indicators of the DMG MORI AKTIENGESELLSCHAFT:

FINANCIAL AND KEY PERFORMANCE INDICATORS OF DMG MORI AKTIENGESELLSCHAFT (HGB)

	Ist 2017	Ist 2018	Plan 2019
Sales revenues	€16.0 million	€ 14.4 million	around €15.0 million
EBIT	€-32,4 million	€ -31.0 million	around €-36.0 million
Investments in fixed assets / Intangible assets	€ 1.0 million	€ 2.6 million	around € 1.0 million
Number of employees (annual average)	84	82	nearly unchanged

Key internal target and performance indicators are sales revenues, EBIT and investments. The EBIT is defined as the result before profit and loss transfers from the subsidiaries.

Sales revenues of approximately € 15.0 million have been planned for financial year 2019. Planned investments of around € 1.0 million for financial year 2019 primarily relate to modernization measures at the Bielefeld site. EBIT is expected to be around € -36.0 million in financial year 2019. The change results from increased personnel expenses, expenses for employee development programs as well as forecast cost increases. Furthermore, in financial year 2018, an exchange rate gain of € 2.7 million resulted on the balance (previous year: loss of € -0.5 million). Exchange rate gains or losses have not been planned for financial year 2019.

Overall Statement of the Executive Board on Future Business Development

The global economy continues to be characterized by worldwide uncertainties. According to preliminary forecasts by the German Machine Tool Builders' Association and the British economic research institute Oxford Economics, global machine tool consumption is expected to grow at a significantly lower rate of +3.6 % in 2019 (previous year: +8.5 %). In view of the existing geopolitical uncertainties, it cannot be ruled out that these forecasts of the associations will be adjusted.

For the financial year 2019, we are planning order intake of around € 2.6 billion and sales revenues of around € 2.65 billion. EBIT should reach around € 200 million and free cash flow around € 150 million. Capital expenditure on tangible and intangible assets is expected to amount to around € 110 million and will be financed primarily from our own funds.

We want to sustainably strengthen our high innovative power as "Global One Company". Dynamic and Excellence in technology, service and quality will also characterize the current business year. We will continue to drive forward our strategic future topics with dynamics and sustainably optimize the existing to excellence.

At DMG MORI AKTIENGESELLSCHAFT, we are expecting income from investments to be on a par with the previous year based on the economic environment in 2019. Overall, we expect EBIT before profit transfer of about € -36.0 million. In 2019, we are not anticipating any significant changes in net worth and financial position.

NOTES FOR THE FINANCIAL YEAR 2018 OF DMG MORI AKTIENGESELLSCHAFT

Notes

A – General Declaration

The annual financial statements of DMG MORI for the year ending 31 December 2018 were prepared in compliance with the regulations stipulated in the German Commercial Code (HGB) and the German Stock Corporation Act (AktG). 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, Nara, is the ultimate parent company within the DMG MORI group. During the financial year, DMG MORI AKTIENGESELLSCHAFT and DMG MORI GmbH concluded a domination and profit and loss transfer agreement. With effect from 1 January 2017, a tax compensation agreement was concluded between DMG MORI GmbH and DMG MORI AKTIENGESELLSCHAFT. Explanations to the conclusion of the tax compensation agreement with DMG MORI GmbH can be found in the Notes.

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 equipments	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 straight-line 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 256 a HGB. 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) 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 represents expense to be incurred during a specific period after this date.

Equity items are shown at their nominal value.

The measurement of pension commitments was carried out by the projected unit credit method (PUC method) based on an accounting interest rate of 3.21 % (previous year: 3.68 %) over an average 10-year period. For this purpose, the Heubeck-reference tables 2018 G published in July 2018 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 0.97 % (previous year: 1.44 %). 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 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 2.32 % p. a. (previous year: 2.80 %).

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 10 financial years at the 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 7 to 10 years. For 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.

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

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.

DMG MORI GmbH, a wholly owned subsidiary of DMG MORI COMPANY LIMITED, has concluded a domination and profit transfer agreement with DMG MORI AKTIENGESELLSCHAFT, pursuant to Sections 291 et seq. AktG (Stock Corporation Act). This agreement entered into force following entry into the commercial register on 24 August 2016.

Through the resulting entry of DMG MORI AKTIENGESELLSCHAFT and that of the domestic companies previously belonging to the DMG MORI AKTIENGESELLSCHAFT tax group into the income tax group of DMG MORI GmbH, the income tax liability of DMG MORI AKTIENGESELLSCHAFT expired as of 31 December 2016. Any earnings from the domestic tax group are now legally subject to taxation at DMG MORI GmbH, which is not included in the Consolidated Financial Statements of DMG MORI AKTIENGESELLSCHAFT. With effect from 1 January 2017, a tax allocation agreement was entered into with DMG MORI GmbH and DMG MORI AKTIENGESELLSCHAFT with the objective of fair and reasonable tax allocation and to allow the full transfer of tax or tax relief.

The tax or tax relief from the tax allocation agreement is recognised in the income statement as "Expenses or income from tax allocations" under "Taxes before income and earnings". The obligation to transfer or refund tax allocations is recognised on the balance sheet in Amounts owed to or amounts owed by affiliated companies. Previously, current tax expenses were recognised in the income statement under "Taxes from income and earnings" and obligations were recognised on the balance sheet as tax provisions. When accounting for deferred tax allocations, the tax option is exercised as laid down in Section 274 HGB (Commercial Code). This allows future allocation tax or tax relief arising from the tax entity's existing, temporary differences to be reflected at tax entity level in accordance with the economic cause of such tax or tax relief. At DMG MORI AKTIENGESELLSCHAFT, this not only includes the differences from the company's own balance sheet items, but also those existing for previous taxable entities. Deferred taxes are calculated for temporary differences between the fiscal and commercial valuation of assets, liabilities, prepaid expenses and deferred income. Deferred tax allocations are calculated on the basis of the combined income tax rate for the previous consolidated tax group of DMG MORI AKTIENGESELLSCHAFT, which is currently 29.8 % (previous year: 29.8 %). The combined income tax rate includes corporation, trade and solidarity taxes. Any resulting overall tax charge would be reflected on the balance sheet as deferred tax allocation liabilities and any tax relief as deferred tax allocation assets.

In recognising hedges for foreign currency, the gross hedge presentation method is 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. Fixed assets mainly include property and buildings at the Bielefeld site.

2. FINANCIAL ASSETS

The changes in financial assets of DMG MORI AKTIENGESELLSCHAFT are set out in the balance sheet supplement 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 2018 are set out in a separate summary at the end of the notes.

