

THE BASIS OF THE GROUP

Corporate Governance Report

Declaration on Corporate Governance

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

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

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

INSURANCE FOR MEMBERS OF THE SUPERVISORY BOARD AND THE EXECUTIVE BOARD OF DMG MORI

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

RESPONSIBLE MANAGEMENT OF OPPORTUNITIES AND RISKS

For us, part of good corporate governance is the comprehensive and systematic management of opportunities and risks within corporate management. For detailed information on the opportunities and risk management system of the group, please see the Annual Report on page 78.

COOPERATION BETWEEN THE EXECUTIVE BOARD AND SUPERVISORY BOARD

The Executive Board and Supervisory Board work closely together in the interests of the company. The Executive Board agrees the strategic direction of the company with the Supervisory Board and informs the latter regularly, timely and comprehensively of all issues of relevance to the company relating to strategy, business development, the risk position, risk management and compliance. Any deviations in the course of business from the established plans and targets of the group are discussed and the reasons therefore given. The Executive Board forwards the half-year and quarterly reports to the Finance and Audit Committee and discusses the reports in detail with the Finance and Audit Committee before their publication. The articles of association and the rules of procedure provide for the right of consent of the Supervisory Board to a wide range of business transactions proposed by the Executive Board. The remuneration of both the members of the Supervisory Board and of the Executive Board is presented in detail in the remuneration report on page 31 as part of the management report of the consolidated financial statements of DMG MORI AKTIENGESELLSCHAFT.

OBJECTIVES IN THE COMPOSITION OF THE SUPERVISORY BOARD

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

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

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

AVOIDING CONFLICTS OF INTEREST

Members of the Executive Board and Supervisory Board are obliged to act in the interests of the company. In making decisions and in connection with their functions, the members of the Executive Board and of the Super-

visory Board may not pursue any personal interests or business opportunities that the company is entitled to, nor may they grant any unjustified benefits to any other persons. Any conflicts of interest that arise out of these or any other situations must be notified to the Supervisory Board without delay and must be assessed and, as necessary, authorised by the Supervisory Board. The Supervisory Board reports to the Annual General Meeting on any conflicts of interest and on how they are dealt with.

SHAREHOLDERS AND ANNUAL GENERAL MEETING

Our shareholders exercise their rights at the Annual General Meeting. The Annual General Meeting passes resolutions, inter alia, on the approval of the actions of the Supervisory Board and Executive Board, as well as on the election of the annual auditor or any changes to the articles of association. Shareholders may exercise their voting right in person. Shareholders who are unable to attend the Annual General Meeting personally are given the opportunity of exercising their voting right by proxy through an authorised person of their choice or by transfer of proxy to a representative of the group who will act as per their instruction. In addition, it is possible to obtain information about the Annual General Meeting timely via the Internet. All documents and information are made available to shareholders in good time on our website.

TRANSPARENCY

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

COMPLIANCE

We are aware of our responsibility towards our business partners, shareholders and employees, as well as to the environment and to society. We therefore specifically undertake to uphold clear principles and values. In particular, this includes observing and upholding legal requirements and regulatory standards as well as

voluntary commitments and our own internal guidelines. Our compliance management system is designed to safeguard our principles and values. In the reporting year, we have again successfully subjected our Compliance Management System to an extensive audit of effectiveness. Further information on our Compliance Management System is available on our website.

STATUTORY GENDER QUOTA / DIVERSITY REQUIREMENTS

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

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

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

FINANCIAL ACCOUNTING AND ANNUAL AUDIT

We have again agreed with the annual auditors, KPMG AG Wirtschaftsprüfungsgesellschaft, Berlin, for this reporting period that the chairman of the Supervisory Board and the chairman of the Finance and Audit Committee

have to be informed without delay of any grounds for exclusion or bias that may arise during the audit insofar as these cannot be eliminated. In addition, the auditor shall also immediately report any findings and events that arise during the audit of the financial statements and consolidated financial statements that have a significant bearing on the work of the Supervisory Board. Moreover, the auditor will inform the Supervisory Board or note in the audit report if, when conducting the audit, any facts are discovered that are inconsistent with the declaration of conformity issued by the Executive Board and Supervisory Board under the Corporate Governance Code.

SHARE OWNERSHIP OF THE EXECUTIVE BOARD AND SUPERVISORY BOARD MEMBERS

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

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

SUGGESTIONS OF THE GERMAN CORPORATE GOVERNANCE CODEX

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