No value adjustments were made for financial assets in the financial year, as the impairment tests conducted did not identify any impairment requirement.

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

› GILDEMEISTER Beteiligungen GmbH, Bielefeld
› DMG MORI Vertriebs und Service GmbH, Bielefeld

3. RECEIVABLES AND OTHER ASSETS

Receivables owed by affiliated companies of € 964,812 K (previous year: € 714,053 K) primarily arose from receivables from profit and loss transfer agreements and financial clearing in the amount of € 916,400 K (previous year: € 689,365 K) and trade account receivables of € 48,412 K (previous year: € 24,688 K). Receivables owed by affiliated companies includes the loan agreement between DMG MORI AKTIENGESELLSCHAFT and DMG MORI GmbH amounting to € 370,000 K (previous year: € 120,000 K) plus interests of € 644 K (previous year: € 400 K).

The loan bears interest at the market rate. Other assets amounted to € 10,895 K (previous year: € 9,967 K). In addition, they include receivables from derivatives of € 2,366 K (previous year: € 1,094 K) and tax refund claims from value-added tax of € 8,121 K (previous year: € 8,235 K) amongst others.

Receivables and other assets do not have receivables with a remaining term of more than one year (previous year: € 13 K).

4. CASH ASSETS, BANKS BALANCES

The disclosure refers to credit balances with banks and the cash in hand value and fell to € 80,312 K (previous year: € 273,050 K). This decrease is mainly due to the increase in the loan to DMG MORI GmbH of € 250,000 K to € 370,000 K (previous year: € 120,000 K).

5. PREPAID EXPENSES

The prepaid expenses under assets relates to payments amounting to € 1,516 K (previous year: € 1,070 K) before the reporting date which are expenses for the following years.

6. DEFERRED TAX ASSETS ALLOCATION FROM THE PARENT COMPANY

As a result of the tax allocation agreement, the company made use of the option to recognise deferred taxes as well as applying Section 274 HGB (German Commercial Code) at the level of DMG MORI AKTIENGESELLSCHAFT. The deferred tax asset allocation from the parent company results from temporary differences between the commercial and tax balance sheets. The temporary differences in value are mainly attributable to pension provisions.

An average tax rate of 29.8 % (previous year: 29.8 %) was used to calculate deferred tax assets. There are no tax loss carry forwards for DMG MORI AKTIENGESELLSCHAFT.

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 was netted against the pension obligation. The costs of acquisition of the offset assets are € 16,305 K (previous year: € 16,370 K) which also affects the fair value. The settlement amount of the provision is € 14,345 K (previous year: € 13,669 K) of which € 480 K (previous year: € 559 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 2018. In conformity with the offsetting of assets and debts, income of € 507 K and expenses of € 805 K are shown balanced in interest expenses.

Equity and Liabilities

8. SUBSCRIBED CAPITAL

Gezeichnetes Kapital

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 May 2017).

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) (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 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) (4) of the German Stock Corporation Act, are 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 afore-mentioned 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 utilized 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

The other retained earning of € 199,376,726 have not changed since the previous year.

Control and profit transfer agreement

DMG MORI AKTIENGESELLSCHAFT closes the year with € 99.3 million (previous year: € 89.9 million) in earnings after taxes. The earnings after taxes will be transfered to DMG MORI GmbH due to the control and profit transfer agreement.

A transfer ban of € 12,644 K (previous year: € 9,154 K) exists for € 12,644 K (previous year: € 9,154 K) in deferred tax allocation assets for the parent company as applied in accordance with Section 268 (8) HGB (Commercial Code), unless adequate, readily available reserves exist to cover the transfer ban amount. As the current, readily available other retained earnings amount of € 199,377 K (previous year: € 199,377 K) exceeds the amount of deferred tax allocation assets, a transfer ban pursuant to Section 301 AktG (Companies Act) in conjunction with Section 268 (8) HGB does not exist in this case.

The disposable amount of retained earnings means there is also no dividend limitation of € 2,358 K from the adjustment in the measurement period for the pension provisions market rate from 7 to 10 years in accordance with Section 253 (6) HGB (German Commercial Code).

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 3.21 % p.a. (previous year: 3.68 % 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 Sec. 67 (1) (1) of the Introductory Act on the German Commercial Code (EGHGB). Sec. 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) was taken into the expenses. An amount of € 1,271 K remains from this obligation for non-established provisions for subsequent years. As of the reporting date, provisions were € 6,852 K (previous year: € 8,122 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 € 2,358 K (previous year: € 2,288 K).

10. PROVISIONS FOR TAXES

Tax provisions of € 2,611 K (previous year: € 5,165 K) include liabilities for trade tax of € 1,197 K (previous year: € 3,002 K) and for corporation tax of € 1,414 K (previous year: € 2,163 K) for financial year 2018 and – due to tax audits – for previous year.

11. OTHER PROVISIONS

Other provisions include anticipated bonus payments of € 11,473 K (previous year: € 13,712 K) and expenses for other personnel expenses in an amount of € 4,190 K (previous year: € 4,258 K).

Additionally, a provision for anticipated losses due to a negative surplus of derivatives was formed in the amount of € 131 K (previous year: € 305 K).

The provisions accrued in 2018 for outstanding invoices amounts to € 2,372 K (previous year: € 1,514 K). Additionally, other provisions include amounts for contingent liabilities of € 3,249 K (previous year: € 1,600 K), annual financial statement costs of € 667 K (previous year: € 546 K), provisions for Supervisory Board members' remuneration of € 1,091 K (previous year: € 1,553 K) and other provisions of € 825 K (previous year: € 1,036 K).

12. LIABILITIES

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 agreement was extended in January 2018 by one year until February 2022.

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 2018.

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.

in € K	Statement of financial position as of 31 Dec 2018	Of which residual term up to 1 year	Of which residual term 1 to 5 years	Of which residual term more than 5 years	Statement of financial position as of 31 Dec 2017
1. Trade payables	1,068	1,068	0	0	735
Residual terms 31 Dec 2017		735	0	0	735
2. Liabilities to affiliated companies	908,232	908,232	0	0	805,042
Residual terms 31 Dec 2017		805,042	0	0	805,042
3. Other liabilities [1]	3,465	3,454	11	0	4,442
Residual terms 31 Dec 2017		4,442	0	0	4,442
Residual terms 31 Dec 2018	912,765	912,754	11	0	810,219
Residual terms 31 Dec 2017		810,219	0	0	810,219

1) Of which from taxes: € 350 K (previous year: € 2,330 K)

The liabilities to affiliated companies in the amount of € 908,232 K (previous year: € 805,042 K) primarily resulted from liabilities from financial clearing € 892,905 K (previous year: € 791,377 K). This includes € 142,793 K (previous year: € 119,882 K) in liabilities to DMG MORI GmbH, of which € 99,326 K (previous year: € 89,865 K) relates to the transfer of profits and € 43,467 K (previous year: € 30,017 K) in taxes charged as a result of fiscal unity. Payment to DMG MORI GmbH will be made in financial year 2019. This also includes € 15,327 K (previous year: € 13,658 K) in trade payables to affiliated companies.

13. CONTINGENCIES AND OTHER FINANCIAL

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

CONTINGENCIES in € K	31 Dec 2018	31 Dec 2017
Guarantees	587,132	568,703
Warranties	50,433	48,525
Other off-balance sheet obligations	5,952	9,500
	643,517	**626,728**

OBLIGATIONS FROM TENANCY AND LEASE AGREEMENTS DUE in € K	31 Dec 2018	31 Dec 2017
Within 1 year	541	414
Within 1 to 5 years	255	265
After 5 years	0	0
	796	**679**

The guarantees of DMG MORI AKTIENGESELLSCHAFT include maximum amount guarantees for affiliated companies of € 30,042 K (previous year: € 25,642 K) and payment sureties of € 81,636 K (previous year: € 80,329 K). The corresponding bank liabilities are value dated as of 31 December 2018 at € 223 K (previous year: € 5,491 K). DMG MORI AKTIENGESELLSCHAFT was jointly and severally liable for liabilities of € 160,000 K (previous year: € 160,000 K) as of the balance sheet date.

An amount of € 12,817 K (previous year: € 8,183 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 2018, the amount availed of was € 186,705 K (previous year: € 170,985 K). In financial year 2018, an increase in down payments received by the subsidiaries of DMG MORI AKTIENGESELLSCHAFT led to a rise in down payment guarantees.

Performance bonds rose by € 38,359 K to € 177,285 K. This increase was mainly attributable to the project business of GILDEMEISTER energy solutions GmbH.

Moreover, DMG MORI AKTIENGESELLSCHAFT has issued comfort letters for subsidiaries totalling € 32,153 K. The liabilities in this respect were valued at € 40 K as at 31 December 2018 (previous year: € 224 K). 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 € 5,952 K (previous year: € 9,500 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:

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

DERIVATIVE FINANCIAL INSTRUMENTS OF THE DMG MORI AKTIENGESELLSCHAFT	Nominal volume		Fair market value	
in € K	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Forward foreign exchange contracts	293,182	247,162	-53	-915

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 € -53 K (previous year: € -915 K) and comprise positive market values of € 2,764 K (previous year: € 1,197 K) and negative market values of € 2,817 K (previous year: € 2,112 K).

The DMG MORI AKTIENGESELLSCHAFT concludes intragroup 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 is mainly in USD, JPY, GBP, RUB and CHF.

In cases where the requirements were met, the forward exchange contracts were summarized to evaluation units per currency. In doing so, the direct posting method was applied, so that € 2,366 K were recorded in other assets from derivatives and € 2,686 K in other liabilities. Additionally, a provision for anticipated losses due to a negative surplus of derivatives was formed in the amount of € 131 K (previous year: € 305 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	Hedged risks
1	Internal forward exchange programs (not offset): Cash flow hedges from order intake and subsidiaries' debts to suppliers	€ 50,380 K	€ 54 K
2	Internal group foreign currency loans (not offset)	€ 194,528 K	€ -320 K

On the one hand, valuation units from external forward exchange transactions and the intragroup external forward exchange transactions with a nominal volume of € 50,380 K are formed in order to secure order intakes and payments to suppliers. The secured risk as of 31 December 2018 amounted to € 54 K (previous year: € 24 K). On the other hand, valuation units from external forward exchange transactions and intragroup foreign currency loans with a nominal volume of € 194,528 K are formed the secured currency risk as of 31 December 2018 amounted to € -320 K (previous year: € -714 K).

15. TRANSACTIONS WITH RELATED COMPANIES AND PERSONS

In financial year 2018, DMG MORI AKTIENGESELLSCHAFT only concluded transactions at customary market conditions with related companies and persons.

D – Notes to Individual Items in the Income Statement

16. SALES REVENUES

Sales revenues of € 14,442 K (previous year: € 16,034 K) essentially involve sales arising from the groupwide holding and services functions. Of this, Germany had € 13,411 K (previous year: € 14,996 K), the rest of Europe € 899 K (previous year: € 1,038 K), and the rest of world € 132 K (previous year: € 0 K).

17. OTHER OPERATING INCOME

Other operating income of € 20,514 K (previous year: € 20,642 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 € 14,995 K (previous year: € 14,549 K) which break down into realised foreign exchange and currency gains of € 11,352 K (previous year: € 5,599 K) and foreign exchange and currency gains from valuation amounting to € 3,643 K (previous year: € 8,950 K). This also includes income from cost refunds of € 3,352 K (previous year: € 2,647 K). Income unrelated to the accounting period amounts to € 1,694 K (previous year: € 2,692 K). This includes € 646 K (previous year: € 1,954 K) from the reversal of provisions.

18. PERSONNEL EXPENSES

Direct remuneration of the members of the Executive Board, was € 10,078 K (previous year: € 8,659 K). Of this, € 2,478 K was allocated to the fixed remuneration (previous year: € 2,100 K), € 3,349 K (previous year € 2,880 K) to the STI. The individual remuneration for services rendered amounted to € 2,063 K (previous year: € 1,750 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 € 1,283 K (previous year: € 1,272 K). Benefits in kind accounted for € 105 K (previous year: € 57 K). For financial year 2018, the employee pension plan expense totaled € 800 K (previous year: € 600 K). Under the terms of the final execution of contract, the former CFO, André Danks, was paid an amount of € 2,181 K.

Former members of the Executive Board and their surviving dependents received € 1,271 K (previous year: € 1,339 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 were € 24,956 K (previous year: € 24,780 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	2018	2017
Salary earners (annual average)	82	84

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

The depreciation of fixed assets and plant deducted by € 1,301 K up to € 2,752 K (previous year: € 4,053 K). In the previous year, this included € 1,504 K in unscheduled depreciation.

20. OTHER OPERATING EXPENSES

Other operating expenses were reduced by € 3,442 K and amounted to € 37,639 K (previous year: € 41,081 K). These were due, among other things, to € 8,030 K (previous year: € 7,294 K) in other third party services, € 5,698 K (previous year: € 6,919 K) in year-end closing, legal and consulting expenses, € 1,320 K (previous year: € 1,685 K) in travel and entertainment expenses, € 2,291 (previous year: € 2,373 K) in insurance contributions and € 972 K (previous year: € 865 K) in rental and lease expenses.

Exchange and currency losses in the amount of € 12,282 K (previous year: € 15,071 K) break down in exchange and currency losses in the amount of € 7,354 K (previous year: € 9,147 K) and exchange and currency losses from valuation in the amount of € 4,928 K (previous year: € 5,924 K). These were offset against € 14,995 K (previous year: € 14,549 K) exchange and currency gains, which are reported in other operating income. The net amount was an exchange rate profit of € 2,713 K (previous year: Loss of € 521 K).

The other operating expenses contain expenses pursuant to Sec. 67 (1, 2) EGHGB amount € 212 K (Explanatory note – see number 9: pension provisions).

Auditor's fees and services

The annual auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, was appointed to audit the annual accounts and consolidated financial statements of DMG MORI AKTIENGESELLSCHAFT.

The fees and charges for the services provided by the annual auditor, KPMG AG Wirtschaftsprüfungsgesellschaft, recognised as expenses in financial year 2018, relate to € 992 K (previous year: € 703 K) for annual audit services and € 223 K (previous year: € 94 K) for other assurance services. This also includes € 175 K (previous year: € 152 K) for tax advisory services and € 175 K (previous year: € 747 K) for other services. Only services that are consistent with the engagement as auditor of the annual accounts of DMG MORI AKTIENGESELLSCHAFT were provided.

Annual audit services mainly relate to the audit of the annual accounts of DMG MORI AKTIENGESELLSCHAFT, including statutory extensions to the auditor's scope of service and audit focus areas agreed with the Supervisory Board. The audit also included audit reviews of quarterly and half-year reports and project-related, accounting ICS audits.

Other assurance services relate to the audit of the Compliance Management System and statutory or contractual audits and agreed audit procedures, such as e. g. confirmation of compliance with covenants or EMIR audits in accordance with Section 20 WpHG (Securities Trade Act).

Tax advisory services included support services relating to transfer pricing system issues and VAT advice on individual tax matters.

Other services relate to training on current accounting developments, advisory services regarding the initial application of new accounting standards and quality assurance support services. Project-related quality assurance services mainly relate to internal control system documentation prepared by DMG MORI AKTIENGESELLSCHAFT in accordance with J-SOX and to the Tax Compliance System.

Remuneration of the Supervisory Board

In the financial year 2018, € 1,091 K (previous year: € 1,498 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 € 170,928 K (previous year: € 152,912 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 € 10,632 K (previous year: € 8,092 K).

23. INTEREST AND SIMILAR EXPENSES

The interest expense of € 7,562 K (previous year: € 3,567 K) includes interest of € 3,532 K (previous year: € 1,901 K), which has been charged by affiliated companies as well as an interest expense from addition of accrued interest from provisions of € 303 K (previous year: € 382 K). Other interest expense mainly relates to € 2,319 K (previous year: € 1,081 K) in expenses from guarantee commissions and € 576 K (previous year: € 308 K) in interest owed to DMG MORI GmbH.

24. TAX ON INCOME AND EARNINGS

Taxes on income and earnings include expenses unrelated to the accounting period in an amount of € 245 K (previous year: € 1,372 K) as well as tax expenses of € 47,471 K (previous year: € 34,631 K). Current tax expense includes € 43,467 K in taxes debited by DMG MORI GmbH, Bielefeld, due to fiscal unity and a tax amount of € 3,623 K to be paid on the compensation payment of DMG MORI GmbH in accordance with Section 16 (2) of the German Corporation Tax Act (KStG). In addition, an amount of € 3,490 K deferred tax revenue is included (previous year: € 1,929 K deferred tax expenses).

25. EXPENSES FROM PROFIT TRANSFER AGREEMENTS

The domination and profit and loss transfer agreement between DMG MORI AKTIENGESELLSCHAFT and DMG MORI GmbH resulted in the recognition of expenses of € 99,326 K (previous year: € 89,865 K).

E – Other Disclosures

26. STATUTORY NOTIFICATION PURSUANT TO SECTION 40 WPHG

In accordance with its last notification of voting rights on 6 April 2016, DMG MORI COMPANY LIMITED, Nara (Japan) indirectly held a 76.03 % share of voting rights in the share capital of DMG MORI AKTIENGESELLSCHAFT. In accordance with his last notification of voting rights on 4 January 2019, Paul E. Singer held 8.11% of share capital through affilliated companies as of 31 December 2018.

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 2018 – just as the declarations of conformity of the previous years – and has been made permanently accessible on our website at → corporate-governance-de.dmgmori.com

28. SUPPLEMENTARY REPORT

No significant events occurred after the reporting date. With effect from 1 April 2019, Dr. Maurice Eschweiler will leave the Executive Board and take up his position as Chief Representative of DMG MORI AKTIENGESELLSCHAFT. No other events occurred before the financial statements were authorised for issue by the Executive Board on 11 March 2019.

29. GROUP AFFILIATION

DMG MORI COMPANY LIMITED, Nara (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, Nara (Japan). These can be found on the company website www.dmgmori.co.jp.

F – Corporate Directory

SUPERVISORY BOARD

Dr. Eng. Masahiko Mori
Nara, born 1961
Chairman (as of 4 May 2018),
President of DMG MORI
COMPANY LIMITED, Nara

Mario Krainhöfner
(Employee representative)
Pfronten, born 1964
1st Deputy Chairman (as of 4 May 2018),
Head of Idea Management at
DECKEL MAHO Pfronten GmbH

Ulrich Hocker
Düsseldorf, born 1950
Deputy Chairman,
Attorney and President of Deutsche
Schutzvereinigung für Wertpapierbesitz e.V.,
› FERI AG, Bad Homburg, Deputy Chairman of the Supervisory Board
• Phoenix Mecano AG, Stein am Rhein, Switzerland, Member of the Board of Directors, Independent Lead Director

Stefan Stetter
(Employee representative)
Pfronten, born 1968
Deputy Chairman (as of 4 May 2018),
(Member since 4 May 2018)
Division Manager Controlling of
DECKEL MAHO Pfronten GmbH
Senior Executives' representative

Irene Bader
Feldafing, born 1979
Director Global Marketing at
DMG MORI Global Marketing GmbH, Wernau
Executive Officer of
DMG MORI COMPANY LIMITED, Nara

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

Tanja Fondel
(Employee representative)
Frankfurt/Main, born 1976
(Member since 19 January 2018)
Union Secretary, IG Metall
Management Board, Frankfurt/Main
› GRAMMER AG, Amberg, Member of the Supervisory Board

Dietmar Jansen
(Employee representative)
Memmingen, born 1965
1st Director (Managing Director)
and Treasurer of the IG Metall office Allgäu
• AGCO GmbH, Marktoberdorf, Deputy Chairman of the Supervisory Board
› ENGIE Deutschland AG, Berlin, Member of the Supervisory Board

Prof. Dr. Annette G. Köhler, M.A.
Düsseldorf, born 1967
Professor & Chair of the Accounting,
Auditing & Controlling Department at the
University of Duisburg-Essen
› UniCredit Bank AG, Munich, Member of the Supervisory Board
› Villeroy & Boch AG, Mettlach, Member of the Supervisory Board
• DKSH Holding AG, Zurich, Member of the Board of Directors

James Victor Nudo
Illinois (USA), born 1954
(Member since 4 May 2018)
President of DMG MORI USA INC., Chicago
Executive Officer of
DMG MORI COMPANY LIMITED, Tokyo

Larissa Schikowski
(Employee representative)
Pfronten, born 1969
(Member since 4 May 2018)
Chairwoman of the General Works Council
of DMG MORI Global Service Milling GmbH,
Service Development employee of
DMG MORI Global Service Milling GmbH

Michaela Schroll
(Employee representative)
Bielefeld, born 1976
(Member since 4 May 2018)
Member of the Works Council of
GILDEMEISTER Drehmaschinen GmbH
Electrician in the Installation Department at
GILDEMEISTER Drehmaschinen GmbH

› Supervisory mandate as per § 100 AktG
• Membership in comparable domestic and foreign control bodies of business enterprises

Former Supervisory Board Members:

Prof. Dr.-Ing. Raimund Klinkner
Gräfelfing, born 1965
(Chairman until 4 May 2018)
Managing Partner of the
INSTITUTE FOR MANAGEMENT
EXCELLENCE GmbH
› Koenig & Bauer AG, Würzburg, Member of the Supervisory Board
• Terex Corporation, Westport, Connecticut, USA, Member of the Board of Directors
• ebm-pabst Mulfingen GmbH & Co. KG, Mulfingen, Member of the Advisory Board

Hermann Lochbihler
(Employee representative;
1st Deputy Chairman and Senior Executives' representative until 4 May 2018)
Vils, born 1956
Director of Purchasing Special Projects
of DECKEL MAHO Pfronten GmbH
(until 31 May 2018)

Matthias Pfuhl
(Employee representative;
member until 4 May 2018)
Schmerbach, born 1960
Supply technician,
Member of the Works Council of
DECKEL MAHO Seebach GmbH
(until 13 April 2018)

Peter Reinoss
(Employee representative;
member until 4 May 2018)
Bergisch Gladbach, born 1958
Service technician electronics,
Chairman of the Joint Works Council of
DMG MORI Services GmbH and
DMG MORI Deutschland GmbH,
Chairman of the General Works Council
of DMG MORI Academy GmbH

EXECUTIVE BOARD

Dipl.-Kfm. Christian Thönes
Bielefeld, Chairman

Dipl.-Kfm. Björn Biermann
Bielefeld

Dipl.-Kfm. Dr. Maurice Eschweiler
Bielefeld

Michael Horn, M.B.A.
Bielefeld

List of Shareholdings of the Cooperations

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES	National currency	Equitiy [1]		Participation quota in %	Earnings of financial year 2018 [1] € K
			€ 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 [3/4/7/8]			12,455	100.0	0
Alpenhotel Krone GmbH & Co., KG, Pfronten [3/7]			2,629	100.0	189
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]			92,130	100.0	-323
GILDEMEISTER Italiana S.p. A., Brembate di Sopra (Bergamo), Italy [9]			37,252	100.0	4,150
GRAZIANO Tortona S.r.l., Tortona, Italy [9]			36,311	100.0	3,114
DMG MORI Global Service Turning S.r.l., Brembate di Sopra (Bergamo), Italy [9]			2,162	100.0	334
CARLINO FTV 3.2 S.R.L., Bozen, Italy [9]			10,179	100.0	-465
DECKEL MAHO Seebach GmbH, Seebach [3/5/6]			43,000	100.0	0
DMG MORI Software Solutions GmbH, Pfronten [3/4/5/6]			1,100	100.0	0
DMG MORI Spare Parts GmbH, Geretsried [3/4/5/6]			25,000	100.0	0
ISTOS GmbH, Bielefeld [3/5/6]			1,000	85.0	0
Ulyanovsk Machine Tools OOO, Ulyanovsk, Russia [5]	T RUB	7,626,367	95,670	100.0	6,051
Realizer GmbH, Borchen [3/4/5]			-261	75.1	-2,752
WERKBLiQ GmbH, Bielefeld [3/5/6]			-1,180	100.0	0
MITIS Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Bielefeld KG, Bielefeld [3]			287	100.0	137
MITIS Grundstücks-Vermietungsgesellschaft mbH, Bielefeld [3]			174	100.0	15
DMG MORI Vertriebs und Service GmbH, Bielefeld [2/3]			398,646	100.0	0
DMG MORI Management GmbH, Bielefeld [3/4/10/11]			24	100.0	0
DMG MORI Deutschland GmbH, Leonberg [3/4/10/11]			63,968	100.0	0
DMG MORI München 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 [3/10/11]			2,800	100.0	0
DMG MORI Berlin Hamburg GmbH, Bielefeld [3/4/12/13]			5,500	100.0	0
DMG MORI Frankfurt GmbH, Bad Homburg [3/4/12/13]			2,700	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 Used Machines GmbH, Geretsried [3/4/14/15]			17,517	100.0	0
DMG MORI Netherlands Holding B.V., Veenendaal, Netherlands [10]			566,630	100.0	-675
antiquitas Verwaltungsgesellschaft mbH Klaus, Austria [16]			8,495	100.0	-694

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES	National currency	Equitiy [1]	Equitiy [1] € K	Participation quota in %	Earnings of financial year 2018 [1] € K
DMG MORI Sales and Service Holding AG, Winterthur, Switzerland [16]	T CHF	534,842	474,613	100.0	-1,681
DMG MORI Europe AG, Winterthur, Switzerland [17]			106,316	100.0	-5,644
DMG MORI Schweiz AG, Winterthur, Switzerland [18]	T CHF	33,705	29,910	100.0	2,243
DMG MORI Balkan GmbH, Klaus, Austria [17]			1,994	100.0	288
DMG MORI Austria GmbH, Klaus, Austria [19]			16,744	100.0	2,012
DMG MORI Netherlands B.V., Veenendaal, Netherlands [17]			7,085	100.0	988
DMG MORI BeLux BVBA – SPRL., Zaventem, Belgium [17]			4,205	100.0	590
DMG MORI Czech s.r.o., Brno, Czech Republic [17]	T CZK	308,123	11,978	100.0	1,906
DMG MORI DENMARK ApS, Kopenhagen, Denmark [17]	T DKK	22,121	2,962	100.0	138
DMG MORI FRANCE SAS, Paris, France [17]			18,268	100.0	2,051
DMG MORI Hungary Kft., Budapest, Hungary [17]			7,510	100.0	1,082
DMG MORI IBERICA S.L., Ripollet, Spain [17]			13,313	100.0	384
DMG MORI Italia S.r.l., Mailand, Italy [17]			47,261	100.0	3,568
DMG MORI MIDDLE EAST FZE, Dubai, United Arab Emirates [17]	T AED	10,174	2,419	100.0	435
DMG MORI Israel Ltd., Tel Aviv, Israel [17]	T ILS	0	0	100.0	0
DMG MORI POLSKA Sp. z o.o., Pleszew, Poland [17]	T PLN	56,487	13,132	100.0	2,192
DMG / MORI GREECE M.E.P.E., Thessaloniki, Greece [17]			808	100.0	207
DMG MORI Sweden AB, Göteborg, Sweden [17]	T SEK	101,884	9,935	100.0	1,551
DMG MORI NORWAY AS, Langhus, Norway [17]	T NOK	10,640	1,069	100.0	61
DMG MORI Finland Oy AB, Tampere, Finland [17]			2,794	100.0	375
DMG MORI UK Limited, Luton, Great Britain [17]	T GBP	24,359	27,231	100.0	1,759
DMG MORI ROMANIA S.R.L., Bukarest, Romania [17]	T RON	24,298	5,210	100.0	1,247
DMG MORI BULGARIA EOOD, Sofia, Bulgaria [17]	T BGN	1,192	609	100.0	14
DMG MORI Istanbul Makine Ticaret ve Servis Limited Sirketi, Istanbul, Turkey [17]	T TRY	23,777	3,924	100.0	1,867
DMG MORI Rus OOO, Moskau, Russia [17]	T RUB	3,483,489	43,699	100.0	3,240
DMG Egypt for Trading in Machines Manufactured LLC, Cairo, Egypt [17]	T EGP	200	10	100.0	0
MORI SEIKI Egypt for Trading in Machines & Equipments LLC, Cairo, Egypt [17]	T EGP	200	10	100.0	0
DMG MORI Africa for Trading in Machines & Services (S.A.E.), Cairo, Egypt [20]	T EGP	12,709	620	100.0	321

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES	National currency	Equitiy [1]		Participation quota in %	Earnings of financial year 2018 [1] € K
			€ K		
DMG America Inc., Itasca, USA [17]	T USD	42,002	36,683	100.0	122
DMG MORI Asia Pte. Ltd., Singapore [17]			24,392	100.0	822
DMG MORI Machine Tools Spare Parts (Shanghai) Ltd., Shanghai, China [17]	T CNY	41,452	5,264	100.0	560
DMG MORI India Pvt. Ltd., Bangalore, India [17]	T INR	460,795	5,779	51.0	142
DECKEL MAHO GILDEMEISTER (Shanghai) Machine Tools Co. Ltd., Shanghai, China [17]	T CNY	82,932	10,518	100.0	57
FAMOT Pleszew Sp. z o.o., Pleszew, Poland [17]	T PLN	480,163	111,630	100.0	23,409
DMG MORI Machine Tools Trading Co., Ltd., Shanghai, China [10]	T CNY	74,044	9,402	100.0	1,346
GILDEMEISTER energy solutions GmbH, Würzburg [3/4/10/11]			9,100	100.0	0
GILDEMEISTER energy efficiency GmbH, Stuttgart [21]			-847	60.0	-570
GILDEMEISTER ENERGY SERVICES IBERICA, S.L., Madrid, Spain [21]			-280	100.0	-636
GILDEMEISTER TURKEY SOLAR ENERJI ANONIM SIRKETI, Istanbul, Turkey [21]	T TRY	665	110	100.0	-11
GILDEMEISTER LSG Beteiligungs GmbH, Würzburg [21]			10	51.0	-96
GILDEMESTER LSG Solar Australia Pty Ltd., Brisbane, Australia [22]	T AUD	4,318	2,662	100.0	-72
GILDEMEISTER LSG SOLAR RUS, Moskau, Russia [22]	T RUB	270,626	3,395	100.0	3,369
GILDEMEISTER ENERGY SERVICES ITALIA S.R.L., Mailan, Italy [21]			1,913	100.0	231
GILDEMEISTER ENERGY Services UK Ltd., Manchester, Great Britain [21]	T GBP	7	8	100.0	8
Magnescale Co. Ltd., Kanagawa, Japan	T JPY	8,081,000	312,611	44.1	7,922
Magnescale Europe GmbH, Wernau [23]			2,800	44.1	616
Magnescale Americas, Inc., Davis, USA [23]	T USD	1,080	943	44.1	-41

PRODUCTION PLANTS, SALES AND SERVICE COMPANIES

	National currency	Equitiy [1]		Participation quota in %	Earnings of financial year 2018 [1] € K
			€ K		
Associates					
DMG MORI Finance GmbH, Wernau			23,124	42.6	1,251
DMG MORI HEITEC GmbH, Erlangen [5]			737	50.0	-252
INTECH DMLS Pvt. Ltd., Bangalore, India [5 / 24]	T INR	10,590	132	30.0	-426

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 on reporting date.
2) with domination and profit and loss transfer agreement with DMG MORI AKTIENGESELLSCHAFT
3) The domestic subsidiary has complied with the conditions required by Section 264(3) of the German Commercial Code (HGB) regarding the application of the exemption regulations and therefore waives the disclosure of its annual financial statements and relating documents
4) he domestic subsidiary has complied with the conditions required by Section 264(3) of the German Commercial Code (HGB) regarding the application of the exemption regulations and therefore waives the preparation of a management report.
5) equity investment of GILDEMEISTER Beteiligungen GmbH
6) with domination and profit and loss transfer agreement with GILDEMEISTER Beteiligungen GmbH
7) equity investment of DECKEL MAHO Pfronten GmbH
8) with domination 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 MORI Vertriebs und Service GmbH
11) with domination and profit and loss transfer agreement with DMG MORI Vertriebs und Service GmbH DECKEL MAHO GILDEMEISTER
12) equity investment o DMG MORI Deutschland GmbH
13) with domination and profit and loss transfer agreement with DMG MORI Deutschland GmbH
14) equity investment of DMG MORI Services GmbH
15) with domination 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) equity investment of DMG Egypt for Trading in Machines Manufactured LLC (51%), DMG MORI Sales and Service Holding AG (47,7 %) and of Mori Seiki Egypt for Trading in Machines & Equipments LLC (1,3%)
21) equity investment of GILDEMEISTER energy solutions GmbH
22) equity investment of GILDEMEISTER LSG Beteiligungs GmbH
23) subsidiary of Magnescale Co. Ltd.
24) Earnings as at company reporting date 31.3.2018 (non-calender financial year)

Income Statement
for the Period 1 January to 31 December 2018

		Notes	2018 €	2017 €
1.	Sales revenues	16	14,442,097	16,033,835
2.	Other operating income	17	20,513,593	20,641,984
			34,955,690	**36,675,819**
3.	Cost of materials			
	Cost of purchased services		-3,034,014	-2,251,397
			-3,034,014	**-2,251,397**
4.	Personnel expenses	18		
	a) Wages and salaries		-20,497,194	-19,516,230
	b) Social contributions, pensions and other benefits thereof pension plan expenses: € -935 K (previous year: € -1,101 K)		-1,984,820	-2,197,788
			-22,482,014	**-21,714,018**
5.	Depreciation and amortization of intangible assets and property, plant and equipment and property, plant and equipment	19	-2,752,400	-4,053,312
6.	Other operating expenses thereof expenses according to Sec. 67 (1, 2) EGHGB: € -211,8 K (previous year: € -211,8 K)	20	-37,639,289	-41,081,207
7.	Income from profit transfer agreements	21	170,928,473	152,912,393
8.	Other interest receivable and similar income	22	10,647,495	8,131,251
9.	Interest payable and similar expenses	23	-7,562,494	-3,566,592
10.	Tax on income thereof tax allocation agreement: € -43,467 K (previous year: € 30,017 K) thereof deferred tax allocation revenues: € 3,490 K (previous year expenses: € -1,929 K)	24	-43,735,832	-35,187,649
11.	**Earnings after tax**		**99,325,615**	**89,865,288**
12.	Expenses from profit transfer agreements	25	-99,325,615	-89,865,288
13.	**Net income / Net profit for the year**		**0**	**0**

Balance Sheet
as at 31 December 2018

ASSETS	Notes	31 Dec 2018 €	31 Dec 2017 €
A. Fixed Assets			
I. Intangible assets	1		
Industrial and similar rights and values and licences to such rights and values acquired against payment		19,010	56,836
II. Tangible assets	1		
1. Land and buildings		22,200,329	23,061,604
2. Other equipment, factory and office equipment		10,611,635	11,530,302
3. Payments on account and construction in progress		1,454,515	171,539
		34,266,479	**34,763,445**
III. Financial assets	2		
1. Share in affiliated companies		753,934,482	638,208,818
2. Loans to affiliated companies		0	79,000,000
3. Investments		6,657,493	6,657,493
		794,877,464	**758,686,592**
B. Current Assets			
I. Receivables and other assets	3		
1. Receivables from affiliated companies		964,812,129	714,052,646
3. Other assets		10,894,548	9,966,585
		975,706,677	**724,019,231**
II. Cash assets and bank balances	4	80,311,796	273,050,452
C. Prepaid expenses	5	**1,515,794**	**1,070,160**
D. Deferred Tax Asset Allocation from the parent company (previous year: deferred tax asets)	6	**12,644,450**	**9,154,167**
E. Excess of Plan Assets over Pension Liability	7	**2,433,997**	**3,255,063**
		1,867,490,178	**1,769,235,665**

EQUITY AND LIABILITY	Notes	31 Dec 2018 €	31 Dec 2017 €
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		199,376,726	199,376,726
IV. Net profit		0	0
		921,181,512	**921,181,512**
B. Provisions			
1. Pension provisions	9	6,852,327	8,122,276
2. Tax provisions	10	2,610,692	5,165,385
3. Other provisions	11	23,998,049	24,524,309
		33,461,068	**37,811,970**
C. Liabilities	12		
1. Trade payables		1,067,589	735,406
2. Amounts owed to affiliated companies		908,231,652	805,042,323
3. Liabilities to companies in which participations are held		0	205
4. Other liabilities		3,465,570	4,441,744
		912,764,811	**810,219,678**
D. Prepaid Income		**82,787**	**22,505**
		1,867,490,178	**1,769,235,665**

Fixed Asset Movement Scheudule
as at 31 December 2018

ACQUISITION AND PRODUCTION COSTS in €
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. Loans to affiliated companies
3. Investments
Total fixed assets

DEPRECIATION AND IMPARIMENT OF VALUE in €
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. Share in affiliated companies
2. Loans to affiliated companies
3. Investments
Total fixed assets

as at 01 Jan 2018	Additions	Disposals	Book Transfer	as at 31 Dec 2018
18,025,056	3,338	0	0	18,028,394
18,025,056	**3,338**	**0**	**0**	**18,028,394**
51,386,812	1,002,230	370,532	0	52,018,510
30,967,594	290,001	123,918	15,323	31,149,000
171,539	1,303,536	5,237	-15,323	1,454,515
82,525,945	**2,595,767**	**499,687**	**0**	**84,622,025**
638,208,818	36,725,664	0	79,000,000	753,934,482
79,000,000	0	0	-79,000,000	0
6,657,493	0	0	0	6,657,493
723,866,311	**36,725,664**	**0**	**0**	**760,591,975**
824,417,312	**39,324,769**	**499,687**	**0**	**863,242,394**

					Carrying amount	
as at 01 Jan 2018	Additions	Disposals	Book Transfer	as at 31 Dec 2018	as at 31 Dec 2018	as at 31 Dec 2017
17,968,220	41,164	0	0	18,009,384	19,010	56,836
17,968,220	**41,164**	**0**	**0**	**18,009,384**	**19,010**	**56,836**
28,325,208	1,492,973	0	0	29,818,181	22,200,329	23,061,604
19,437,292	1,218,263	118,190	0	20,537,365	10,611,635	11,530,302
0	0	0	0	0	1,454,515	171,539
47,762,500	**2,711,236**	**118,190**	**0**	**50,355,546**	**34,266,479**	**34,763,445**
0	0	0	0	0	753,934,482	638,208,818
0	0	0	0	0	0	79,000,000
0	0	0	0	0	6,657,493	6,657,493
0	**0**	**0**	**0**	**0**	**760,591,975**	**723,866,311**
65,730,720	**2,752,400**	**118,190**	**0**	**68,364,930**	**794,877,464**	**758,686,592**

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, 11 March 2019
DMG MORI AKTIENGESELLSCHAFT
The Executive Board

Dipl.-Kfm. Christian Thönes

Dipl.-Kfm. Björn Biermann

Dipl.-Kfm. Dr. Maurice Eschweiler

Michael Horn, M.B.A.

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

Independent Auditor's Report

To DMG MORI AKTIENGESELLSCHAFT, Bielefeld

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Opinions

We have audited the annual financial statements of DMG MORI AKTIENGESELLSCHAFT, Bielefeld, which comprise the balance sheet as of December 31, 2018, and the income statement for the financial year from January 1 to December 31, 2018, and notes to the financial statements, including the recognition and accounting policies presented therein. In addition, we have audited the management report of DMG MORI AKTIENGESELLSCHAFT, Bielefeld, for the financial year from January 1 to December 31, 2018. In accordance with German legal requirements, we have not audited the content of the Group's corporate governance statement, which is included in the "Corporate governance statement pursuant to Section 289f HGB" section of the management report and marked as unaudited.

In our opinion, on the basis of the knowledge obtained in the audit,

› the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, in compliance with German Legally Required Accounting Principles, and
› the accompanying management report as a whole provides an appropriate view of the Company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report" section of our auditor's report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

› **Impairment testing of shares in affiliated companies**

Please refer to the disclosures in the notes to the financial statements, Section B, "Accounting and valuation principles", and the notes on the financial assets in Section C 2 "Financial assets", for more information on the accounting policies applied.

The Financial Statement Risk

Shares in affiliated companies in the amount of EUR 753.9 million are presented under financial assets in the annual financial statements of DMG MORI AKTIENGESELLSCHAFT as of December 31, 2018. This amounts to approx. 40% of total assets and thus has a material influence on the Company's balance sheet.

Shares in affiliated companies are recognized at cost or, if they are expected to be permanently impaired, at their lower fair value. The Company calculates the fair value of the shares in affiliated companies using the discounted cash flow method.

The cash flows used for the discounted cash flow method are based on individual projections for each investment for the next three years which are extrapolated based on assumptions of long-term growth rates. The respective discount rate is derived from the return on a risk-appropriate alternative investment. If the fair value is lower than the carrying amount, qualitative and quantitative criteria are used to assess whether or not the impairment is expected to be permanent.

Calculation of the fair value according to the discounted cash flow method is complex and, as regards the assumptions made, based largely on estimates and assessments of the Company. This applies particularly to estimates of future cash flows and long-term growth rates, determination of the discount rate and assessment of whether impairment is permanent.

Impairment testing of shares in affiliated companies is influenced by the risks of the subsidiaries concerned. The Company recognized no impairment losses on shares in affiliated companies, as the fair value of shares in affiliated companies as of the reporting date was in all cases above the carrying amount.

There is a risk for the annual financial statements that shares in affiliated companies are impaired.

Our Audit Approach

First, we used the information obtained during our audit to assess which shares in affiliated companies indicated a need for impairment. With the involvement of our valuation experts, we subsequently assessed the appropriateness of the significant assumptions and the valuation model of the Company. For this purpose we discussed the expected cash flows and the assumed long-term growth rates with those responsible for planning. We also reconciled this information with other internally available forecasts, for example the planning prepared by the Executive Board and approved by the Supervisory Board. Furthermore, we evaluated the consistency of assumptions with external market assessments.

We also confirmed the accuracy of the Company's previous forecasts by comparing the budgets of previous financial years with actual results and by analyzing deviations.

We compared the assumptions and parameters underlying the discount rate, in particular the risk-free rate, the market risk premium and the beta coefficient, with our own assumptions and publicly available data. In order to take account of forecast uncertainty, we also investigated the impact on fair value of potential changes in the discount rate and the expected cash flows or the long-term growth rate by calculating alternative scenarios and comparing these with the Company's measurements (sensitivity analysis). To ensure the computational accuracy of the valuation model used, we verified the Company's calculations on the basis of selected risk-based elements.

Our Observations

The approach used for impairment testing of shares in affiliated companies is appropriate and in line with the accounting policies. The assumptions and parameters used by the Company are appropriate.

Other Information

Management is responsible for the other information. The other information comprises the corporate governance statement.

Our opinions on the annual financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

› is materially inconsistent with the annual financial statements, with the management report or our knowledge obtained in the audit, or
› otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Annual Financial Statements and the Management Report

Management is responsible for the preparation of annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of a management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The Supervisory Board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual financial statements and this management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

› Identify and assess the risks of material misstatement of the annual financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
› Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
› Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
› Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
› Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

- Evaluate the consistency of the management report with the annual financial statements, its conformity with [German] law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor at the annual general meeting on May 4, 2018. We were engaged by the Supervisory Board on November 26/29, 2018. Taking into account the transitional provision of Article 41 (1) of the EU Audit Regulation, we have been the auditor of DMG MORI AKTIENGESELLSCHAFT without interruption for more than 25 years.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the Audit Committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Hendrik Koch.

Bielefeld, March 11, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft

Koch	Dübeler
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

FINANCIAL CALENDAR

12 March 2019	Balance Sheet Press Conference Publication of the Annual Report 2018 Analysts' Conference
30 April 2019	Release for the 1st Quarter 2019 (1 January to 31 March)
10 May 2019	117th Annual General Meeting
30 July 2019	Interim Report for the 1st Half-Year 2019 (1 January to 30 June)
31 Oct 2019	Release for the 3rd Quarter 2019 (1 January to 30 September)
15 May 2020	118th Annual General Meeting

Subject to alteration

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements, which are based on current estimates by the management regarding 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 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 unfavorable 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 financial assets in general; growing volatility on 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 change, including the inability of a third party, for example due to natural catastrophes, to supply pre-fabricated 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 event occur, or should the assumptions on which these statements are based prove incorrect, the actual results may differ materially from the results stated, expected, anticipated, intended, planned, aimed at, estimated or projected in these statements. 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 end of the reporting period. Forward-looking statements must not be understood as a guarantee or as assurances of 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 Nara, Japan. 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 within the meaning of Section 17 of the German Stock Corporate Act (Aktiengesetz – AktG). If reference is made to "Global One Company", this refers to the joint activities of DMG MORI COMPANY LIMITED and DMG MORI AKTIENGESELLSCHAFT including all subsidiary companies.

EMPLOYEES

SERVICE EXCELLENCE

SUSTAINABILITY

FIRST QUALITY

GLOBE – GLOBAL ONE BUSINESS EXCELLENCE

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